

**PROPERTY TAX
Senate Omnibus Tax Bill
Articles 4-5, 7-8, 9**

April 29, 2019

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 5 (Chamberlain), 1st engrossment

	Fund Impact			
	F.Y. 2020	F.Y. 2021	F.Y. 2022	F.Y. 2023
	(000's)			
<u>Article 4: Property Taxes</u>				
Watershed District Financing	\$0	\$0	\$0	\$0
Historical Society Expenditures for Cities/Towns	\$0	\$0	\$0	\$0
Exclusion for Veterans with a Disability Data Sharing	\$0	\$0	\$0	\$0
Ag Historical Society Exemption	\$0	(negligible)	(negligible)	(negligible)
Exemption for Pharmacy Owned by Indian Tribe	\$0	(negligible)	(negligible)	(negligible)
Exemption for Certain Child Care Facilities	\$0	(negligible)	(negligible)	(negligible)
Property Tax Refund for Manufactured Homes	\$0	(\$220)	(\$220)	(\$220)
Ag Homestead Requirements for Entities Modified				
Property Tax Refund Interaction	\$0	(\$60)	(\$60)	(\$60)
Ag Homestead Market Value Credit	\$0	(\$250)	(\$260)	(\$260)
Ag Homesteads Owned by Trusts				
Property Tax Refund Interaction	\$0	(negligible)	(negligible)	(negligible)
Ag Homestead Market Value Credit	\$0	(negligible)	(negligible)	(negligible)
Homestead Percentage for Partial Homesteads				
Property Tax Refund Interaction	\$0	unknown	unknown	unknown
Ag Homestead Market Value Credit	\$0	unknown	unknown	unknown
Class 4d Low Income Rental Housing Class Rate Modified	\$0	(\$1,880)	(\$1,880)	(\$1,880)
Exclusion for Veterans with a Disability Modified				
Property Tax Refund Interactions				
Application Due Date Modified	\$0	\$600	negligible	negligible

Surviving Spouse 8-Year Limit Removed	\$0	\$30	\$70	\$110
Reporting Requirements Modified for Rural Electric Cooperatives	\$0	\$0	\$0	\$0
Electronic Notification for State Assessed Property	\$0	\$0	\$0	\$0
State General Property Tax Decreased	(\$27,500)	(\$50,000)	(\$50,000)	(\$50,000)
Income Tax Interaction	\$0	\$1,500	\$1,500	\$1,500
State General Tax Abatement for Pipelines	\$0	(negligible)	(negligible)	(\$10)
Income Tax Interaction	\$0	\$0	negligible	negligible
Fire Protection Special Taxing Districts Established	\$0	\$0	\$0	\$0
Distribution Modified for Penalties, Interest, and Costs	\$0	\$0	\$0	\$0
Tax Forfeited Land Sale Requirements Modified	\$0	\$0	\$0	\$0
Ag Preserves Termination for Parks or Trails	\$0	\$0	\$0	\$0
Ag Preserves Early Termination Authorization				
Ag Preserves Credit	\$0	negligible	negligible	negligible
Property Tax Refund Interaction	\$0	negligible	negligible	negligible
Housing and Redevelopment Levy Authority Extended	\$0	\$0	\$0	\$0
Cloquet Area Fire and Ambulance Taxing District Modified				
Property Tax Refund Interaction	\$0	\$0	(\$10)	(\$20)
Income Tax Interaction	\$0	\$0	(negligible)	(\$10)
SFIA Trail Clarification	\$0	\$0	\$0	\$0
Report on Land Placed in Federal Trust	\$0	\$0	\$0	\$0
<u>Article 5: Aids and Credits</u>				
School Referendum Aid	\$0	(\$14,850)	(\$15,850)	(\$14,230)
Property Tax Refund Interaction	\$0	\$750	\$720	\$640
Income Tax Interaction	\$0	\$590	\$560	\$500
Scholarships Excluded from Property Tax Refund Income	\$0	(\$1,450)	(\$1,500)	(\$1,550)
Border City Allocation Modified	(\$2,000)	\$0	\$0	\$0

Additional Out-of-Home Placement Aid	\$0	(\$2,000)	(\$2,000)	(\$2,000)
Property Tax Refund Interaction	\$0	\$50	\$50	\$50
Income Tax Interaction	\$0	\$40	\$40	\$40

Mahnomen County Child Welfare Services Grant	(\$750)	\$0	\$0	\$0
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Otter Tail County Debt Service Grant	(\$500)	\$0	\$0	\$0
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Mazeppa Fire Remediation Grants	(\$5)	\$0	\$0	\$0
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Melrose Fire Remediation Grants Modified	(\$644)	\$0	\$0	\$0
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Article 7: Tax Increment Financing

TIF - Bloomington	\$0	\$0	\$0	\$0
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TIF - Edina	\$0	\$0	\$0	\$0
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TIF – Alexandria	\$0	\$0	\$0	\$0
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TIF – Anoka	\$0	\$0	\$0	\$0
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TIF - Champlin	\$0	\$0	\$0	\$0
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TIF - Duluth	\$0	\$0	\$0	\$0
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TIF - Minneapolis	\$0	\$0	\$0	\$0
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TIF - Roseville	\$0	\$0	\$0	\$0
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Article 8: Public Finance

State Agricultural Society Bonding Authority	\$0	\$0	\$0	\$0
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Miscellaneous Public Finance Changes	\$0	\$0	\$0	\$0
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Bond Allocation Act Modified	\$0	\$0	\$0	\$0
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Articles 9: Miscellaneous

Mining Occupation Tax Transfer to TEDF	\$0	(\$4,000)	(\$4,000)	(\$3,140)
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General Fund Total	(\$31,399)	(\$71,150)	(\$72,840)	(\$70,540)
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Various Effective Dates

***Non-General Fund Impacts**

Taconite Economic Development Fund

Transfer from State General Fund	\$0	\$4,000	\$4,000	\$3,140
Distribution to Taconite Producers	\$0	(\$4,000)	(\$4,000)	(\$3,140)

REVENUE ANALYSIS DETAIL

Article 4: Property Tax

Watershed District Financing Modified (Sections 1-2)

The effective date is beginning with taxes payable in 2020.

Under current law, watershed district's construction or implementation funds may receive loans from the Pollution Control Agency or federal government. This bill would allow watershed district's construction or implementation funds to receive loans or grants from the state or federal government.

Under current law, watershed districts can levy for projects that receive grants or loans from the Clean Water Partnership. This bill would allow watershed districts to levy for projects that receive grants or loans appropriated by law.

Under current law, watershed districts can levy for repayment of bonds or interest associated with bonds from the Clean Water Partnership. This bill would allow watershed districts to levy for repayment of bonds or interest associated with any bonds.

- It is assumed that any additional money levied as a result of the proposal would be shifted away from other watershed district funds, and there is no impact assumed to the state general fund.
- If the bill led to a change in the total amount watershed district levies, property taxes would change for some taxpayers. A change in property taxes could result in a change in homeowner property tax refunds and income tax deductions, which may increase or decrease costs to the state general fund.

Historical Society Expenditures Authorized for Cities and Towns (Section 3)

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 Data Sharing (Sections 4, 13)

The effective date is the day following final enactment.

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

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

Agricultural Historical Society Exemption Increased (Section 5)

The effective date is beginning with assessment year 2019, for taxes payable in 2020.

Under current law, property owned by a 501(c)(3) agricultural historical society is exempt from property taxes if:

1. the property is primarily used for storing and exhibiting tools, equipment, and artifacts relating to local or regional agricultural history;
2. the property is not used for a revenue-producing activity for more than ten days in each calendar year;
3. the property is not used for residential purposes on either a temporary or permanent basis; and
4. the exemption (which includes land, buildings, and personal property) is limited to no more than 20 acres per owner per county.

The bill would increase the maximum acreage eligible for the exemption from 20 acres to 40 acres. For assessment year 2019 only, an exemption application would be due by July 1, 2019.

- It is estimated that approximately 10 parcels would receive a larger exemption due to the higher acreage limit.
- For taxes payable in 2020 and thereafter, the larger exemption would reduce the amount of taxable market value on these parcels, shifting property taxes away from the exempted property and onto all other property, including homesteads.
- The additional property tax burden on homesteads caused by the larger exemption would increase state-paid homeowner refunds by less than \$5,000 beginning in fiscal year 2021.

Property Tax Exemption for Pharmacy Owned by Indian Tribe (Section 6)

The effective date is beginning with taxes payable in 2020.

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. For assessment year 2019 only, an exemption application would be due by July 1, 2019. The exemption would expire with taxes payable in 2029.

- The Fond Du Lac Band's Mashkiki Waakaaigan Pharmacy in Minneapolis would be eligible for the property tax exemption.
- For taxes payable in 2020 and thereafter, a property tax exemption would reduce the amount of taxable market value, shifting property taxes away from the exempted pharmacy 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 2021.
- The exemption from the state property tax levy would have no impact on state revenues in payable year 2020 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 Exemption for Certain Child Care Facilities (Section 7)

The effective date is beginning with assessment year 2019, for taxes payable in 2020.

The bill would exempt property used as a licensed child care facility if the facility:

1. is operated by a 501(c)(3) nonprofit charitable organization;
2. accepts families participating in the child care assistance program under chapter 119B;
3. is licensed under Minnesota Rules, chapter 9503, or is used to provide licensed family day care or group family day care as defined under Minnesota Rules, chapter 9502.

For assessment year 2019 only, an exemption application would be due by July 1, 2019.

- According to the Department of Human Services, there are more than 1,000 licensed child care centers that are registered to accept families participating in the child care assistance program (CCAP).
- It is unknown how many of these facilities are owned and operated by a 501(c)(3) nonprofit charitable organization.
- It is also unknown how many of these CCAP-registered facilities are currently providing care to children that receive assistance through the program.
- It is assumed that approximately 10 facilities would qualify and apply for the exemption.
- For taxes payable in 2020 and thereafter, a property tax exemption would reduce the amount of taxable market value, shifting property taxes away from exempted child care facilities and onto all other property, including homesteads.
- The additional property tax burden on homesteads caused by the exemption would increase state-paid property tax refunds by less than \$5,000 beginning in fiscal year 2021.
- The exemption from the state property tax levy would have no impact on state revenues in payable year 2020 and thereafter because the tax rate would be adjusted to yield the amount of revenue required by statute. The tax reduction for a child care facility would be shifted onto the other commercial and industrial properties subject to the state levy.

Property Tax Refund for Manufactured Home Cooperatives (Sections 8, 27)

The effective date is beginning with claims based on taxes payable in 2020.

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 eight resident-owned manufactured home park cooperatives in Minnesota. These cooperative parks include over 600 units located in the cities of Cannon Falls, Clarks Grove, Fairmont, Fridley, Lindstrom, Madelia, Moorhead, and Rochester.
- 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 150 residents would receive an average property tax refund increase of \$600 beginning in fiscal year 2021. An additional 325 residents are projected to become eligible and receive an average refund of \$400.

Agricultural Homestead Requirements for Entities Modified (Section 9)

The effective date is beginning with assessment year 2019.

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 if they meet the following requirements:

- The shareholder, member, or partner residing on and actively engaged in farming the land is a shareholder, member, or partner of the entity that is operating the farm; and
 - More than half of the shareholders, members, or partners of each entity are qualifying relatives.
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- 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 \$60,000 beginning in fiscal year 2021.
 - The bill would also increase the number of properties eligible for the agricultural homestead market value credit, increasing the credit by \$260,000 beginning in taxes payable 2020. These numbers have been converted to fiscal years for the purpose of this estimate.

Agricultural Homestead Rules Modified for Properties Owned by Trusts (Sections 10-11)

The effective date is beginning with taxes payable in 2020.

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 2021.
- 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 2021.

Homestead Percentage Modified for Partial Homesteads (Sections 12, 16-17)

The effective date is beginning with taxes payable in 2020.

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. If ownership percentages cannot be determined, the ownership percentages would be equal shares for each owner.

- 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 FY 2021.
- 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 FY 2021.

Property Tax Class Rate Modified for Class 4d Low Income Rental Housing (Section 14)

The effective date is beginning with taxes payable in 2020.

Under current law, each unit of class 4d qualifying low-income rental housing has a classification rate of 0.75% for the first tier of market value and 0.25% for the remaining market value. The first tier market value limit is adjusted annually by the average statewide change in estimated market value of property classified as 4a apartments and 4d low-income rental housing properties, excluding new construction. The first tier market value limit per unit is \$150,000 for assessment year 2019.

The bill would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d property.

- In assessment year 2018, there were approximately 2,700 parcels statewide containing class 4d low-income rental housing. The market value for class 4d property in the same year was approximately \$5.1 billion statewide.
- The bill would shift property taxes away from class 4d properties and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by \$1.88 million beginning in fiscal year 2021.

Exclusion for Veterans with a Disability Modified (Section 15)

The effective date is beginning with assessments in 2019, for taxes payable in 2020.

1. Application Due Date Modified

Under current law, 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.

The bill would change the application due date to December 15. All approved applications filed by December 15 would receive the exclusion for the current assessment year.

2. Surviving Spouse 8-Year Limit Removed

Under current law, the surviving spouse of a deceased veteran who had a 100% total and permanent disability is eligible to continue receiving the exclusion for eight additional years, or until the spouse remarries or ceases to own the property, whichever comes first.

The bill would allow surviving spouses to continue receiving the benefit indefinitely, as long as they have not remarried and continue to own and occupy the homestead.

1. Application Due Date Modified

- The bill would allow veterans 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 2019 for taxes payable in 2020 (state-paid property tax refunds in fiscal year 2021).
- It is assumed that approximately 1,000 applications will be received in calendar year 2019 between July 2 and December 15.
- The bill would shift an estimated \$2 million in property tax (payable in 2020) onto all other property types, including other homesteads. This would increase state-paid homeowner refunds. The overall savings to the state is net of these costs.
- Under the bill, an estimated \$600,000 of refund savings currently projected for fiscal year 2022 would shift into fiscal year 2021.
- For subsequent years (beginning in fiscal year 2022) the net impact on the state general fund is estimated to be less than \$5,000.

2. Surviving Spouse 8-Year Limit Removed

- For taxes payable in 2020, the bill impacts homesteads where the veteran died in 2011.
- Under current law, if the veteran died in 2011, then the final year of the exclusion for a surviving spouse is taxes payable year 2019.
- For taxes payable in 2011, approximately 9,000 veteran homesteads received a valuation exclusion, and approximately 6,000 of these homesteads were owned by a veteran with a 100% disability rating.
- It is estimated that 3% of veteran homeowners die each year, and that 25% of these homesteads have no surviving spouse. In the remaining 75% of these homesteads, the spouse would be eligible to continue receiving the valuation exclusion. A 90% participation rate for surviving spouses is assumed.
- The bill would shift an estimated \$150,000 in property tax (payable in 2020) onto all other property types, including other homesteads. This would increase homeowner property tax refunds. The overall savings to the state is net of these costs.
- The extension of eligibility for the exclusion results in a net savings to the state due to a reduction in homeowner refunds paid to veteran homesteads. The net savings to the state general fund would be an estimated \$30,000 in FY 2021.

Reporting Requirements for Rural Electric Cooperatives Modified (Section 18)

The effective date is beginning with assessment year 2020.

Under current law, the commissioner of revenue prescribes the content, form, and manner required for data reported to the state.

The bill requires that any property tax data reported by rural electric cooperative associations must be at the unique taxing jurisdiction level and must exclude information related to payment-in-lieu taxes.

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

Electronic Notification Required for State Assessed Property (Sections 19-21)

The effective date is the day following final enactment.

Under current law:

1. When the state provides recommended assessment values to counties, the values must be certified to county auditors by August 1.
2. When a utility company or railroad files an appeal in court of its state-assessed valuation, the state must give notice by first class mail to each county auditor where property included in the petition is located.

Under the bill:

1. Recommended assessment values must be certified to county auditors by June 15.
2. When a utility company or railroad files an appeal in court or submits an administrative appeal, the state must give notice by first class mail to the county auditor where property included in the petition is located.

In addition, the bill requires the state to develop an electronic means to notify each city, county, and taxing jurisdiction where property included in an administrative appeal or tax court petition is located. Notifications must provide the following information:

1. notice that an administrative appeal or tax court petition was filed;
2. a copy of the appeal or petition;
3. for administrative appeals: a copy of any final, written agreement within ten days of its signing; and
4. any other information regarding the status of an appeal and settlement negotiations.

- It is assumed that the bill would have no revenue impact on the state general fund.

State General Property Tax Decreased (Section 22)

The effective date is beginning with taxes payable in 2020.

Under current law, the state general levy for commercial-industrial property is \$784,590,000 and the state general levy for seasonal-recreational property is \$44,190,000.

The bill would reduce the state general levy for commercial-industrial property to \$737,090,000.

The bill would also reduce the state general levy for seasonal-recreational property to \$41,690,000.

- The state general levy would decrease by \$50 million per year beginning in taxes payable 2020. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections beginning in fiscal year 2021.

State General Property Tax Abatement Authorized for Natural Gas Pipelines (Section 23)

The effective date 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 2020 for taxes payable in 2021. Because it is assumed the system will not be fully constructed by taxes payable 2021 (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 less than \$5,000 in fiscal years 2021 and 2022, and \$10,000 in fiscal year 2023.
- 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 2022.
- Additional gas pipeline system properties may receive the state general tax abatement in the future.

Fire Protection Special Taxing Districts Established (Sections 24, 28)

The effective date is the day following final enactment.

Under current law, legislative approval is required to create special fire protection and emergency medical service districts.

The bill would allow for the creation of special taxing districts to provide fire protection and/or emergency medical services without legislative approval. Districts would have the authority to levy and/or incur debt. Levies could not exceed the lesser of \$1,100,000 or .096 percent of the estimated market value of the district.

- The bill is assumed to not impact the state general fund. If this bill led to the creation of additional special taxing districts to provide fire protection and/or emergency medical services, it is assumed the property tax levies used to fund these districts would be shifted from the current general levies of the local jurisdictions.
- It is possible the change in levy authority could lead to lower or higher levies for property taxpayers.

Distribution Modified for Penalties, Interest, and Costs (Section 25)

The effective date is for penalties, interest, and costs collected on taxes payable in 2020 and thereafter.

Under current law, all penalties, interest, and costs collected on overdue wind or solar production taxes are distributed according to the table below (this distribution is also used for real and personal property taxes):

Type of Collection	Distribution		
	School Districts	City/Town	County
Penalties	50%	-	50%
Interest - delinquent 1 year or less	50%	-	50%
Interest - delinquent more than 1 year	50%	50% * Ratio1	remainder
Costs	-	-	100%

$$\text{Ratio1} = \text{city-town-tax-rate} / (\text{city-town-tax-rate} + \text{county-tax-rate})$$

Under the bill, all penalties, interest, and costs collected on overdue wind or solar production taxes would be distributed according to the table below:

Type of Collection	Distribution		
	School Districts	City/Town	County
Penalties	-	20%	80%
Interest - delinquent 1 year or less	-	20%	80%
Interest - delinquent more than 1 year	-	20%	80%
Costs	-	20%	80%

- The bill may reduce the amount of penalty and interest collections that are distributed to some school districts, and may increase the distribution of penalty and interest collections to some cities, towns, and counties.
- This would not impact local government aids administered by the Department of Revenue.
- However, it may increase Department of Education payments to schools by an unknown amount.

Tax-Forfeited Land Sale Requirements Modified (Section 26)

The effective date is for conveyances issued after December 31, 2019.

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.

The bill would require a deed to 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.
 4. A deed issued under this subdivision would not be effective until it is recorded. The county recorder or registrar of titles would not record the deed if it does not also contain a certification signed by the county auditor.
- 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.

Agricultural Preserves Termination Allowed for Parks or Trails (Sections 29-31)

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.

The bill would allow agricultural preserve status to 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. 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.

Agricultural Preserves Early Termination Allowed (Section 32)

The effective date is the day following final enactment.

Under current law, a metropolitan agricultural preserve is allowed to expire no sooner than eight years after the date when termination of the covenant is officially requested. However, immediate withdrawal from the program may be requested by a surviving owner within 365 days of the death of an owner, an owner's spouse, or other qualifying person. When a covenant is terminated in this manner, the property is subject to additional taxes equal to 50% of the total tax amount levied against the property in the current payable year.

The bill would allow an owner to request immediate termination of a metropolitan agricultural preserve if the land has been enrolled in the program for at least eight years. All requests for immediate termination under this provision would require approval by a majority vote of the planning and zoning authority in which the agricultural preserve is located. Covenants terminated under this provision would not be subject to additional taxes.

- It is assumed that local planning and zoning authorities will approve requests for early termination only when those requests align with local planning initiatives.
- It is assumed that approximately five parcels per year would withdraw from the program under this provision.
- Parcels that leave the program would no longer be eligible for the state-paid agricultural preservation credit, resulting in a state savings of less than \$5,000 in FY 2021-2023.
- Also, any parcel that withdraws from the program would no longer be assessed solely for its agricultural value.
- Every time a parcel withdraws from the program there would be some shifting of taxes within individual jurisdictions onto the parcel in question and away from other properties, including other homesteads. Some of these homesteads may receive a smaller property tax refund, resulting in a state savings of less than \$5,000 in FY 2021-2023.

Levy Authority Extended for Northwest Minnesota Multicounty Housing and Redevelopment Authority (Section 33)

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 2025.

- 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 34-38)

The effective date is after local compliance.

Under current law, 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 taxes payable 2021. The bonds would increase the levy for taxpayers by \$155,000 in taxes payable 2021, \$310,000 in taxes payable 2022, and \$466,000 in taxes payable 2023 and thereafter.
- Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2022.

- Higher levies will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2022.

Clarification of SFIA for Paved Trails (Section 39)

The retroactive effective date is for certifications made in 2018 and thereafter.

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 with applications made in 2018.

The bill clarifies that eligibility for a paved trail on SFIA land is effective not only for applications made in 2018 and thereafter, but also for certifications made in 2018 and thereafter.

- The clarification of SFIA eligibility would have no impact on the state general fund.

Land Placed into Federal Trust Report Required (Section 40)

The effective date is the day following final enactment.

The bill would require the Department of Revenue to collect data about lands placed into trust by the United State Department of the Interior Bureau of Indian Affairs from counties. The Department would then verify and report this data to the legislature by February 15, 2020.

- The bill makes no appropriation for the study, so there is no cost to the general fund.

Article 5: Aids and Credits

School District Equalized Referendum Levies Modified (Sections 1, 8)

The effective date is beginning with taxes payable in 2020.

The bill increases school referendum aid by adjusting the factors used to calculate the tiers of referendum equalization levies.

- Based on estimates from the Department of Education, the bill would increase state aid to school districts by \$14.85 million in FY 2021, \$15.85 million in FY 2022, and \$14.23 million in FY 2023.
- The increase in referendum aid to independent school districts would reduce existing school district levies beginning in taxes payable 2020. Lower levies would reduce property taxes on all property.
- The lower property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2021, resulting in a savings to the state general fund.

Scholarships Excluded from Property Tax Refund Income Definition (Section 2)

Effective beginning for refunds based on rent paid in 2019 and property taxes payable in 2020.

Under current law nontaxable scholarships, fellowship grants, and qualified tuition discounts are not included in federal adjusted gross income, but they are included in the definition of household income for the purpose of calculating property tax refunds.

The bill would exclude nontaxable scholarships and grants from the definition of household income used to calculate property tax refunds. The exclusion would also include the cash value of any tuition discount provided by a postsecondary education institution.

- It was assumed that additional nontaxable income reported on line 5 of Form M1PR for claimants age 26 or younger was nontaxable scholarships and grants.
- Nontaxable scholarship and grant income was excluded from the total income to recalculate property tax refunds, increasing the cost of state-paid property tax refunds.
- An estimated 18,000 property tax refund claimants would receive an increased refund beginning in fiscal year 2021.

Border City Allocation Modified (Section 3)

The effective date is July 1, 2019.

The bill allocates an additional \$2 million for income, sales, or property tax reductions to border city enterprise zones for businesses in cities on the western border of the state. The allocation will be apportioned among the cities of Dilworth, East Grand Forks, Moorhead, Ortonville, and Breckenridge by population.

- The appropriation of \$2 million will increase state general fund costs in FY 2020.
- A small fraction of the enterprise zone payments are for property tax relief, and will have no impact on homeowner property taxes.

Additional Out-of-Home Placement Aid Authorized (Sections 4-5)

The effective date is for aids payable in 2020 and thereafter.

Under current law, \$5 million is appropriated annually from the general fund to reimburse counties and tribes for out-of-home placement expenditures under the Indian Child Welfare Act.

The bill would increase the annual appropriation to \$7 million.

- It is assumed that counties would reduce their levies by a portion of the additional aid payment.
- Levy reductions would lower property taxes in counties receiving the additional aid.
- Lower property taxes paid by homesteads would decrease state-paid property tax refunds.
- Lower property taxes would also reduce deductions on corporate and individual income tax returns, increasing state income tax collections beginning in FY 2021.
- The net cost to the state general fund would be an estimated \$1.9 million in FY 2021.

Mahnomen County Child Welfare Services Grant (Section 6)

The effective date is the day following final enactment.

The bill provides a one-time appropriation equal to \$750,000 in FY 2020 for a grant to Mahnomen County. Of the total, \$250,000 must be used by the county for the Mahnomen Health Center, and \$250,000 must be paid to the White Earth Band of Ojibwe to reimburse the band for costs of delivering child welfare services.

- The grant would result in a cost to the state general fund of \$750,000 in fiscal year 2020.

Otter Tail County Debt Service Grant (Section 6)

The effective date is the day following final enactment.

The bill would make a one-time appropriation of \$500,000 from the state general fund in fiscal year 2020 for a grant to Otter Tail County for debt service on a building in Fergus Falls.

- The grant would result in a cost to the state general fund of \$500,000 in fiscal year 2020.

Mazeppa Fire Remediation Grants (Section 6)

The effective date is the day following final enactment.

The bill provides an appropriation of \$5,000 in fiscal year 2020 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 2020.

Melrose Fire Remediation Grants Extension (Section 7)

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 was available until June 30, 2018, at which point an unspent amount of \$643,729 canceled back to the general fund.

The bill would re-appropriate \$643,729 from the general fund for grants to be used to remediate the effects of the fire. The appropriation would be available until June 30, 2022.

- The appropriation will cost the state general fund \$643,729 in FY2020.

Article 7: Tax Increment Financing

Tax Increment Financing – Bloomington (Section 1)

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 extends the 15 year limit to 17 years.

- 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.

Tax Increment Financing – Edina (Section 2)

The effective date is following local approval.

The bill would extend the authority to establish tax increment financing (TIF) districts in the Southeast Edina Redevelopment District Area from December 31, 2019 to December 31, 2021.

- 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.

Tax Increment Financing – Alexandria (Section 3)

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 deadline of the five-year rule to July 16, 2023 for TIF District No. 50 (Jefferson High School property) in the city of Alexandria.

- 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.

Tax Increment Financing – Anoka (Section 4)

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 deadline of the five-year rule to April 7, 2023 for the Commuter Rail Transit Village TIF district in the city of Anoka.

- 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.

Tax Increment Financing – Champlin (Section 5)

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. The bill also allows the city of Champlin the option to extend duration of the district by five years.

- 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.

Tax Increment Financing – Duluth (Section 6)

The effective date is following local approval.

The bill would authorize the creation of tax increment financing (TIF) districts in the city of Duluth within a defined area. The bill removes limitations on property eligible to be in a redevelopment district and removes restrictions on eligible expenditures for redevelopment districts for any districts established under its authority.

- 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.

Tax Increment Financing – Minneapolis (Section 7)

The effective date is following local approval.

The bill would authorize the creation of tax increment financing (TIF) districts for the Upper Harbor Terminal Redevelopment Project in the city of Minneapolis. The TIF districts would have to be within a certain portion of the North Washington Industrial Park Redevelopment Project Area and only include property that was formerly used as a municipally owned intermodal barge shipping facility.

The bill also makes exceptions to some rules for any redevelopment TIF districts established under its authority. These include removing limits on the use of increment and allowing increment from any TIF district created under the bill to be spent anywhere within the project area.

- 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.

Tax Increment Financing – Roseville (Section 8)

The effective date is following local approval.

The bill would allow increment generated from Hazardous Substance Subdistrict No. 17A (Twin Lakes Hazardous Substance Subdistrict) to be used on the remaining properties in the district that need environmental remediation. This would be allowed regardless of the date of approval of the response action plan by the Pollution Control Agency.

- 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.

Article 8: Public Finance

State Agricultural Society Bonding Authority (Sections 1, 9, 10)

The effective date is July 1, 2019.

Under current law, the State Agricultural Society (which oversees the State Fair) can issue bonds up to \$20,000,000. This bonding authority expires July 1, 2025.

This bill would extend the bonding limit to \$30,000,000 and would repeal the expiration date for the bonding authority.

- It is assumed that the additional bonding authority would be repaid by the state fair through revenues from ticket sales, licensing exhibit space, and renting facilities, with no impact on state or local tax revenues; therefore this bill would have no effect on the state general fund.

Miscellaneous Public Finance Provisions Changes (Sections 2-6, 8, 10)

The effective date is July 1, 2019.

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. This interest is part of what a property owner pays when a drainage lien special assessment 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.

Under current law, public notices are required 20 days in advance of solicitation of bids for school district facilities projects. The bill would remove this requirement.

The bill also expands the financial backing options counties may use for bond sales.

The bill updates language referencing the United States Bankruptcy Code and the definition of "municipality" for the purpose of capital improvement bonds.

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

Bond Allocation Act Modified (Section 7, 10)

The effective date is July 1, 2019.

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.

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

Articles 9: Miscellaneous

Occupation Tax Transfer to TEDF (Sections 13-14)

Effective beginning for distributions made in 2020.

Under current law, any mining occupation tax collections left over after all statutory appropriations have been made remain in the state general fund.

The bill would create an annual transfer from the state general fund to the taconite economic development fund (TEDF). The transfer amount would be equal to the mining occupation tax balance remaining in the state general fund after all appropriations have been made for the current fiscal year, up to a maximum transfer of \$4 million annually. The transfer would occur annually by July 15. If there are insufficient funds remaining in the state general fund in any year after all occupation tax appropriations are made, the transfer of funds to the TEDF would not be made. The newly transferred funds in the TEDF would be distributed to taconite producing companies based on their share of total occupation tax paid in the current year.

- The annual transfer from the state general fund to the TEDF would increase costs to the state general fund beginning in FY 2021.
- Based on projected mining production and occupation tax revenues, the new transfer is estimated to reduce occupation tax revenues remaining in the state general fund by \$4 million in FY 2021 and FY 2022, and approximately \$3.14 million in FY 2023.

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