DEPARTMENT OF REVENUE

PROPERTY TAX
Senate Omnibus Tax Bill

April 27, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

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

Department of Revenue
Analysis of S.F. 961 (Nelson), 1st engrossment, Articles 4-6, 9

	Fund Impact			
	F.Y. 2022	F.Y. 2023	F.Y. 2024	F.Y. 2025
	(000's)			
Article 4: Property Taxes				
Fire Special Taxing Districts Authorized	$0	$0	$0	$0
Qualifying Relatives for Ag Homestead				
Property Tax Refund Interaction	$0	(unknown)	(unknown)	(unknown)
Ag Homestead Market Value Credit	$0	(unknown)	(unknown)	(unknown)
Estate Tax	$0	(unknown)	(unknown)	(unknown)
Homestead Deadlines Modified				
Property Tax Refund Interactions				
Homestead Application by Dec. 31	$0	($70)	(negligible)	(negligible)
Veteran with a Disability Exclusion	$0	$30	negligible	negligible
Class 4d Modified	$0	($2,930)	($2,930)	($2,930)
In-Home Child Care Provider Credit	$0	($10,300)	($10,900)	($11,500)
Property Tax Refund Interaction	$0	$2,800	$2,880	$2,970
Income Tax Interaction	$0	$80	$90	$90
State General Levy Modified	($15,030)	($28,350)	($28,350)	($28,350)
Income Tax Interaction	$0	$850	$850	$850
Property Tax Refund Income Definition Modified	$0	($4,700)	($4,800)	($4,900)
Special Assessments Allowed for Energy Improvement	$0	$0	$0	$0
Supplemental City Aid	$0	($5,053)	$0	$0
Article 5: Tax Increment Financing				
TIF – Bloomington	$0	$0	$0	$0

TIF – Burnsville	$0	$0	$0	$0
TIF – Mountain Lake	$0	$0	$0	$0
TIF – Ramsey	$0	$0	$0	$0
TIF – Wayzata	$0	$0	$0	$0
TIF – Windom	$0	$0	$0	$0
TIF Affordable Housing Report	$0	$0	$0	$0
Article 6: Public Finance				
Miscellaneous Public Finance Changes	$0	$0	$0	$0
Article 7: Miscellaneous				
Taconite Distribution Changes	$0	$0	$0	$0
Taconite Distribution Transfer to the city of Biwabik	$0	$0	$0	$0
General Fund Total	**($15,030)**	**($47,643)**	**($43,160)**	**($43,770)**

Various Effective Dates

***Non-General Fund Impacts**

Taconite County Road & Bridge Fund				
Taconite Distribution Changes	$0	$0	($942)	($1,888)
Taconite Environmental Protection Fund				
Taconite Distribution Changes	$0	$0	$942	$1,888

REVENUE ANALYSIS DETAIL

Article 4: Property Taxes

Fire Special Taxing Districts Authorized (Sections 1, 15-16)
The effective date is the day following final enactment.
Under current law, legislative approval is required to create fire protection special taxing districts. Emergency medical service districts may be created but have levy limits and cannot incur debt.

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 without limit and/or incur debt.

- 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 would lead to lower or higher levies for taxpayers.

Agricultural Homestead Qualifying Relatives Modified (Section 2)
The effective date is beginning with taxes payable 2022.
Under current law, agricultural relative homestead may be granted if a grandchild, child, sibling, or parent of the owner was occupying or farming the property.

The proposal expands qualifying relatives for agricultural relative homestead to include grandparents, stepparents, stepchildren, uncles, aunts, nephews, and nieces.

- By expanding the list of qualifying relatives, it is assumed that the number of properties qualifying as agricultural relative homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land would change from 1.00% to 0.50% for the first $1.89 million of value and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural relative 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 an unknown amount beginning in fiscal year 2023.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2022.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

Homestead Application Deadlines Modified (Sections 3-4, 9)
The effective date is beginning with assessments in 2021.
<u>Homestead Established - Application Due by December 31:</u>
Under current law, any property used as a homestead by December 1 will receive homestead classification for the current assessment year if an application is submitted by December 15 of the same year.

Under the proposal, any property used as a homestead by December 31 will receive homestead classification for the current assessment year if an application is submitted by December 31 of the same year.

<u>Homestead Exclusion for Veterans with a Disability - Application Due by December 31:</u>
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 December 15. For applications received after December 15, the exclusion becomes effective for the following assessment year.

Under the proposal, the due date for applications would be changed to December 31, and all approved applications filed by December 31 would receive the exclusion for the current assessment year.

- Due to property tax refund interactions, the proposal would shift general fund amounts from one fiscal year into the previous fiscal year.
- Allowing homesteads to be established by December 31 would shift state costs.
- The later deadline for the veterans' homestead exclusion would shift state savings.
- The main impact occurs in the initial fiscal year. A portion of the state-paid property tax refund that under current law is saved or spent in one fiscal year would now be shifted into the previous fiscal year.
- The impact of shifts in subsequent years is the difference between forecasted refund savings or costs 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 proposal would be for applications filed in 2021 for taxes payable in 2022 (property tax refunds in FY 2023).

<u>Homestead Established - Application Due by December 31:</u>
- For homestead property that is sold between December 2 and December 31, the proposal would have no impact on the local tax base or on state-paid property tax refunds.
- However, if a homestead is established on previously non-homestead property after December 1, the proposal would reduce taxable market value within local taxing jurisdictions and may increase state-paid property tax refunds.
- It is estimated that approximately 330 homesteads would be established on previously non-homestead property between December 2, 2021 and December 31, 2021.
- The reduced tax on the newly homesteaded property would shift property taxes (payable in 2022) onto all other property types, including other homesteads. This would increase state-paid homeowner refunds. This cost is included in the overall cost to the state.
- Some homesteads established after December 1 would be eligible for a property tax refund.

- It is assumed that approximately 120 homesteads established between December 2, 2021 and December 31, 2021 would apply for a refund.
- Under the proposal, an estimated $70,000 of homeowner refunds currently projected to be paid by the state in FY 2024 would shift into FY 2023.
- For subsequent years (beginning in FY 2024) the net cost to the state general fund is estimated to be less than $5,000.

<u>Homestead Exclusion for Veterans with a Disability - Application Due by December 31:</u>

- The proposal would allow veterans who move after December 15 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 December 15 of the current year and receive the exclusion for the current assessment year, rather than the following assessment year (as under current law).
- It is assumed that approximately 50 applications will be received in calendar year 2021 between December 16 and December 31.
- The proposal would shift an estimated $100,000 in property tax (payable in 2022) 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 later application deadline would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads.
- Under the proposal, an estimated $30,000 of refund savings currently projected for FY 2024 would shift into FY 2023.
- For subsequent years (beginning in FY 2024) the net savings to the state general fund is estimated to be less than $5,000.

Class 4d Low Income Rental Housing Requirements and Class Rate Modified (Section 5-8)
Various effective dates.
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 $174,000 for assessment year 2021.

The proposal would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d property. The classification rate change would be effective beginning with taxes payable in 2022. The proposal also adds additional requirements for class 4d property, including requiring a notice be posted in all properties classified as class 4d, requiring property owners to receive approval by the city or town before applying for class 4d designation, and requiring additional information in the application for class 4d designation. These changes would be effective beginning with assessment year 2022.

- In assessment year 2020, there were approximately 3,200 parcels statewide containing class 4d low-income rental housing. The market value for class 4d property in the same year was approximately $7.1 billion statewide.

- The proposal 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 $2.93 million beginning in fiscal year 2023.

Property Tax Credit for In-Home Child Care Providers Established (Sections 10-12, 15, 17)
The effective date is beginning with taxes payable in 2022.
The proposal would create a property tax credit for property classified as 1a residential homestead and 2a agricultural homestead (house, garage, and surrounding one acre of property only) used to operate a licensed family day care or group family day care program. The credit would be equal to 50 percent of the net tax owed on the property after subtracting all other applicable credits.

- Based on data from the Department of Human Services, it is estimated that there are approximately 6,800 licensed family day care or group family day care programs in the state where the license holder lives onsite.
- It is assumed that all 6,800 child-care programs would be located on qualifying homestead property.
- The credit is estimated to be $10.3 million in taxes payable 2022. The credit amount is estimated to grow annually based on forecasted homestead net tax growth.
- Lower property taxes for homesteads receiving the credit would reduce property tax refunds paid by the state by $2.80 million in fiscal year 2023, $2.88 million in fiscal year 2024, and $2.97 million in fiscal year 2025.
- Lower property taxes for property owners receiving the credit would reduce deductions on income tax returns, increasing state tax collections by $80,000 in fiscal year 2023, $90,000 in fiscal year 2024, and $90,000 in fiscal year 2025.

State General Levy Decreased, Commercial-Industrial Exclusion Increased (Sections 13-14)
The effective date is beginning with taxes payable in 2022.
Under current law, the state general levy for commercial-industrial property is $737,090,000 and is paid for by specified commercial-industrial property, except the first $100,000 of market value. The state general levy for seasonal recreational property is $41,690,000.

The proposal would change the tax base for the state general levy for commercial-industrial property to exclude the first $150,000 of market value, instead of the first $100,000 under current law. The levy amount would be reduced to $710,800,000. The state general levy for seasonal recreational property would be reduced to $39,627,000.

- Because the exemption of the first $150,000 of commercial-industrial property is combined with a decrease in the state general levy amount, taxes would not increase on the tax base that remains in the state general levy.
- The state general levy would decrease by $25.35 million per year beginning in taxes payable 2022. 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 FY 2023.

PTR Income Definition Modified to Exclude Veterans Disability Compensation (Section 18)
Effective beginning for refunds based on rent paid in 2021 and property taxes payable in 2022.
Under current law certain veterans benefits 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. These nontaxable veterans benefits include disability compensation, military disability pensions, and education and training payments.

The bill would exclude nontaxable veterans disability compensation from the definition of household income used to calculate property tax refunds.

- The estimates are based on the February 2021 forecast.
- Under the proposal, the amount of household income used to determine property tax refunds would be reduced by excluding veterans disability compensation, which would increase refunds to eligible homeowners and renters receiving veterans benefits.
- It is assumed that approximately 34,000 homeowners and renters would receive an increased property tax refund, resulting in an increase in state general fund costs beginning in FY 2023.The average refund increase is estimated to be approximately $140.
- A two percent annual growth in refunds is assumed.

Special Assessments for Energy Improvement Allowed (Sections 19-20)
The effective date is beginning with special assessments payable in 2022.
Under current law, special assessments cannot be used for energy improvements. The bill would allow special assessments for qualifying energy improvement projects meeting certain requirements.

- Allowing special assessments on energy improvements would have no assumed impact to the state general fund.

Supplemental 2022 City Aid Distribution (Section 21)
Effective for aids payable in 2022.
The bill would provide a one-time supplemental aid payment to cities that are certified to receive less local government aid (LGA) in payable year 2022 than it received in 2021. The amount of the supplemental aid would be equal to the reduction in a city's LGA between 2021 and 2022. The supplemental aid would not be included in the calculation of future LGA payments.

- For aid payable year 2022, there are 95 cities that would qualify to receive supplemental aid.
- Providing a temporary supplemental aid payment to cities would increase state general fund costs by $5.053 million in calendar year 2022.

Article 5: Tax Increment Financing

Tax Increment Financing – Bloomington (Sections 1-2)

The effective date is following local approval.

The proposal authorizes the city of Bloomington or its housing and redevelopment authority to establish two tax increment financing (TIF) districts: American Boulevard and 98th & Aldrich. Each district is limited to the parcels and rights-of-way specified in the proposal.

The proposal includes special rules for both districts:

- Under current law, there are requirements that must be met to qualify as a redevelopment district. Under the proposal, the districts are deemed to meet all such requirements.
- Under current law, at least 90% of revenues must be used to finance the costs of correcting conditions that allowed a district to be designated a redevelopment or renewal and renovation district. Under the proposal, expenditures in the districts would be deemed to meet this requirement.

Another special rule would apply only to the American Boulevard district. Under current law, pooling rules require that a certain percentage of tax increments be spent on activities within each TIF district. The proposal would allow the district to consider increments spent on undergrounding or overhead power lines, transformers, and related infrastructure within the project area as activities within the district.

- The proposed changes to these 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.

Tax Increment Financing – Burnsville (Section 3)

The effective date is following local approval.

The proposal would authorize the creation of one or more redevelopment tax increment financing (TIF) districts within the Burnsville Center mall area. The proposal makes some exceptions for any districts established under its authority. These include removing limitations on property eligible to be in a redevelopment district, removing limitations on the permitted use of increment from the district, and allowing increment to be used for the construction and acquisition of property for a bridge, tunnel, or other connector from the mall across certain roads and right-of-ways.

- 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 – Mountain Lake (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 proposal extends the deadline of the five-year rule from five years to ten years for TIF District No. 1-8 in Mountain Lake.

- 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 – Ramsey (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 proposal extends the deadline of the five-year rule by a five years to November 28, 2026 for TIF District No. 14 in Ramsey.

- 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 – Wayzata (Section 6)
The effective date is following local approval.
Under current law, pooling rules require that a certain percentage of tax increments must be spent on activities within each tax increment financing (TIF) district.

The proposal would allow the city of Wayzata to use increments generated from TIF District No. 6 for the design and construction of the lakefront pedestrian walkway and community transient lake public access infrastructure related to the Panoway on Wayzata Bay project. All of these expenditures would be considered activities within the district.

- 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 – Windom (Section 7)
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 proposal extends the deadline of the five-year rule from five years to ten years for TIF District No. 1-22 in Windom. In addition, the city of Windom or its economic development authority may extend duration of the TIF district by five years.

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

Affordable Housing Development Tax Assistance Report (Section 8)
The effective date is the day following final enactment.
The proposal requires the commissioner of revenue, in consultation with the Minnesota Housing Finance Agency, the Minnesota State Auditor, the League of Minnesota Cities, and the Association of Minnesota Counties, to produce a report on affordable housing projects paid for in whole, or in part, by tax increment or through a city or county housing trust fund for local housing development. The report must be completed by January 31, 2022.

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

Article 6: Public Finance

Miscellaneous Public Finance Changes (Sections 1-9)
The effective date is July 1, 2021.
The proposal makes a number of technical and clarifying changes regarding local government debt financing and sales taxes.

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

Article 9: Miscellaneous

Taconite Distribution Changes (Sections 4-5)
The effective date is the day following final enactment.
Under current law, 10.525 cents per taxable ton of taconite is paid to the county road and bridge fund for distributions in 2015 through 2023. Starting with distributions in 2024, that amount will increase to 15.525 cents.

The bill would eliminate the scheduled 5 cent per taxable ton increase to the county road and bridge fund and instead increase the distribution to the taconite environmental protection fund by 5 cents per taxable ton beginning for distributions in 2024.

- For distribution year 2024, an estimated $1,883,000 would shift from the country road and bridge fund to the taconite environmental protection fund under the proposal. This amount is estimated to increase to $1,892,000 for distribution year 2025.
- These numbers have been converted to fiscal years for the purpose of this estimate, with $942,000 shifted in FY2024 and $1,888,000 shifted in FY2025.
- Shifting taconite distributions between funds would have no impact on the state general fund.

Taconite Distribution Transfer to the City of Biwabik (Section7)
The effective date is the day following final enactment.
The bill would require a transfer of $1,500,000 from St. Louis County to the City of Biwabik for road preservation and construction.

- The local transfer will have no effect on the state general fund.

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

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