

**PROPERTY TAX**  
**House Property Tax Division Report**  
**Articles 1-3, 5-6**

April 11, 2022

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

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
 Analysis of H.F. 4064 (Youakim), 1st division engrossment

	<b>Fund Impact</b>			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
<b><u>Article 1: Property Taxes</u></b>				
Long-Term Facilities Maintenance for Joint Powers, Building Lease Levy Expanded				
Property Tax Refund Interaction	\$0	\$0	(\$20)	(\$20)
Income Tax Interaction	\$0	\$0	(\$10)	(\$10)
School Bond Credit	\$0	\$0	(\$10)	(\$10)
Local Optional Revenue Aid Modified				
Property Tax Refund Interaction	\$0	\$0	\$3,320	\$4,080
Income Tax Interaction	\$0	\$0	\$690	\$850
Airport Exemption Modified	\$0	\$0	(\$20)	(\$20)
Solar Real Property Classification	\$0	\$0	negligible	negligible
Elderly Living Facilities Exemption	\$0	\$0	\$0	(\$10)
Energy Storage System Exemption	\$0	\$0	(\$20)	(\$20)
Community Land Trust Classification	\$0	\$0	\$180	\$180
Manufactured Home Parks Classification Modified				
	\$0	\$0	\$0	(\$270)
Hemp Included as an Agricultural Product				
Property Tax Refund Interaction	\$0	\$0	\$0	(\$30)
Ag Homestead Market Value Credit	\$0	\$0	\$0	(\$10)
School Bond Credit	\$0	\$0	\$0	(\$30)
Exclusion for Veterans with a Disability Modified	\$0	\$0	negligible	negligible
Homestead Market Value Exclusion Increased	\$0	\$0	\$0	\$1,610

School Bond Credit Increased	\$0	\$0	\$0	(\$21,800)
Property Tax Refund Interaction	\$0	\$0	\$0	(\$680)
Income Tax Interaction	\$0	\$0	\$0	\$580
Delinquent Property Tax Interest Rate Adjusted	\$0	\$0	\$0	\$0
Senior Deferral Income Threshold Increased	\$0	\$0	(\$270)	(\$660)

**Article 2: State Aids**

LGA Appropriation Increased	\$0	\$0	(\$34,220)	(\$34,220)
Mahnomen Reimbursement Aid	\$0	\$0	(\$160)	(\$160)
Property Tax Refund Interaction	\$0	\$0	\$900	\$900
Income Tax Interaction	\$0	\$0	\$350	\$350
CPA Appropriation Increased	\$0	\$0	(\$13,000)	(\$13,000)
Property Tax Refund Interaction	\$0	\$0	\$340	\$340
Income Tax Interaction	\$0	\$0	\$130	\$130
Soil and Water Conservation District Aid	\$0	(\$22,000)	(\$22,000)	(\$22,000)
Stronger Community Aid Program	\$0	\$0	(\$497)	(\$497)
Performance Measurement				
Reimbursement Repealed	\$0	\$0	\$497	\$497
LGA Penalty Forgiveness – Echo	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Morton	\$0	\$0	\$0	\$0

**Article 3: Tax Increment Financing**

TIF Administrative Updates	\$0	\$0	\$0	\$0
TIF – Hopkins	\$0	\$0	\$0	\$0
TIF – Savage	\$0	\$0	\$0	\$0
TIF – Fridley	\$0	\$0	\$0	\$0
TIF – Plymouth	\$0	\$0	\$0	\$0
TIF – Woodbury	\$0	\$0	\$0	\$0

**Article 5: Renter’s Tax Credits**

Renter Income Tax Credit	\$0	(\$372,600)	(\$378,200)	(\$386,100)
Renter Property Tax Refund Repealed	\$0	\$0	\$231,600	\$234,700

**Article 6: Miscellaneous**

Homestead Credit Refund Increased	\$0	\$0	(\$35,200)	(\$36,800)
Targeting Refund Increased	\$0	\$0	(\$1,900)	(\$2,000)
Tourism Improvement Districts	\$0	\$0	\$0	\$0
<b>General Fund Total</b>	<b>\$0</b>	<b>(\$394,600)</b>	<b>(\$286,260)</b>	<b>(\$326,080)</b>

Various Effective Dates

**REVENUE ANALYSIS DETAIL**

**Article 1: Property Taxes**

**Long-Term Facilities Maintenance for Joint Powers and Building Lease Levy Expanded (Sections 1, 3)**

*The effective date is beginning with fiscal year 2024.*

The proposal would expand the list of cooperative units that may issue deferred maintenance bonds backed by the member school districts long-term facilities maintenance (LTFM) revenue to include other types of joint powers agreements. The proposal would also authorize a school district levy up to \$65 per pupil per year for facilities needs for cooperative school units and school joint powers districts.

- The proposal would increase net tax capacity based school levies, including debt service levies subject to the school building bond credit. The total levy increase is estimated to be \$390,000 per year beginning with taxes payable 2023.
- Higher levies would increase property taxes on all property. The higher property tax burden would increase state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2024, resulting in a cost to the state general fund.
- Higher school debt service levies would increase the school building bond property tax credit for qualifying properties beginning in fiscal year 2024.

**Local Optional Revenue Aid Increased (Section 2)**

*The effective date is beginning with fiscal year 2024.*

The proposal would set the first tier local optional revenue equalization factor to 170 percent of the statewide average tax base per pupil.

- The proposal would decrease referendum market value based school levies related to local optional revenue. The net levy decrease would be \$43.0 million in taxes payable 2023 and \$52.9 million in taxes payable 2024.
- 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 2024, resulting in a savings to the state general fund.

#### **Airport Exemption Modified (Section 4)**

*The effective date is beginning with property taxes payable in 2023.*

Under the proposal, an airport hangar owned by a unit of local government and leased to or used by a person or entity would be exempt from property taxes if the hangar is:

- 1) used for the manufacture of aircraft, and
- 2) not owned or operated by the Metropolitan Airports Commission or by a city of over 50,000 population.

However, if a hangar being used for the manufacture of aircraft is owned or operated by a city over 50,000 but under 150,000 in population, then the net tax capacity of the hangar would be reduced by 50% for taxes payable in 2023 through 2034.

In addition, the proposal would reduce by fifty percent the net tax capacity of airport property constituting or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area in connection with a public airport if not owned or operated by the Metropolitan Airports Commission or cities of over 50,000 in population.

However, if the airport property is owned or operated by a city over 50,000 but under 150,000 in population, the proposal would reduce the net tax capacity of the property by 50% for taxes payable in 2023 through 2034.

- The proposal would reduce the net tax capacity of the Cirrus manufacturing hangar located at the Duluth International Airport as well as other airport property in the cities of Duluth, Rochester, and St. Cloud.
- This would reduce the commercial-industrial state general tax on the eligible properties. However, the reduction in state general tax would have no impact on state revenues in payable year 2023 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.
- For taxes payable in 2023, an estimated \$460,000 in local property taxes would be shifted onto other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$20,000 in fiscal year 2024.
- Based on information provided by St. Louis County, property leased to Cirrus would account for approximately half of the total tax shift.
- Over the twelve-year period from taxes payable in 2023 through 2034, the total reduction in local property taxes on the eligible properties is estimated to be approximately \$6.5 million.
- Three percent annual growth is assumed.

#### **Solar Real Property Classification Modified (Section 5)**

*The effective date is beginning with property taxes payable in 2023.*

Solar energy generating systems with a capacity greater than one megawatt alternating current are subject to the solar energy production tax. For the purposes of determining the production tax, system capacities are combined if the systems:

- 1) were constructed within the same 12-month period, and
- 2) exhibit characteristics of being a single development.

Under current law, if a solar energy generating system is used primarily for solar energy production subject to the solar energy production tax, then the real property underlying the system is classified

as class 3a. However, if a solar energy generating system has a capacity of one megawatt or less, then the underlying real property is classified without regard to the system.

Under the proposal, if a parcel contains two or more solar energy generating systems that cannot be combined for the purposes of the production tax, but the total capacity of the systems is over one megawatt, then the real property upon which the systems are located must be classified as class 3a.

- It is assumed that fewer than ten parcels contain two or more solar energy generating systems that:
  - have a total capacity greater than one megawatt, but
  - are not subject to the solar energy production tax.
- Reclassifying the land under these solar energy generating systems to class 3a would shift property taxes onto the impacted parcels and away from other property, including homesteads, decreasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2024.

### **Elderly Living Facilities Exemption (Section 6)**

*The effective date is beginning with assessment year 2023.*

The proposal would exempt an elderly living facility from property taxes if:

- the facility is located in a first class city with a population less than 110,000;
  - the facility is owned and operated by a 501(c)(3) nonprofit organization;
  - construction of the facility was completed between January 1, 1963 and January 1, 1964;
  - the facility is a state of Minnesota licensed assisted living facility;
  - residents are at least 55 years of age or disabled;
  - and at least 30 percent of the units are occupied by persons whose annual income does not exceed 50 percent of the median family income for the area.
- Saint Ann's Seniors' Residence in the city of Duluth would be eligible for the property tax exemption.
  - For taxes payable in 2024 and thereafter, a property tax exemption would reduce taxable market value, shifting property taxes away from the exempted elderly living facility and onto all other properties, including homesteads.
  - The additional property tax burden on homesteads caused by the exemption would increase state-paid homeowner refunds by approximately \$10,000 beginning in fiscal year 2025.

### **Energy Storage System Exemption (Section 7)**

*The effective date is beginning with assessment year 2022.*

The bill would create a property tax exemption for personal property consisting of an energy storage system. (An energy storage system is a commercially available technology that uses mechanical, chemical, or thermal processes to store energy.) For assessment year 2022, an exemption application must be filed by August 1, 2022.

- The primary beneficiary of the exemption would be Connexus Energy, with two large battery storage systems: a 6MW site in Anoka County and a 9MW site in Isanti County.
- There may be other smaller energy storage systems that would also qualify for the exemption.

- For taxes payable in 2023 and thereafter, the exemption would reduce taxable market value, shifting property taxes away from the exempted energy storage systems and onto all other properties, including homesteads.
- The additional property tax burden on homesteads caused by the exemption would increase state-paid homeowner refunds by approximately \$20,000 beginning in fiscal year 2024.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2023 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

### **Community Land Trust Classification Modified (Sections 8, 11, 17)**

*The effective date is beginning with taxes payable in 2023.*

Under current law, property owned by a community land trust and used as a homestead by qualifying individuals is classified as 1a residential homestead property with a classification rate of 1.00% for the first \$500,000 of market value and 1.25% for any remaining value.

The proposal would create a new classification for property owned by a community land trust and used as a homestead by the occupant. These properties would be classified as 4d(2) community land trust units with a classification rate of 0.75%. The community land trust must certify to the assessor by December 15 each year that the community land trust owns the real property on which the unit is located and the owner is a member in good standing of the community land trust. Additionally, the assessor must determine the market value of these properties without regard to any restrictions that apply because it's a community land trust property. Properties classified as 4d(2) would maintain homestead status for the purposes of qualifying for property tax refunds.

- According to the Minnesota Community Land Trust Coalition, there are 12 community land trust organizations in Minnesota that have a portfolio of over 1,250 homes throughout the state.
- It is assumed that about \$270 million of market value would change from class 1a residential homestead to class 4d(2) community land trust units under the proposal.
- Property taxes would shift away from properties becoming class 4d(2) and onto all other properties, including homesteads. As a result, property tax refunds paid by the state would increase by \$30,000 beginning in fiscal year 2024.
- As a result of properties receiving a reduced classification rate under class 4d(2), property tax refunds paid by the state would decrease by \$210,000 beginning in fiscal year 2024.

### **Manufactured Home Parks Classification Modified (Sections 9, 11, 22)**

*The effective date is beginning with taxes payable in 2024.*

Under current law, there are three classifications for manufactured home parks:

- Class 4c(5)(i) manufactured home parks have a class rate of 1.25%,
- Class 4c(5)(ii) manufactured home park cooperatives have a class rate of 0.75% if the park is more than 50% owner-occupied and 1.00% if the park is 50% or less owner-occupied, and
- Class 4c(5)(iii) class I manufactured home parks have a class rate of 1.00%.

Under the proposal, all manufactured home parks would be consolidated into a single classification: class 4c(5). The proposed classification would have a classification rate of 0.75%.

- In assessment year 2021, there were:
  - 1,157 parcels statewide containing class 4c(5)(i) manufactured home parks with a total market value of \$518.0 million,
  - 12 parcels statewide containing class 4c(5)(ii) manufactured home park cooperatives with a total market value of \$8.7 million, and
  - 287 parcels statewide containing class 4c(5)(iii) class I manufactured home parks with a total market value of \$288.4 million.
- Under the proposal, class 4c(5)(i) manufactured home parks, class 4c(5)(ii) manufactured home park cooperatives 50% or less owner-occupied, and class 4c(5)(iii) class I manufactured home parks would receive a reduced classification rate. The classification rate for class 4c(5)(ii) manufactured home park cooperatives more than 50% owner-occupied would not change.
- The proposal would shift property taxes away from class 4c(5) manufactured home parks with a reduced classification rate under the proposal 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 \$270,000 beginning in fiscal year 2025.

### **Hemp Included as an Agricultural Product (Section 10)**

*The effective date is beginning with assessment year 2023.*

Under current law, land that is used for agricultural purposes, as defined in statute, is classified as 2a agricultural land. The proposal expands the definition of agricultural purposes to include hemp.

- According to the Minnesota Department of Agriculture, hemp was planted in over 6,000 acres of land in Minnesota in 2021. Additionally, 350,000 square feet of greenhouse space was dedicated to producing hemp.
- Under the proposal, land used to produce hemp would qualify as class 2a homestead or non-homestead agricultural land. Land qualifying as class 2a under the proposal would receive lower classification rates than under current law.
- The proposal would shift property taxes away from properties newly qualifying as agricultural and onto all other properties, including homesteads.
- The shift in taxes onto homesteads would increase state-paid property tax refunds by \$30,000 beginning in fiscal year 2025.
- Properties newly classified as 2a agricultural homestead would be eligible for the agricultural homestead market value credit, increasing the credit by \$10,000 beginning in fiscal year 2025. Properties newly classified as 2a agricultural homestead or non-homestead would also be eligible for the school building bond credit, increasing the credit by \$20,000 beginning in fiscal year 2025.

### **Exclusion for Veterans with a Disability Modified (Section 12)**

*The effective date is beginning with assessment year 2022.*

Under current law, there is no time limit to a surviving spouse receiving the homestead market value exclusion for veterans with a disability. However, prior to legislation passed in 2019 for taxes payable in 2020, the surviving spouse benefit was limited to no more than eight years. Any

surviving spouse that received the exclusion for taxes payable in 2019 was eligible for the extension to a lifetime benefit.

The proposal would allow a surviving spouse to reapply for the exclusion if the exclusion expired prior to taxes payable in 2020 due to the eight-year limit that was in effect at the time.

Under current law, homestead property owned by a veteran with a 70% or greater service-connected disability is eligible for a market value exclusion of up to \$150,000. For a total (100%) and permanent disability, up to \$300,000 of market value is excluded. In addition, if:

- 1) a member of the United States armed forces dies due to a service-connected cause while serving honorably in active service, or
  - 2) a veteran with a 100% and permanent disability dies before receiving the exclusion,
- then the surviving spouse may submit a first-time application for the exclusion within two years of the death of the veteran or active service member.

Under the proposal, the surviving spouse of a member of the United States armed forces who dies due to a service-connected cause while serving honorably in active service would be allowed to submit a first-time application:

- 1) within two years of the service member's death, or
- 2) within two years of the United States Department of Veterans Affairs Dependency and Indemnity Compensation determination, or
- 3) by December 31, 2023, whichever is later.

The proposal would also allow a spouse whose application had been denied previously to reapply by December 31, 2023.

Under current law, by July 1, the county veterans service officer must certify to the assessor the disability rating and permanent address of each veteran receiving the exclusion.

Under the proposal, the county veterans service officer must certify this information to the assessor by December 31.

- The exclusion has been in existence since taxes payable year 2009.
- For some homesteads, the surviving spouse benefit may have been in its eighth year as early as taxes payable year 2017 or 2018, resulting in the exclusion being removed for taxes payable in 2018 or 2019, respectively.
- In total (for all proposed changes), it is assumed that fewer than ten homesteads would become newly eligible for the exclusion, resulting in a net savings to the state of less than \$5,000 in fiscal year 2024.
- The savings is due to a reduction in property tax refunds paid to veteran homesteads.
- The proposal would also shift some property taxes onto other properties, including other homesteads, potentially increasing some homeowner property tax refunds. The overall savings to the state is net of these costs.

### **Homestead Market Value Exclusion Increased (Section 13)**

*The effective date is beginning with assessment year 2023.*

Under current law, the homestead market value exclusion reduces the taxable market value for all homesteads valued below \$413,800. The exclusion is 40% of the first \$76,000 of market value,



yielding a maximum exclusion of \$30,400. For homestead value between \$76,000 and \$413,800, the exclusion is \$30,400 minus 9% of the value over \$76,000. Homesteads valued at \$413,800 or more do not receive the exclusion.

The proposal would increase the homestead market value exclusion for most homesteads. The exclusion would equal 40% of the first \$80,300 of market value, yielding a maximum exclusion of \$32,120. For homesteads valued between \$80,300 and \$437,100, the exclusion would be \$32,120 minus 9% of the value over \$80,300. Homesteads valued at \$437,100 or more would not receive the exclusion.

- Under current law, 1.32 million homesteads qualify for the homestead market value exclusion for taxes payable 2022. The total exclusion statewide is \$23.58 billion.
- Under the proposal, all homesteads over \$76,000 and less than \$413,800 of market value would receive an increased homestead market value exclusion. This represents 95% of homesteads that currently receive the exclusion.
- An additional 37,000 homesteads would qualify for the homestead market value exclusion under the proposal due to the increase in maximum qualifying market value from \$413,800 to \$437,100.
- The total homestead market value exclusion would increase by \$2.65 billion statewide.
- The proposal would reduce the taxable market value and net tax capacity for homesteads newly qualifying for the exclusion and those receiving a larger exclusion. Property taxes would shift away from these homestead properties and onto all other properties, including other homesteads.
- The net impact of property taxes shifting away from and onto homesteads would be a \$14 million decrease in homestead taxes statewide.
- As a result of property taxes shifting away from homesteads, property tax refunds paid by the state would decrease by \$1.61 million beginning in fiscal year 2025.

### **School Building Bond Credit Increased (Section 14)**

*The effective date is beginning with taxes payable in 2024.*

Under current law, all class 2a, 2b, and 2c property, other than the house, garage, and surrounding one acre of land of an agricultural homestead, is eligible for the school building bond credit. The credit is equal to the credit percent of the property's eligible net tax capacity multiplied by the school debt tax rate. The credit percent is 60% for taxes payable 2022 and 70% for taxes payable 2023 and after.

The proposal would increase the credit percent to 85% for taxes payable 2024 and after.

- Under current law, the credit is estimated to total \$70.5 million for taxes payable in 2022 at 60%, \$84.4 million for taxes payable in 2023 at 70%, and \$87.2 million for taxes payable in 2024 at 70%. Under the proposal, increasing the credit percentage to 85% would increase state general fund costs beginning in fiscal year 2025.
- According to the Department of Education, it is estimated that the portion of the school district levy that is levied for debt service under current law is \$1.14 billion statewide for taxes payable 2022 and is assumed to grow statewide by 2% per year in taxes payable 2023 and 2024. Due to behavioral changes for levying, if the credit increase is enacted, levies

eligible for the credit are assumed to increase beginning in taxes payable 2024 compared to the current law forecast.

- Properties eligible for the school building bond credit pay approximately 10% of school district debt service levies under current law prior to the credit being applied.
- Under the proposal, the statewide cost of the school building bond credit is estimated to increase by \$24.2 million in taxes payable 2024. This number has been converted to fiscal years for the purposes of this estimate.
- Lower property taxes for property owners receiving the credit will reduce deductions on income tax returns, increasing state tax collections beginning in fiscal year 2025.
- Behavioral changes for levying affect the amount of property taxes paid by all property types, including homesteads. Higher debt service levies increase property tax burdens, increasing costs to the state general fund for property tax refunds and income tax deductions beginning in fiscal year 2025.
- The overall income tax savings to the state is net of these costs.

### **Delinquent Property Tax Interest Rate Adjusted (Sections 15-16)**

*The effective date is January 1, 2023.*

Under current law, the interest rate on delinquent property taxes is equal to the prime rate charged by banks during the six-month period ending on September 30 of the preceding year, rounded to the nearest full percent, but no lower than 10% and no higher than 14%.

Also under current law, the unpaid balance on any contract to repurchase tax-forfeited property is subject to the same interest rate as delinquent property taxes.

Under the proposal, for both delinquent property taxes and the unpaid balance on any repurchase contract:

- 1) the 10% minimum interest rate would be removed, and
- 2) counties would be granted the authority to set an alternative interest rate that is lower than the rate based on the prime rate charged by banks.

Interest collected on delinquent property taxes is distributed to the county (50%) and to the school districts within the county (50%). When property taxes are delinquent for one year or more, school districts continue to receive 50%, but the county share is reduced by an amount distributed to the city or town in which the property is located.

Proceeds from a repurchase agreement are apportioned to the county (40%), the school district (40%), and the town or city (20%) in which the property is located.

- The current interest rate on delinquent property taxes is 10%.
- The current interest rate based on the prime rate charged by banks is 3%.
- By removing the 10% minimum interest rate, the total amount of interest distributed to counties, school districts, and towns and cities would be reduced.
- This would not impact local government aids administered by the Department of Revenue.
- However, the amount of interest distributed to school districts reduces state-paid general education aids, so the proposal would increase Department of Education payments to school districts by an unknown amount.

### **Senior Deferral Program Income and Tenure Changes (Sections 18-21)**

*The effective date is beginning with application for deferral of taxes payable 2023.*

The proposal would make two changes to the senior deferral program:

1) Under current law, the eligibility requirements for participation in the senior citizen property tax deferral program include owning and living in their homestead for at least 15 years.

The proposal would modify the number of years a senior citizen would be required to live in their home from 15 to 5 years to be eligible for a property tax deferral.

2) Under current law, the eligibility requirements for participation in the senior citizen property tax deferral program include having a household income of \$60,000 or less.

The proposal would increase the household income level from \$60,000 to \$96,000 to be eligible for a property tax deferral.

- According to U.S. Census data, approximately three-quarters of senior citizen homeowners have lived in their homes for at least 15 years.
- Under the proposal, reducing the requirement from 15 years to 5 years would increase eligibility for the senior citizen property tax deferral program.
- According to the U.S. Social Security Administration, approximately three-quarters of senior citizen homeowners have incomes under \$60,000.
- Under the proposal, increasing the requirement from \$60,000 to \$96,000 years would increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation would increase approximately 35% under the proposal, increasing state general fund costs during the forecast period.
- The first partial year of impact is assumed to be fiscal year 2024. Applications received between June 2022 and October 2022 would be eligible for deferral under the new requirement beginning for taxes payable in 2023. The first full year of impact would be fiscal year 2025.

### **Article 2: State Aids**

#### **LGA Appropriation Increase (Sections 1-9, 12, 14, 17)**

*The effective date is beginning with aids payable in calendar year 2023.*

Under current law, the appropriation for local government aid (LGA) is \$564,398,012 for aids payable in 2023 and thereafter.

The bill would increase the LGA appropriation to \$598,617,913 for aids payable in 2023 and thereafter. The proposal would also modify the LGA distribution formulas and increase the city of Mahanomen property tax reimbursement.

- Increasing the appropriation for LGA to cities would increase state general fund costs by \$34.22 million in calendar year 2023 and thereafter.
- The proposal would also increase the annual property tax reimbursement to the city of Mahanomen by \$160,000.

- It is assumed that the permanent increase in aid to cities would reduce property tax levies by a portion of the increase. This would reduce property taxes on all property including homesteads.
- The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in fiscal year 2024, resulting in a savings to the state general fund.

### **CPA Appropriation Increase (Section 10)**

*The effective date is beginning with aids payable in calendar year 2023.*

The proposal would increase the country program aid (CPA) appropriation by \$13.0 million starting in aids payable 2023 and thereafter. The appropriation increase would be split with need aid increasing \$5.8 million and tax base equalization aid increasing \$7.2 million

- Increasing the appropriation for CPA would increase costs to the state general fund by \$13.0 million beginning in FY2024.
- It is assumed that the increased CPA would reduce property tax levies by a portion of the increase. Lower levies will reduce property taxes on all property.
  - Lower levies will result in lower homeowner property tax refunds, reducing costs to the state general fund.
  - Lower levies will result in lower income tax deductions, increasing revenues to the state general fund.

### **Soil and Water Conservation District Aid (Section 11)**

*The effective date is beginning with aids payable 2022.*

The proposal would create an aid program for soil and water conservation districts. The aid program would have a \$22 million appropriation. 70% of the appropriation would be split evenly between all soil and water conservation districts with the remaining 30% apportioned based on a soil and water conservation district's share of nonpublic lands.

- There are 88 soil and water conservation districts in Minnesota, with at least one district in each of the 87 counties except for Hennepin and Ramsey Counties. Three of the larger counties have two districts: Otter Tail, Polk, and St. Louis. Hennepin and Ramsey Counties have special legislative authority to carry out soil and water conservation district authorities and would therefore be included in aid payments.
- The new aid program would increase annual state general fund costs by \$22 million for fiscal year 2023 and thereafter.

### **Stronger Community Aid Program Established (Sections 13, 18)**

*The effective date is beginning with aids payable 2023.*

Under current law, the Local Performance Measurement and Improvement program provides aid to counties and cities that elect to meet criteria determined by the Council of Local Results and Innovation. The aid is equal to 14 cents per capita up to a maximum of \$25,000.

The bill would repeal the Local Performance Measurement and Improvement aid program and replace it with the Stronger Community Aid program. Counties and cities that choose to participate

in the program must implement a set of performance measures prescribed by the State Auditor. The aid amount provided to participating counties and cities would be the same as the Local Performance Measurement and Improvement program.

- Under current law, 28 counties and 37 cities participated in the Local Performance Measurement and Improvement aid program in 2021. The 65 participating jurisdictions received approximately \$497,000 in aid. Repealing the Local Performance Measurement and Improvement aid program would result in a savings to the state general fund beginning in FY2024 and thereafter.
- Since the Local Performance Measurement and Improvement aid program and the Stronger Community Aid program have the same aid incentive, it is assumed the same counties and cities that participated in the Local Performance Measurement and Improvement aid program will participate in the Stronger Community Aid program. This will increase costs to the state general fund by \$497,000 starting in FY2024 and thereafter.
- The net cost to the state general fund for repealing the Local Performance Measurement and Improvement aid program and creating the Community Aid program would be zero.

#### **LGA Penalty Forgiveness – Echo (Section 15)**

*Effective the day following final enactment.*

The bill would allow the city of Echo to receive payment for the portion of its 2021 Local Government Aid (LGA) and 2021 Small Cities Assistance payments withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2020 before June 1, 2022.

The payments totaling \$46,060 would be made before the end of FY 2022 by June 30, 2022.

- Under the bill there would be no additional cost to the state general fund in FY 2022 because the money for payments is already appropriated for LGA and Small Cities Assistance. Any unpaid LGA and Small Cities Assistance payments would not cancel to the state general fund until after June 30, 2022.

#### **LGA Penalty Forgiveness – Morton (Section 16)**

*Effective the day following final enactment.*

The bill would allow the city of Morton to receive payment for the portion of its 2021 Local Government Aid (LGA) and 2021 Small Cities Assistance payments withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2020 before June 1, 2022.

The payments totaling \$79,476 would be made before the end of FY 2022 by June 30, 2022.

- Under the bill there would be no additional cost to the state general fund in FY 2022 because the money for payments is already appropriated for LGA and Small Cities Assistance. Any unpaid LGA and Small Cities Assistance payments would not cancel to the state general fund until after June 30, 2022.

### **Article 3: Tax Increment Financing**

#### **TIF Administrative Updates (Sections 1-11)**

*The effective date is the day following final enactment.*

The proposal would make a number of changes to tax increment financing (TIF) laws. These changes include:

- Updating the definition of administrative expenses
- Adding a definition for a pay-as-you-go contract and note
- Clarifying the limitation on administrative expenses
- Clarifying the calculation of minimum percentage of expenditures for activities in the district and maximum percentage of expenditures allowed on activities outside the district for pooling limits
- Clarifying which expenditures are considered activity within the district for the five-year rule
- Updating the use of revenues for decertification
- Clarifying the calculation of a deficit of a district with respect to pooling permitted for deficits
- Expanding the definition of increment collected due to violations
- Clarifying the increment held by the county auditor due to violations
- Expanding the sources of permitted purposes of TIF expenditures

The proposal is effective the day following final enactment. However, some proposed changes only apply to districts whose request for certification was after certain dates.

- The proposed changes to the general TIF provisions would have no impact on the state general fund.

#### **Tax Increment Financing – Hopkins (Section 12)**

*The effective date is following local approval.*

Under current law, special rules apply to redevelopment tax increment financing (TIF) district 2-11 in the city of Hopkins. The district can use increment on housing or redevelopment activities as long as they do not exceed 20 percent of the total increments from the district. The total amount of increment allowed to be spent on activities outside the district is 25 percent.

The proposal would remove the limitation on using increment on housing or redevelopment activities. The proposal would also increase the total amount of increment allowed to be spent on activities outside the district to 30 percent.

- 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 – Savage (Section 13)**

*The effective date is following local approval.*

Minnesota Session Law 2014 allowed the city of Savage establish a soil deficiency tax increment financing (TIF) district. Some special rules applied to this district, including extending the five-year

rule to eight years. The geographic area of a TIF district may not be enlarged after five years following the date of certification of the original net tax capacity.

The proposal would extend the five-year rule to 11 years for any TIF districts established under the 2014 Session Law. The proposal also extends to eight years the rule on the geographic enlargement of a 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 – Fridley (Section 14)**

*The effective date is following local approval.*

The proposal would allow the city of Fridley or its economic development authority to transfer tax increment accumulated from Fridley Tax Increment Financing (TIF) District No. 20 to the Fridley Housing and Redevelopment Authority. Transferred increment may only be expended on housing programs adopted by the Fridley Housing and Redevelopment Authority by December 31, 2022. The city of Fridley would be required to provide a two reports, in 2024 and 2026, including detailed information relating to each program financed with increment under this proposal. The authority to make transfers under this proposal expires December 31, 2026.

- 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 – Plymouth (Section 15)**

*The effective date is following local approval.*

The proposal would authorize the creation of a redevelopment tax increment financing (TIF) district within specified parcels in the city of Plymouth. The proposal makes some exceptions for the district established under its authority. These include removing limitations of property eligible to be in a redevelopment district, extending the five-year rule to ten years, removing limitations on the permitted use of increment from the district, and allowing increment to be used for improvements to Hennepin County Road 47 outside 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 – Woodbury (Section 16)**

*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 Woodbury to expend increments generated from TIF District No. 13 for the maintenance and facility and infrastructure upgrades to Central Park. These

expenditures would be considered activities within the district. Additionally, the proposal would allow the city to extend the duration of the 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.

### **Article 5: Renter's Tax Credits**

#### **Renter Income Tax Credit Established, Property Tax Refund Repealed (Sections 1-21)**

*The repeal of the renter PTR is effective beginning for refunds based on rent paid in 2022.*

*The new renter income tax credit is effective beginning in tax year 2022.*

Under the current law, renter property tax refunds (PTR) are calculated based on a definition of household income that includes federal adjusted gross income (FAGI) and adds other non-taxable income sources including social security, contributions to retirement plans, and government assistance payments.

Claimants file form M1PR by August 15 to claim the refund.

The bill repeals the renter property tax refund and replaces it with a refundable income tax credit. The bill also changes the definition of income for calculating the new credit to be FAGI. Current law subtractions and exclusions would be eliminated, except the subtractions for dependents, disability, and age +65 would be preserved.

Taxpayers would file form M1 generally by April 15 to claim the credit.

- Based on the February 2022 forecast, the current renter property tax refund is projected to total \$231.6 million for fiscal year 2024.
- Changing the definition of household income to FAGI would narrow the measure of income used for calculating renter property tax refunds. On average, FAGI is estimated to be approximately 14% lower than household income as currently defined. As a result, more people would become eligible for the proposed credit compared to the current law refund.
- Changing the refund to an income tax credit would shift the timing in which the payment is made. The analysis assumes a 100% shift to the previous fiscal year.
- The analysis assumes that 100% of current renter PTR filers would file M1 to get the credit.
- Among people who did not file for renter PTR but were eligible for the refund under current law and for the credit under proposal, the analysis assumes 10% would not file M1 to claim the credit.
- Under the proposed renter income tax credit, tax year 2022 payments are estimated to be \$373 million.
- Fiscal year 2024 will be the first full year impact from the repeal.

#### **Current PTR Claimants**

- Under the proposal, about one-third of current renter property tax refund claimants would have no change in the net income amount used to calculate refunds. The credit they would receive would be equal to the current refund.



- Most renter property tax refund claimants would have a lower net income amount for calculating refunds and would receive a credit that is higher than the current refund under current law. Over 60% of renters currently receiving a refund would receive an average credit that is \$212 higher than their current refund.
- A smaller percentage of current renter refund claimants would have a higher net income amount for calculating credits due to the elimination of certain income subtractions and exclusions, including those for retirement contributions and paid alimony, and would receive a credit smaller than the existing refund under current law. Approximately 4% of renters currently receiving a refund would be estimated to receive a credit that is \$119 lower than their current refund.
- In fiscal year 2024 the total increase in property tax refund credits to current renter claimants would be \$40 million.

#### Additional Filers Receiving the PTR Credit

- It is assumed that approximately 120,000 renters currently eligible but not claiming a property tax refund would receive the proposed income tax credit totaling approximately \$86 million.
- The change in the definition of income would increase the numbers of renters qualifying for a credit, with an additional 36,000 renters estimated to receive a credit. Newly eligible renters are estimated to receive \$15 million.

Number of Taxpayers: Approximately 367,000 taxpayers would be affected.

### **Article 6: Miscellaneous**

#### **Homestead Credit Refund Increased (Sections 1, 3)**

*The effective date is beginning for refunds based on property taxes payable in 2023.*

Under current law the copay percentages for homeowners claiming a property tax refund range from 15% to 50% and income thresholds range between 1.0% and 2.5%, depending on household income. Maximum refund amounts also vary by income level and are adjusted annually for inflation.

The proposal would increase maximum refund amounts by \$200 for all income ranges, lower the homeowner copay percentages by 5% for income ranges between \$33,120 and 77,870, and reduce income threshold percentages by 0.1% for income ranges between \$21,200 and \$32,800.

By lowering the copay percentages and increasing the maximum refunds for homeowners, state-paid property tax refunds to homeowners would increase by \$35.2 million beginning in FY 2024.

Under the proposal, two-thirds of homeowner PTR claimants would receive an increased refund, with the average refund increase being \$91. It is assumed that fewer than 1,000 new claimants would become eligible and file for a property tax refund under the proposal.

Number of Taxpayers: 388,000 homeowner PTR claimants would receive an increased refund.

### **Targeting Refund Increased (Section 2)**

*The effective date is beginning with refunds based on taxes payable in 2023.*

Under current law, property owners qualify for the additional property tax refund if property taxes on their homestead increase more than 12 percent over the prior year and the amount of the increase is more than \$100. The refund is equal to 60 percent of the amount of the increase over the greater of 12 percent of the prior year's property taxes payable or \$100, with a maximum refund of \$1,000.

The proposal would decrease the minimum annual change in property taxes from 12 percent to ten percent in order to qualify for a refund. The refund amount would also change to be equal to 60 percent of the amount of the increase over the greater of 10 percent of the prior year's property taxes payable or \$100. The maximum refund allowed would increase to \$2,000.

- Under current law, it is estimated that 53,000 taxpayers will claim additional property tax refunds for payable year 2023 for a total of \$5.3 million. Under the proposal, these taxpayers would receive an average refund increase of \$30.
- By decreasing the minimum year-to-year change for the refund, the number of taxpayers claiming the additional property tax refund is estimated to increase by 20,000 in the first year.
- Total refunds paid by the state are estimated to increase by \$1.9 million in fiscal year 2024 and \$2.0 million in fiscal year 2025.

### **Tourism Improvement Districts Established (Sections 4-13)**

*The effective date is beginning the day following final enactment.*

The proposal would allow municipalities to create tourism improvement districts. A district could only be created upon request by a majority of impacted business owners. Qualifying businesses would need to be a lodging business.

Municipalities would be allowed to collect service charges from businesses within the tourism improvement districts. Funds would be used to promote or improve businesses within the districts.

- The proposed service charges are assumed to have no impact on the state general fund. Tourism improvement districts would not have property tax levy authority.

Source: Minnesota Department of Revenue  
Property Tax Division – Research Unit  
[www.revenue.state.mn.us/research\\_stats/pages/revenue-analyses.aspx](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)