

**PROPERTY TAX**  
**Electric generation transition**  
**aid to local governments**

April 26, 2022

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue  
 Analysis of S.F. 3641 (Housley) as proposed to be amended by SCS3641A-5

**Fund Impact**

	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
Electric Generation Transition Aid	\$0	\$0	(\$2,200)	(\$4,900)
Property Tax Refund Interaction	\$0	\$0	\$70	\$150
Income Tax Interaction	\$0	\$0	\$30	\$60
General Fund Total	\$	\$	(\$2,100)	(\$4,690)

Effective beginning for aids payable in 2023.

**EXPLANATION OF THE BILL**

The proposal would create an electric generation transition aid program. Counties, cities/towns, and school districts would be eligible to receive aid in the event a publicly utility electric generating unit powered by coal, nuclear, or natural gas is retired. Local jurisdictions with electric generating units that were retired after 2016 would be eligible to receive aid.

Jurisdictions where the tax capacity of electric generating property is greater than 4% of the jurisdiction’s total tax capacity would receive an initial aid amount equal to the reduction in tax capacity resulting from the unit/units being retired multiplied by the local jurisdiction’s tax rate in the year prior to the retirement. Each subsequent year the aid amount would decrease by 5% of the initial aid until it is below \$5,000 at which point the aid would be zero. Jurisdictions would also stop receiving aid if their total net capacity became larger than 90% of their tax capacity before the retirement multiplied by the state’s tax capacity growth ratio.

**REVENUE ANALYSIS DETAIL**

- Since 2016 there are three retired electric generating units that are estimated to qualify local jurisdictions for aid under the proposal: Clay Boswell in Itasca County, Fox Lake in Martin County, and Hoot Lake in Otter Tail County. A fourth unit in Sherburne County is expected to be retired and qualify for aid within the current forecast window.
- The proposed aid to local jurisdictions would increase state general fund costs beginning in FY2024. Local jurisdictions are estimated to qualify for aid totaling \$2.2 million in FY2024 and \$4.9 million in FY2025.
- It is assumed that local jurisdictions receiving the new aid would reduce property tax levies by a portion of the aid increase. Lower levies would reduce property taxes on all property.
  - Lower property taxes would result in lower homeowner property tax refunds, reducing costs to the state general fund beginning in FY 2024.

- Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2024.
- In the future, additional electric generating units are expected to be retired and qualify for aid under the proposal. The aid increases from these retirements are outside the current forecast window.

**PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)**

<i>Transparency, Understandability, Simplicity &amp; Accountability</i>	Neutral	
<i>Efficiency &amp; Compliance</i>	Neutral	
<i>Equity (Vertical &amp; Horizontal)</i>	Neutral	
<i>Stability &amp; Predictability</i>	Increase	Local jurisdictions where public utility property makes up a larger percentage of the tax base may experience less tax shifting caused by tax base reductions.
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	Neutral	

*The bill is scored on a three-point scale (decrease, neutral, increase) for each principle in comparison to current law.*

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

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