

**PROPERTY TAX**  
**House Omnibus Tax Bill**  
**Articles 4-6, 8-10, 13-14**

May 6, 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. 3669 (Marquart), 3rd 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 4: 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
Tribal Land Exemption				
State General Tax	\$0	(\$10)	\$0	\$0
Property Tax Refund Interaction	\$0	\$0	(negligible)	(negligible)
Elderly Living Facilities Exemption	\$0	\$0	\$0	(\$10)
Energy Storage System Exemption	\$0	\$0	(\$20)	(\$20)
Solar Production Tax Exemption				
Property Tax Refund Interaction	\$0	\$0	(\$30)	(\$30)
School Bond Credit	\$0	\$0	(\$20)	(\$20)
Community Land Trust Classification	\$0	\$0	\$180	\$180
Manufactured Home Parks Classification Modified	\$0	\$0	\$0	(\$270)
ITIN for Homestead	\$0	\$0	(\$1,800)	(\$1,800)

Special Ag Homestead Qualifying Relatives

Property Tax Refund Interaction	\$0	\$0	(unknown)	(unknown)
Ag Homestead Market Value Credit	\$0	\$0	(unknown)	(unknown)
Estate Tax	\$0	\$0	(unknown)	(unknown)

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

Distribution Lines Attachments and Appurtenances \$0 \$0 \$0 (\$520)

Delinquent Property Tax Interest Rate Adjusted \$0 \$0 \$0 \$0

Senior Deferral Income Threshold Increased \$0 \$0 (\$270) (\$660)

Child Protection Cost Study Required \$0 \$0 \$0 \$0

**Article 5: 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

PILT Modifications

Property Tax Refund Interaction	\$0	\$0	\$240	\$260
Income Tax Interaction	\$0	\$0	\$90	\$100

Soil and Water Conservation District Aid \$0 (\$22,000) (\$22,000) (\$22,000)

Local Homeless Prevention Aid – Tribal Government Distribution

Property Tax Refund Interaction	\$0	\$0	(\$60)	(\$60)
Income Tax Interaction	\$0	\$0	(\$20)	(\$20)

Local Affordable Housing Aid	\$0	\$0	(\$37,000)	(\$40,000)
Property Tax Refund Interaction	\$0	\$0	\$870	\$950
Income Tax Interaction	\$0	\$0	\$340	\$370
Administrative Appropriation DOR	\$0	\$0	\$0	\$0
Administrative Appropriation MHFA	\$0	\$0	\$0	\$0
Stronger Community Aid Program	\$0	\$0	\$0	(\$497)
Performance Measurement				
Reimbursement Repealed	\$0	\$0	\$0	\$497
Career Workforce Academies Grants	\$0	(\$40,000)	\$0	\$0
LGA Penalty Forgiveness – Echo	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Morton	\$0	\$0	\$0	\$0
<b><u>Article 6: Tax Increment Financing</u></b>				
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
<b><u>Article 8: Renter’s Tax Credits</u></b>				
Renter Income Tax Credit	\$0	(\$372,600)	(\$378,200)	(\$386,100)
Renter Property Tax Refund Repealed	\$0	\$0	\$231,600	\$234,700
<b><u>Article 9: Public Finance</u></b>				
Debt Financing Modifications	\$0	\$0	\$0	\$0
<b><u>Article 10: Miscellaneous</u></b>				
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

State Aid Payment Shifts	\$0	\$0	\$0	\$0
Virginia Net Debt Limit Modified	\$0	\$0	\$0	\$0
County Pandemic Business & Community Relief Aid	\$0	(\$75,000)	\$0	\$0
Ely School District Bonding Authorization				
Property Tax Refund Interaction	\$0	\$0	(\$30)	(\$30)
Income Tax Interaction	\$0	\$0	(\$10)	(\$10)
School Bond Credit	\$0	\$0	(\$30)	(\$30)

**Article 13: Fire and Police State Aids**

Fire and Police Aids Recodification	\$0	\$0	\$0	\$0
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**Article 14: Miscellaneous Tax Provisions**

Homestead Deadline for PTR	\$0	\$0	\$0	\$0
Renter CRP Requirements	\$0	\$0	\$0	\$0

<b>General Fund Total</b>	<b>\$0</b>	<b>(\$509,610)</b>	<b>(\$332,920)</b>	<b>(\$376,720)</b>
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Various Effective Dates

**\*Non-General Fund Impacts**

**Taconite Environmental Protection Fund**

Iron Range School Consolidation Distributions	\$0	\$0	(\$617)	(\$1,233)
Taconite Environmental Protection Fund Distribution	\$0	\$0	\$0	\$0

**Douglas J. Johnson Economic Protection Fund**

Iron Range School Consolidation Distributions	\$0	\$0	(\$309)	(\$617)
Taconite Environmental Protection Fund Distribution	\$0	\$0	\$0	\$0

**Iron Range School Consolidation Account**

Iron Range School Consolidation Distributions	\$0	\$0	\$925	\$1,850
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## REVENUE ANALYSIS DETAIL

### **Article 4: 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 current law, if airport property owned by a unit of local government is leased to or used by any person or entity in connection with a business conducted for profit, then the property is taxed as if the lessee or user was the owner of the property. However, the property is exempt from property taxes if:

- 1) it is not owned or operated by the Metropolitan Airports Commission, nor by a city of over 50,000 in population; and
- 2) it is used as a hangar for the storage or repair of aircraft; or used to provide aviation goods, services, or facilities to the airport or general public; or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area.

Under the proposal, the same conditions for exemption would also apply to an airport hangar used for the manufacture of aircraft.

In addition, the proposal would reduce by 50% the net tax capacity of airport property leased to or used by any person or entity if the property is:

- 1) owned or operated by a city over 50,000 but under 150,000 in population; and
- 2) used as a hangar for the storage, repair, or manufacture of aircraft; or used to provide aviation goods, services, or facilities to the airport or general public; or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area.

The 50% reduction in net tax capacity would be applied to taxes payable in 2023 through 2030.

- 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 years 2023 through 2030, 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 eight-year period from taxes payable in 2023 through 2030, the total reduction in local property taxes on the eligible properties is estimated to be approximately \$4.1 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.

### **Tribal Land Exemption (Section 6)**

*The effective date is beginning with taxes payable in 2022.*

Under current law, an exemption from property taxes is granted to property that:

- 1) was classified as 3a for taxes payable in 2013;
- 2) is located in Minneapolis;
- 3) was on January 2, 2012, and is for the current assessment owned by a federally recognized Indian tribe; and
- 4) is used exclusively for tribal purposes or institutions of purely public charity.

Qualifying property is limited to no more than two contiguous parcels and structures that do not exceed in the aggregate 20,000 square feet.

Under current law, this exemption expires with taxes payable in 2024.

Under the proposal, the exemption would expire with taxes payable in 2030. In addition, eligible property would not be required to file a statement of exemption with the assessor.

- Property in Minneapolis owned by the Chippewa Tribe would be eligible for the exemption.
- This property last received the exemption (under current law) for taxes payable in 2020.
- It is assumed that the exemption was removed beginning with taxes payable in 2021 due to failure to meet the statement of exemption filing requirement.
- The proposal would reinstate the exemption beginning with taxes payable in 2022.
- The tax due on this property in 2022 includes approximately \$10,000 of state general tax which would not be paid under the proposal.
- For taxes payable in 2023 through 2030, the exemption from the commercial-industrial state general tax would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.
- For taxes payable in 2022, there would be no shifting of property taxes because taxes have already been determined.
- For taxes payable in 2023, the proposal would shift approximately \$20,000 in local property taxes onto other properties, including homesteads, increasing state-paid homeowner refunds by less than \$5,000 in fiscal year 2024.

### **Elderly Living Facilities Exemption (Section 7)**

*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.

The exemption would expire with taxes payable in 2030.

- Saint Ann's Seniors' Residence in the city of Duluth would be eligible for the property tax exemption.
- 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 8-9)**

*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.) An exemption application must be filed with the Department of Revenue by February 15 of each assessment year, except that for assessment year 2022 an exemption application must be filed by July 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.
- 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 because the tax rate would be adjusted to yield the amount of revenue required by statute.

### **Solar Production Tax Exemption (Section 10)**

*The effective date is for solar energy production reports filed beginning in 2023.*

Under current law, the nameplate capacity of a solar energy generating system is combined with the nameplate capacity of any other solar energy generating system if the systems:

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

If the combined nameplate capacity is greater than one megawatt alternating current, then the system is subject to the solar energy production tax of \$1.20 per megawatt-hour. If the combined nameplate capacity is one megawatt or less, then the solar energy generating system is exempt from the production tax.

Under the proposal, nameplate capacities of systems would be combined if they exhibit characteristics of being a single development “at the time of development.” However, any community solar garden that submitted an application for an interconnection agreement on or after September 25, 2015 would be exempt from the solar energy production tax.

### Community Solar Gardens

- It is assumed that all community solar gardens currently paying the solar energy production tax would be eligible for the exemption.
- It is further assumed that the proposed exemption would not be administrable for taxes payable in 2022.
- Approximately 110 community solar gardens were subject to the solar energy production tax for taxes payable in 2022 (based on production in 2021).
- For taxes payable in 2023, the exemption from the solar energy production tax would reduce county tax revenue by an estimated \$970,000.
- It is assumed that a portion of the lost production tax revenue would be recovered by increasing local levies, which would increase property taxes within local jurisdictions.
- The increased property taxes on homesteads would increase state-paid homeowner property tax refunds by \$10,000 in fiscal year 2024.

### Land Classification Interaction

- Under current law,
  - if a solar energy generating system is used primarily for solar energy production subject to the production tax, then the real property upon which the system is located is classified as 3a (commercial/industrial/utility).
  - if a solar energy generating system is not used primarily for solar energy production subject to the production tax, then the real property is classified without regard to the system, usually 2a (agricultural land) or 2b (rural vacant land).
- Under the proposal, the land upon which the community solar gardens are located would be reclassified from class 3a to class 2a/2b.
- The reclassification of the real property for taxes payable in 2023 would shift an estimated \$360,000 in local property taxes onto other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$20,000 in fiscal year 2024.
- In addition, being reclassified as 2a/2b would, in some cases, make the land eligible for the school building bond agricultural credit, increasing the state-paid credit by \$20,000 beginning in fiscal year 2024.
- For taxes payable in 2022, the real property subject to reclassification under the proposal will pay an estimated \$120,000 in state general tax.
- For taxes payable in 2023 and thereafter, the reclassified property would no longer be subject to the state general tax, but this would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

### Other Solar Energy Generating Systems

- Some solar energy generating systems that are not part of a community solar garden could have their combined nameplate capacity separated into their individual nameplate capacities due to the requirement that they exhibit characteristics of being a single development “at the time of development.”

- However, in cases where systems were part of the same development, but were later treated as separate systems, the proposal could result in these systems having their nameplate capacities combined.
- The impact of the requirement to exhibit characteristics of being a single development “at the time of development” is unknown.

### Overall

- The total property tax refund interaction includes the \$10,000 cost due to reduced solar energy production taxes and the \$20,000 cost due to the reclassification of the land.

### **Community Land Trust Classification Modified (Sections 11, 21, 29)**

*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 12, 21, 36)**

*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.

#### **ITIN Allowed for Homestead Classification (Sections 13-19, 24)**

*Effective for homestead applications filed in 2022 and thereafter.*

Under current law, only property owners with a valid Social Security number (SSN) can apply for homestead classification. Under the proposal, property owners with a valid individual taxpayer identification number (ITIN) issued by the Internal Revenue Service would also be allowed to apply for homestead classification.

- By expanding the identification documents allowed to apply for homestead classification, it is assumed that the number of homesteads in the state will increase.
- The proposal would cause a shift in property taxes away from properties newly qualifying for homestead and onto all other properties, including other homesteads.
- An increase in the number of properties eligible for homestead status would result in an increase in property tax refunds paid by the state.
- According to Minnesota individual income tax return filing summaries, there would be approximately 13,000 returns filed by resident households with only an ITIN and no SSN.
- Based on U.S. Census Bureau information on Minnesota homeownership rates by income range and citizenship, it is estimated that approximately one-quarter of filers using an ITIN would be homeowners and receive homestead status under the proposal.
- It is assumed that approximately 1,800 additional homeowners would become eligible and file for a property tax refund under the proposal, resulting in an increase in state general fund costs of \$1.8 million beginning in FY 2024.

### **Special Agricultural Homestead Qualifying Relatives Expanded (Section 18)**

*The effective date is for homestead applications filed in 2022 and after.*

Under current law, special agricultural homestead classification may be granted if the owner, the owner's spouse, or a grandchild, child, sibling, or parent of the owner or the owner's spouse is actively farming the property on behalf of the person as an individual or on behalf of a farming entity of which the person is a partner, shareholder, or member.

The proposal would expand the list of qualifying relatives who may actively farm the property to receive special agricultural homestead classification to include a grandparent, stepparent, stepchild, uncle, aunt, nephew, or niece of the owner or the owner's spouse.

- By expanding the list of qualifying relatives who may actively farm a property, it is assumed that the number of properties qualifying as special agricultural homestead will increase statewide. The classification rate for all properties changing from agricultural non-homestead land to special agricultural homestead land will 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 shift 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 an unknown amount beginning in fiscal year 2024.
- 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 2023.
- Adequate data is not available to estimate the impact of the new law on estate taxes. Since the additional property that will be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue will be small. However, it is likely that the impact could be significant for a small number of taxpayers.

### **Hemp Included as an Agricultural Product (Section 20)**

*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 22)**

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

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, a surviving spouse 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 for the exclusion by December 31, 2023.

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 assessment year 2019 (for taxes payable in 2020) due to the eight-year limit that was in effect at the time.

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 23)**

*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 25)**

*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.

### **Distribution Line Attachments and Appurtenances (Section 26)**

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

Under current law, electric cooperative associations pay a tax of \$10 for each 100 members in lieu of all personal property taxes on distribution lines – and attachments and appurtenances of those distribution lines – located in a rural area.

Under the proposal, "attachments and appurtenances" is defined to include all cooperative association-owned metering equipment, streetlights, and any other infrastructure that is physically or electrically connected to the cooperative association's distribution system.

- The \$10-per-100-members tax is already being paid by electric cooperative associations, meaning the proposal would, in effect, create an exemption for the newly eligible personal property.
- It is assumed that "other infrastructure that is physically or electrically connected to the cooperative association's distribution system" includes all personal property owned by an electric cooperative association and located in a rural area, including electric transmission lines.
- Under this assumption, the exemption would shift an estimated \$9.85 million in property taxes away from electric cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$520,000 in fiscal year 2025.

### **Delinquent Property Tax Interest Rate Adjusted (Sections 27-28)**

*The effective date is for property taxes determined to be delinquent on or after 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 30-33)**

*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.

### **Child Protection Cost Study (Sections 34-35)**

*The effective date is July 1, 2022.*

The proposal would require a review by the Office of the Legislative Auditor on the county costs of child protective services. The review must include:

- An overview of roles and responsibilities of counties compared to other states,
- The amount each county spent on duties related to child protective services from 2013 to 2022,
- The amount of federal and state funds received by each county for duties related to child protective services from 2013 to 2022, and
- The amount each county paid for child protective services using property tax revenue from 2013 to 2022.

The review must be completed by August 1, 2023.

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

### **Article 5: State Aids**

#### **LGA Appropriation Increase (Sections 1-9, 16, 19, 24)**

*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.

### **Payment in Lieu of Taxes (PILT) Modifications (Sections 11-13, 21)**

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

Under current law, the payments in lieu of taxes (PILT) program provides local governments with state aid based on the amount and type of state-owned natural resources land located in the county.

The proposal would make the following changes to the PILT program:

- Increases the payment per acre from \$2 to \$3 for commissioner and county administered PILT lands
- Creates a new payment based on the total amount of PILT land in the county. Counties where PILT land is 25% or more of the total land in the county would receive an additional 18 cents per acre for all PILT land in the county. Counties where PILT land is more than 10% but less than 25% of the total land in the county would receive an additional 8 cents per acre for all PILT land in the county
- Changes the appraised value formula to be based on either the current appraised value of the land or the most recent appraised value of land, whichever is greater
- Adds an annual inflation adjustment to the per acre PILT payment rates

The proposal would also require the Department of Revenue to produce a report on the valuation methods used to value state-owned lakeshore property

- Increasing the per acre payment rates from \$2 to \$3 for commissioner and county administered PILT lands and creating new payments to counties with over 10% PILT land would increase costs to the state general fund beginning in FY 2024.
- Adjusting the per acre PILT payment rates for annual inflation would increase costs to the state general fund beginning in FY 2025.
- It is assumed that the increase in PILT 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.

### **Soil and Water Conservation District Aid Established (Section 14)**

*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.

### **Local Homeless Prevention Aid – Tribal Governments Distribution (Section 15)**

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

Under current law, starting in aids payable 2023, the Local Homeless Prevention aid program will begin paying counties \$20.0 million annually until aids payable 2028.

The proposal would reduce the \$20.0 million dollar appropriation to counties by \$2.2 million. The \$ 2.2 million would instead be appropriated to eleven tribal governments. Each of the eleven tribes would receive an equal share of the \$2.2 million appropriation.

- It was assumed that counties receiving aid would reduce their property tax levies by a portion of the increase. By reducing aid going to counties, it is assumed county levies will increase. Higher levies would increase property taxes on all property.
  - Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2024.
  - Higher levies will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2024.
- Tribal governments do not levy property taxes as tribal land is exempt from property tax.

### **Local Affordable Housing Aid Established (Section 17)**

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

The bill would create a new state aid and grant program targeted at developing and preserving affordable housing.

The state aid would be paid to counties and cities (with populations of at least 10,000). Counties and cities receiving money from the aid program would need to spend this funding on qualifying projects.

The grant program would be administered by the Minnesota Housing Finance Agency (MHFA). Local governments not eligible for the state aid program would be eligible for grants of at least \$25,000 to be spent on qualifying projects. Grants would be prioritized to local governments that have a higher proportion of cost-burdened households.

The total annual appropriation for aid and grants would be \$37.0 million in aids payable 2023 and \$40.0 million in aids payable 2024 and thereafter. The grant program would receive an annual appropriation equal to an amount that would set its account balance to \$4.0 million, which would come out of the county's portion of the state aid program. The appropriation to counties would be \$29.6 million minus the amount needed to set the grant program's account balance to \$4.0 million in FY2023 and increase to \$32.0 million in FY2024 and thereafter. The city appropriation would be \$7.4 million in FY2023 and increase to \$8.0 million in FY2024 and thereafter.

Each county would receive a minimum \$6,000 plus their statewide share of cost-burdened households. Each eligible city would receive funding based on their statewide share of cost-burdened households.

Administrative appropriation amounts for the MHFA and the Revenue Department are \$0.

- The state aid payments to local governments would first be made in calendar year 2023, increasing state general fund costs by \$37.0 million in FY2024 and \$40.0 million in FY2025 and thereafter.
- It is assumed that local governments receiving an increase in aid would reduce property tax levies by a portion of the 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.
  - Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund.
- It is assumed that local governments not eligible for aid but receiving one-time grants from MHFA would not reduce their annual property tax levies.

### **Stronger Community Aid Program Established (Sections 18, 24)**

*The effective date is beginning with aids payable 2024.*

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 FY2025 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 FY2025 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.

### **Career Workforce Academies Grants (Section 20)**

*The assumed effective date is July 1, 2022.*

The proposal would create community career workforce academies. These public-private partnerships would help train students and adults for high skilled jobs. Counties could apply for grants through the Minnesota Employment and Economic Development. A total of \$40 million would be appropriated from the general fund in FY2023 for these grants, with \$10 million of the total earmarked for an academy in Moorhead.

- \$40 million would be appropriated from the general fund in FY2023.

### **LGA Penalty Forgiveness – Echo (Section 22)**

*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 23)**

*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 6: 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, 2021. 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 8: 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 9: Public Finance**

### **Debt Financing Modifications (Sections 1-6)**

*The effective date is July 1, 2022.*

The proposal would extend the allowable length of some certificates of indebtedness or capital notes used for financing by local governments from 10 years to 20 years. The proposal also updates

the definition of capital equipment with regards to capital notes used to purchase capital equipment for county purposes.

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

## **Article 10: Miscellaneous**

### **Homestead Credit Refund Increased (Sections 8, 10)**

*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 9)**

*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.

### **Iron Range School Consolidation Distributions (Section 14)**

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

Under current law, the iron range school consolidation and cooperatively operated school account receives ten cents per taxable ton of taconite for distribution years 2015-2023 and five cents per taxable ton starting in distribution year 2024 and thereafter.

The proposal would extend the ten cents per taxable ton of taconite distribution from 2023 to 2043. Five cents per taxable ton would start in distribution year 2044.

- The production tax changes would have no effect on the state general fund; however, it would impact some taconite distribution funds.
- Extending the duration of the ten cents to the iron range school consolidation account would increase distributions by \$1,850,000 to the fund while reducing distributions to the taconite environmental account by \$1,233,000 and the Douglas J. Johnson Economic account by \$617,000 annually.
- Converting these distributions to fiscal years, the school consolidation account would increase \$925,000 in FY2024 with the full effect of \$1,850,000 occurring in FY2025. The taconite environmental account would decrease \$617,000 in FY2024 and \$1,233,000 in FY2025. The Douglas J. Johnson Economic account would decrease \$309,000 in FY2024 and \$617,000 in FY2025.

### **Taconite Environmental Protection Fund Distribution (Section 15)**

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

The proposal would also increase the distribution currently deposited into the taconite environmental fund from five cents per taxable ton to ten cents per taxable ton beginning in distribution year 2044.

- Starting in 2044 some funding that would have gone to the Douglas J. Johnson Economic account would instead go to the taconite environmental fund.

### **Tourism Improvement Districts Established (Sections 16-25)**

*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.

### **State Aid Payments Shifted (Section 27)**

*Effective for payments in calendar year 2023 and thereafter.*

The bill would modify the state aid payment dates to local governments. Under current law, the payment of numerous state aids to local governments are made in two installments on July 20 and December 26. Under the proposal, a percentage of the July 20 installment would be paid on March 15 based on additional state budgetary revenues available as determined for the November forecast each year. Any remaining balance of first installment aid payments would continue to be paid on July 20.

- The bill would create changes to the Minnesota Management and Budget forecast.
- There are 12 state aid and credit payments that would be impacted by the date changes: Local Government Aid (LGA) to cities, County Program Aid (CPA), Township Aid, Disparity Reduction Aid (DRA), Payment in Lieu of Taxes (PILT), Out of Home Placement Aid, Riparian Protection Aid, Aquatic Invasive Species Prevention Aid, Homeless Prevent Aid, Supplement Taconite Homestead Credit, Taconite Aid Reimbursement, and Utility Valuation Transition Aid. For CY 2023, these aids and credits totaled approximately \$939 million.
- It is estimated that the forecast adjustments for a full first installment of aid payments on March 15 would shift \$490 million. The estimate is based on the February 2022 forecast.

### **Virginia Net Debt Limit Modified (Section 28)**

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

Under current law, municipalities, with some exceptions, are limited to a net debt of three percent of the estimated market value of taxable property in the municipality.

The proposal would allow the city of Virginia to finance the construction of a public safety building by obtaining a loan from the United States Department of Agriculture secured by its general obligation pledge. Any bonds related to this construction project or repayment of the loan would not be included in the computation of the city's limit on net debt.

- The expanded bonding authority for the city of Virginia is assumed to have no state cost impact. The city has the option to levy for the cost of the project in the overall city levy under current law.

### **County Pandemic Business & Community Relief Aid (Section 32)**

*The effective date is assumed to be July 1, 2022.*

The proposal would create a one-time appropriation of \$75 million in fiscal year 2023 for grants to counties. The grants must be used to provide economic assistance to businesses and rental assistance to eligible households:

- \$50 million must be used for grants to provide economic assistance to businesses, and
- \$25 million must be used for grants to provide rental assistance.

Potentially eligible businesses include:

- businesses located in areas designated by the county as underserved communities,
- businesses without income in 2019, and

- businesses that provide live entertainment to an in-person audience and experienced a decrease in revenues due to the COVID-19 pandemic.

To be eligible for rental assistance, household income must be at or below 50 percent of area median income, adjusted for household size.

The amount of any grant not used by June 30, 2023 would be canceled.

By July 1, 2023, each county must report to the Department of Revenue how the county used the funds provided under this appropriation. By January 31, 2024, the Department of Revenue must report to legislative tax committees on how the funds were spent by the counties.

- It is assumed that the entire appropriation would be used by June 30, 2023.
- This would result in a cost to the state general fund of \$75 million in fiscal year 2023.

### **Ely School District Bonding Authorization (Section 33)**

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

The proposal would allow the Ely Public School District #696 to issue bonds up to \$9,500,000.

Issuing these bonds would not require a referendum. Taxes levied to pay for these bonds would not affect the levy limit of the school district and would not affect the school district's ability to issue other bonds.

- It is assumed the Ely School District would increase its levy by \$594,000 beginning in taxes payable year 2023 to start making bond payments.
  - Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2024.
  - Higher levies will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2024.
  - Higher debt service levies will increase the school bond credit, increasing costs to the state general fund beginning FY 2024.

### **Article 13: Fire and Police State Aids**

#### **Fire and Police Aids Recodification (Sections 1-23)**

*The effective date is for aids payable in calendar year 2023 and thereafter.*

The 2019 Legislature passed the first phase of the Department of Revenue's proposed two-phase recodification and modernization of the Fire State Aid and Police State Aid statutes. The first phase created separate chapters for Fire State Aid (Chapter 477B) and Police State Aid (Chapter 477C) and eliminated Chapter 69.

The current proposal would complete the recodification process by updating the reporting requirements and clarifying the procedures used for the calculation and distribution of Fire State Aid and Police State Aid.

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

## **Article 14: Miscellaneous Tax Provisions**

### **Homestead Deadline for Property Tax Refunds Modified (Section 1)**

*The effective date is for refund claims based on property taxes payable in 2022 and thereafter.*

Under current law, eligibility for the homeowners' property tax refund (PTR) requires homeowners to establish homestead on a property by December 15 of the assessment year. However, the 2021 Legislature changed the homestead application deadline from December 15 to December 31.

Under the proposal, the homestead deadline for PTR eligibility would match the application deadline of December 31.

- The 2022 February Forecast assumed that PTR eligibility would align with the homestead application deadline.
- Therefore, the proposal would have no impact on the state general fund.

### **Renter Certificate of Rent Paid Requirements Modified (Section 2)**

*Effective beginning for refund claims based on rent paid in 2022.*

Under current law, the Department of Revenue can require owners and managing agents to e-file copies of certificates of rent paid (CRPs) issued to renters. The bill would supplement that authority by letting the Department require CRP issuers to submit their taxpayer identification number to the Department when e-filing the CRPs.

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

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)

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