

PROPERTY TAX
Senate Omnibus Tax Bill,
Articles 4-6, 8-9, 12-13

May 12, 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, 2nd unofficial engrossment, Articles 4-6, 8-9, 12-13 (Senate Omnibus Tax Bill)

	Fund Impact			
	<u>F.Y. 2022</u>	<u>F.Y. 2023</u>	<u>F.Y. 2024</u>	<u>F.Y. 2025</u>
	(000's)			
<u>Article 4: Property Taxes</u>				
Airport Exemption Modified	\$0	\$0	(\$20)	(\$20)
Tribal Land Exemption				
State General Tax	\$0	(\$10)	\$0	\$0
Property Tax Refund Interaction	\$0	\$0	(negligible)	(negligible)
Energy Storage System Exemption	\$0	\$0	\$0	(\$20)
Affordable Housing Market Value Exclusion	\$0	\$0	\$0	\$0
Increase Ag Homestead First Tier Value Limit				
Property Tax Refund Interaction	\$0	\$0	\$0	(\$360)
School Bond Credit	\$0	\$0	\$0	\$360
Class 4d Class Rate Modified, Transition Aid Established				
Property Tax Refund Interaction	\$0	\$0	\$0	(\$2,920)
Class 4d Transition Aid	\$0	\$0	\$0	(\$810)
Income Tax Interaction	\$0	\$0	\$0	\$10
Class 1c Value Tier Limits Modified	\$0	\$0	(\$10)	(\$10)
Exclusion for Veterans with a Disability Modified	\$0	\$0	negligible	negligible
Homestead Market Value Exclusion Increased	\$0	\$0	\$0	\$7,330
Distribution Lines Attachments and Appurtenances	\$0	\$0	\$0	(\$20)
State General Property Tax Phase-Out	\$0	(\$4,940)	(\$9,310)	(\$9,310)
Income Tax Interaction	\$0	\$0	\$280	\$280
Delinquent Property Tax Interest Rate Adjusted	\$0	\$0	\$0	\$0

Targeting Refund Increased	\$0	\$0	(\$1,900)	(\$2,000)
Senior Deferral Income Threshold Increased	\$0	\$0	(\$180)	(\$450)
Virginia Net Debt Limit Modified	\$0	\$0	\$0	\$0

Article 5: Property Tax Aids and Credits

Riparian Buffer Credit Established	\$0	\$0	\$0	(\$8,620)
Income Tax Interaction	\$0	\$0	\$0	\$300
Utility Transition Aid Established	\$0	\$0	\$0	(\$5,200)
Property Tax Refund Interaction	\$0	\$0	\$0	\$160
Income Tax Interaction	\$0	\$0	\$0	\$60

Mille Lacs Reimbursement for Federal Trust Land	\$0	(\$114)	(\$114)	(\$114)
Property Tax Refund Interaction	\$0	\$0	negligible	negligible
Income Tax Interaction	\$0	\$0	negligible	negligible

LGA Penalty Forgiveness – Roosevelt	\$0	(\$25)	\$0	\$0
LGA Penalty Forgiveness – Bena	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Boy River	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Echo	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Morton	\$0	\$0	\$0	\$0

Article 6: Public Finance

Debt Financing Modifications	\$0	\$0	\$0	\$0
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Article 8: Tax Increment Financing

TIF Administrative Updates	\$0	\$0	\$0	\$0
TIF Economic Development Limitations	\$0	\$0	\$0	\$0
TIF – Savage	\$0	\$0	\$0	\$0
TIF – Shakopee	\$0	\$0	\$0	\$0
TIF – Woodbury	\$0	\$0	\$0	\$0

Article 9: Miscellaneous

Taconite Distribution Modifications	\$0	\$0	\$0	\$0
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Article 12: Department of Revenue Policy and Technical: Fire and Police State Aids

Fire and Police Aids Recodification	\$0	\$0	\$0	\$0
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Article 13: Department of Revenue Policy and Technical: Miscellaneous Tax Provisions

Homestead Deadline for PTR	\$0	\$0	\$0	\$0
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Renter CRP Requirements	\$0	\$0	\$0	\$0
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General Fund Total	\$0	(\$5,089)	(\$11,254)	(\$21,354)
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Various Effective Dates

***Non-General Fund Impacts**

Taconite County Road & Bridge Fund

Taconite Distribution Modification	\$0	\$0	(\$925)	(\$1,850)
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Iron Range School Consolidation Account

Iron Range School Consolidation Distributions	\$0	\$0	\$925	\$1,850
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Taconite Environmental Protection Fund

Taconite Environmental Protection Fund Distribution	\$0	\$0	\$0	\$0
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Douglas J. Johnson Economic Protection Fund

Taconite Environmental Protection Fund Distribution	\$0	\$0	\$0	\$0
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REVENUE ANALYSIS DETAIL

Article 4: Property Taxes

Airport Exemption Modified (Section 1)

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 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 years 2023 through 2034, 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 property taxes would be shifted onto other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$20,000 in FY 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 property taxes on the eligible properties is estimated to be approximately \$6.5 million.
- Three percent annual growth is assumed.

Tribal Land Exemption (Section 2)

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 2034. 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 2034, 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.

Energy Storage System Exemption (Section 3-4)

The effective date is beginning with assessment year 2023.

The proposal 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 2023, an exemption application must be filed with the Department of Revenue by February 15, 2023. The exemption would expire with taxes payable in 2033.

- 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, as well as systems currently under construction.

- For taxes payable in 2024 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 2025.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2024 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Affordable Housing Market Value Exclusion Established (Sections 5, 9, 14, 17)

The effective date is beginning with assessment year 2023.

The proposal would create a market value exclusion program for affordable housing. The governing body of a city, township, or unorganized territory would need to adopt a resolution agreeing to participate in the affordable housing market value exclusion program. Then, in order to qualify for a market value exclusion, properties in participating municipalities would need to:

- Not be classified in whole or in part as class 4d,
- Begin construction after January 1, 2023, and
- Certify to the assessor that:
 - At least 20 percent of units are available to residents whose household income does not exceed 60 percent of the area median income, adjusted for family size,
 - At least 80 percent of the available units are occupied by residents meeting the income requirement, and
 - Any unoccupied available units are being actively marketed toward persons meeting the income requirements.

Municipalities may determine the duration of the exclusion for each eligible property. The exclusion must apply for at least ten but no more than 20 assessment years. The exclusion would equal 50 percent of the property's market value.

- It is unknown how many municipalities would participate in the affordable housing market value exclusion program and how many properties may be eligible for the exclusion in those municipalities. However, the exclusion is likely to be limited within the forecast window and expand in future years.
- The proposal would shift property taxes away from properties receiving the affordable housing market value exclusion 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 an unknown amount beginning in fiscal year 2026.

Increase Agricultural Homestead First Tier Valuation Limit (Section 6)

The effective date is beginning with assessment year 2023.

Under current law, the first tier valuation limit for agricultural homestead property was set at \$1.14 million in 2010. Since then, the tier limit has changed annually by the ratio of the average taxable market value per acre of deeded farm land in the preceding year to the average taxable market value per acre of deeded farm land in the second preceding year. For assessment years 2021 and 2022, the first tier valuation limit was \$1.89 million.

The proposal would increase the first tier valuation limit to \$2.5 million for assessment year 2023. Beginning with assessment year 2024, the tier limit would continue to be changed annually in the same manner as under current law.

- In assessment year 2021, there were approximately 77,000 agricultural homesteads statewide. About 8,000 of those agricultural homesteads have a taxable market value greater than the assessment year 2021 tier limit of \$1.89 million. Approximately \$18.8 billion of market value is currently in the second tier.
- By increasing the first tier valuation limit for agricultural homesteads, the classification rate for a portion of the value currently above the limit would change from the second tier rate of 1.00% to the first tier rate of 0.50%.
- Based on assessment year 2021 data, it is estimated that approximately 19%, or \$3.5 billion, of agricultural homestead value currently in the second tier would qualify for the first tier under the proposal.
- For agricultural homesteads that have value newly qualifying for the first tier classification rate, the average tax decrease would be approximately \$1,200.
- The proposal would cause a shift in property taxes away from the properties newly qualifying for the first tier classification rate and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto other homesteads, property tax refunds paid by the state would increase by \$360,000 beginning in fiscal year 2025.
- Because some agricultural homestead land would change from the 1.00% class rate to the 0.50% class rate, state payments of the school building bond credit would decrease by \$400,000 beginning in taxes payable 2024. These numbers have been converted to fiscal years for the purpose of this estimate.
- The proposal would have no effect on the agricultural homestead market value credit.

Class 4d Classification Rate Modified and Transition Aid Established (Sections 7-8, 11 & Article 5, Section 7)

Various effective dates.

Under current law, the first tier valuation limit for each unit of class 4d low income rental housing property is adjusted annually by the average statewide change in estimated market value of property classified as class 4a apartments and 4d low income rental housing, excluding valuation change due to new construction. The first tier has a classification rate of 0.75% and the second tier has a classification rate of 0.25%. The first tier valuation limit is \$174,000 for assessment year 2021 and \$100,000 for assessment years 2022 and 2023.

The proposal would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d property. To be classified as class 4d, a property owner would need to receive approval from the governing city or town where the property is located before submitted an initial application to the Housing Finance Agency for property that has not, in whole or in part, been classified as 4d prior to assessment year 2023. These changes would be effective beginning with assessment year 2023.

The proposal would also create a transition aid for calendar years 2024 and 2025 for cities that have a decrease in tax base of more than two percent due to the proposed changes to class 4d.

- According to data from Minnesota Housing Finance Agency, there were about 84,000 units of class 4d low income rental housing property statewide in 2021.
- In assessment year 2021, there were approximately 3,500 parcels statewide that contained class 4d low income rental housing property. The total market value for class 4d property in the same year was \$8.0 billion statewide.
- The proposal would shift property taxes away from class 4d properties and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase in fiscal year 2025.
- The transition aid is estimated to be \$810,000 for 39 cities in fiscal years 2025 and 2026.
- It is assumed that transition aid to cities would reduce property tax levies by a portion of the increase, which would reduce property taxes on all property classes, including homesteads.
 - Lower levies would result in lower homeowner property tax refunds, reducing costs to the state general fund.
 - Lower levies would result in lower income tax deductions, increasing revenues to the state general fund.
- The overall impact on property tax refunds is the net of both property tax interactions.

Class 1c Homestead Resorts Valuation Tier Limits Modified (Section 10)

The effective date is beginning with taxes payable 2023.

Under current law, class 1c homestead resort property has three classification tiers. The first tier includes the first \$600,000 of value and has a classification rate of 0.50%, the second tier includes value over \$600,000 and below \$2.3 million and has a classification rate of 1.00%, and the third tier includes value over \$2.3 million and has a classification rate of 1.25%. Only the third tier is subject to state general taxes.

The proposal would increase the classification tier limits for class 1c homestead resorts. The first tier would include the first \$850,000 of value, the second tier would include value between \$850,000 and \$3.1 million, and the third tier would include value over \$3.1 million. The classification rates for each tier would not change. The third tier would remain subject to state general taxes.

- For taxes payable in 2022, about 2,000 parcels contain class 1c homestead resort property. The total statewide taxable market value for class 1c property is \$637.1 million and the total net tax capacity is \$4.6 million.
- Of the 2,000 parcels containing class 1c property, about 340 have a taxable market value higher than the current first tier limit of \$600,000.
- Under current law, 57% of the total class 1c taxable market value statewide is in the first tier, 39% is in the second tier, and 4% is in the third tier.
- The proposal would shift class 1c market value from the higher tiers to the lower tiers. Under the proposal, approximately 68% of total class 1c taxable market value statewide would be in the first tier, 29% in the second tier, and 3% in the third tier.
- By increasing the classification tier limits for homestead resorts, the classification rate for a portion of the value currently above the first tier limit would change from the second tier rate

of 1.00% to the first tier rate of 0.50%. Likewise, a portion of the value currently above the second tier limit would change from the third tier rate of 1.25% to the second tier rate of 1.00%. The total statewide net tax capacity for class 1c property would be reduced by approximately 8%.

- The proposal would cause a shift in property taxes away from properties newly qualifying for a lower tier classification rate 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 \$10,000 beginning in fiscal year 2024.

Exclusion for Veterans with a Disability Modified (Section 12)

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 veteran's or active 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.

- 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 \$95,000 of market value, yielding a maximum exclusion of \$38,000. For homesteads valued between \$95,000 and \$517,200, the exclusion would be \$38,000 minus 9% of the value over \$95,000. Homesteads valued at \$517,200 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 121,000 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 \$517,200.
- The total homestead market value exclusion would increase by \$12.1 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 \$64 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 \$7.33 million beginning in fiscal year 2025.

Distribution Line Attachments and Appurtenances (Section 15)

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 as including, but not limited to, all cooperative association-owned metering and streetlighting equipment that is 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.
- The exemption would shift an estimated \$430,000 in property taxes away from electric cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$20,000 in fiscal year 2025.

State General Property Tax Phase-Out (Section 16)

The effective date is beginning with taxes payable in 2023.

Under current law, the state general levy for commercial-industrial property is \$716,990,000 for taxes payable in 2023 and after. The state general tax for seasonal residential recreational property is \$41,690,000 for taxes payable 2020 and after.

The proposal would decrease each levy until the levy is fully eliminated beginning with taxes payable in 2035. The state general levy for commercial-industrial property would be \$708,188,000 for taxes payable 2023 through 2025, then would decrease each year until it is eliminated in taxes payable 2035. The state general tax for seasonal residential recreational property would be \$41,178,000 for taxes payable 2023 through 2025, then would decrease each year until it is eliminated in taxes payable 2035.

- The state general levy would decrease by \$9,314,000 for taxes payable 2023 through 2025. The levy would decrease by more each payable year until it is eliminated in taxes payable 2035. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes would reduce deductions on corporate and individual income tax returns, increasing state tax collections beginning in fiscal year 2024.

Delinquent Property Tax Interest Rate Adjusted (Sections 18-19)

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.

Targeting Refund Increased (Section 20)

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.

Senior Deferral Program Income and Tenure Changes (Sections 21-24)

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 \$75,000 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 \$75,000 would increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation would increase approximately 28% 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.

Virginia Net Debt Limit Modified (Section 25)

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.

Article 5: Property Tax Aids and Credits

Riparian Buffer Credit Established (Sections 1-4)

The effective date is beginning with taxes payable 2024.

The proposal would create a property tax credit for class 2a agricultural land and class 2b rural vacant land. To be eligible for the credit, land must contain a riparian buffer as required by statute and cannot be enrolled in a state or federal conservation reserve or easement program. The credit would equal the amount of net tax capacity-based property tax attributable to eligible riparian buffer land. Eligible land would be certified by the local soil and water conservation district.

- Based on data from the Department of Natural Resources, it is estimated that there are approximately 708,000 acres of riparian buffer land in the state.
- It is assumed that, of that total, approximately 430,000 acres of land would be eligible for the proposed credit.
- The credit is estimated to be \$8.62 million annually beginning with taxes payable in 2024.
- Lower property taxes for property owners receiving the credit would reduce deductions on income tax returns, increasing state tax collections by \$300,000 beginning in fiscal year 2025.

Utility Transition Aid Established (Sections 2, 5)

The effective date is beginning for aids payable in 2024.

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.

- Since 2016 there are five 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, Hoot Lake in Otter Tail County, Granite Falls in Chippewa County, and a SherCo unit in Sherburne County (retirement expected in 2023).
- The proposed aid to local jurisdictions would increase state general fund costs beginning in FY2025. Local jurisdictions are estimated to qualify for aid totaling \$5.2 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 2025.
 - Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2025.
- 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.

Mille Lacs Reimbursement for Federal Trust Land (Section 6)

The effective date is the day following final enactment.

The proposal would reimburse taxing jurisdictions in Mille Lacs County for lost property tax revenue due to land being placed into trust by the U.S. Department of the Interior Bureau of Indian Affairs. The reimbursement amount would be based on properties that either (1) went into trust between January 1, 2009 and December 31, 2020, or (2) applied for trust between January 1, 2009 and June 30, 2021 and were placed into trust in subsequent years.

For the first five years, the reimbursement would equal the full amount of property tax revenue lost by each taxing jurisdiction, calculated as the sum of the taxes paid by the specified exempt properties in their final taxable year. Beginning in the sixth year, the reimbursement would be reduced each year by 20 percent of the amount certified in the first year until the payment amount reaches zero, at which point the reimbursement provision would expire.

- Based on data provided by the assessor's office in Mille Lacs County, there were 55 parcels that went into trust between January 1, 2009 and December 31, 2020. The total tax amount for these properties at the time they went into trust was approximately \$114,000.
- Under the proposal, the reimbursement aid would increase costs to the state general fund beginning in FY 2023. The total cost would be approximately \$800,000 over a 9-year period.
- It is assumed that this aid would result in taxing jurisdictions lowering their levies by a portion of the aid. Lower levies would reduce property taxes on all property, including homesteads.
- Lower homestead property taxes would result in lower state-paid homeowner refunds, resulting in a savings to the state general fund of less than \$5,000 beginning in FY 2024.
- Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund by less than \$5,000 beginning in FY 2024.

LGA Penalty Forgiveness – Roosevelt (Section 8)

Effective the day following final enactment.

The bill would allow the city of Roosevelt in Roseau County to receive payment for the amount of its 2019 Local Government Aid (LGA) that was withheld for failing to meet financial reporting requirements with the state auditor. The city must file its 2018 and 2019 financial reports by June 1, 2022 in order for a payment of \$25,410 to be made to the city on July 1, 2022.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill provides for payment of the withheld amount at a cost to the state general fund.
- The city of Roosevelt would receive a payment of \$25,410 in FY 2023.

LGA Penalty Forgiveness – Bena (Section 9)

Effective the day following final enactment.

The bill would allow the city of Bena 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 \$43,774 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 – Boy River (Section 10)

Effective the day following final enactment.

The bill would allow the city of Boy River 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 \$19,578 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 – Echo (Section 11)

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 12)

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: 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 8: Tax Increment Financing

TIF Administrative Updates (Sections 1-4, 6-12)

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.

TIF Economic Development Limitations (Section 5)

The effective date is for districts for which the request for certification was made after December 31, 2021.

Under current law, small cities may use tax increment financing (TIF) revenues to provide assistance for up to 15,000 square feet of any separately owned commercial facility located within the municipal jurisdiction. The proposal would clarify that, if that facility is multi-level, the limitation to 15,000 square feet applies only to the first floor.

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

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 – Shakopee (Section 14)

The effective date is following local approval.

The proposal would allow the city of Shakopee to establish soil deficiency districts as a type of tax increment financing (TIF) district. The city or a development authority acting on its behalf would be allowed to establish one or more soil deficiency districts within the defined project area, providing that the area meets the specified conditions. The proposal provides special rules that would apply to these districts.

The proposal would also extend the five-year rule to ten years and the six-year rule to 11 years for any districts established under its authority.

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

Tax Increment Financing – Woodbury (Section 15)

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 9: Miscellaneous

Taconite Production Tax Distribution Modifications (Sections 7-9)

Effective the day following final enactment.

Under current law, the county road and bridge fund receives 10.525 cents per taxable ton of taconite for distribution years 2015-2023 and 15.525 cents per taxable ton starting in distribution year 2024 and thereafter. 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 for the iron range school consolidation account from 2023 to 2033. The distribution amount would decrease to five cents per taxable ton in distribution year 2034. The county road and bridge fund would no longer increase to 15.525 cents per taxable ton of taconite but would instead stay at 10.525 cents.

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 2034.

- The production tax changes would have no effect on the state general fund; however, it would impact some taconite distribution funds.
- Removing the five cent increase to the county road and bridge fund would decrease distributions by \$1,850,000 annually to the fund.
- Extending the duration of the ten cents to the iron range school consolidation account would increase distributions by \$1,850,000 annually to the fund.
- 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 county road and bridge fund would decrease \$925,000 in FY2024 and \$1,850,000 in FY2025.
- Starting in 2034 some funding that would have gone to the Douglas J. Johnson Economic account would instead go to the taconite environmental fund.

Article 12: Department of Revenue Policy and Technical: 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 13: Department of Revenue Policy and Technical: 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