DEPARTMENT OF REVENUE

PROPERTY TAX
Electric Generation Transition Aid to Local Governments

February 14, 2023

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 1172 (Mathews) / H.F. 1427 (Hill) as introduced

	Fund Impact			
	F.Y. 2024	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
	(000's)			
Electric Generation Transition Aid	$0	($2,120)	($5,020)	($2,930)
Property Tax Refund Interaction	$0	$70	$160	$90
Income Tax Interaction	$0	$20	$60	$30
General Fund Total	$0	($2,030)	($4,800)	($2,810)

Effective beginning for aids payable in 2024.

EXPLANATION OF THE BILL

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

Jurisdictions where the tax capacity of electric generating property is greater than 4% of the jurisdiction's total tax capacity would receive an initial aid amount equal to the reduction in tax capacity resulting from the unit/units being retired multiplied by the local jurisdiction's tax rate in the year prior to the retirement. Each subsequent year the aid amount would decrease by 5% of the initial aid until it is below $5,000 at which point the aid would be zero. Jurisdictions with plants retirements after 2022 would also stop receiving aid when their current total net capacity becomes larger than 90% of their tax capacity before the retirement multiplied by the state's tax capacity growth ratio.

REVENUE ANALYSIS DETAIL

- Since 2016 there are three retired electric generating units that are estimated to qualify local jurisdictions for aid under the proposal: Clay Boswell in Itasca County, Fox Lake in Martin County, and Granite Falls in Chippewa County.
- Five local jurisdictions would begin receiving aid in FY 2025 with a combined $2.12 million cost to the state general fund. This amount would decrease five percent annually for the next 20 years.
- Two additional plants are expected to have units retire in 2023: Hoot Lake in Otter Tail County and a unit at the Sherburne County plant.
- Four additional local jurisdictions would begin receiving aid in FY 2026, increasing state general fund costs by an additional $3.0 million to a total of $5.02 million. Three of these four jurisdictions would no longer qualify for aid beginning in FY 2027 due to current tax

capacity exceeding the 90% threshold for aid elimination, which would reduce the total combined aid to $2.93 million.

- 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.

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

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

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

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

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