PROPERTY TAX
Senate Omnibus Tax Bill
Articles 3-4, 6-8, 11, 13, 15

May 5, 2023

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. 1938, 1st unofficial engrossment

	Fund Impact				
	F.Y. 2023	F.Y. 2024	F.Y. 2025	F.Y. 2026	F.Y. 2027
			(000's)		
Article 3: Property Taxes					
Watershed Districts Levy Authority Increased					
Property Tax Refund Interaction		$0	$0	($340)	($340)
Income Tax Interaction		$0	$0	($120)	($120)
Solar Real Property Classification		$0	$0	negligible	negligible
Tribal Land Exemption					
State General Tax		($10)	$0	$0	$0
Property Tax Refund Interaction		$0	(negligible)	(negligible)	(negligible)
Elderly Living Facilities Exemption		$0	($10)	($10)	($10)
Energy Storage Systems Exemption		$0	$0	($20)	($20)
Class 4d Modified and Report Required		$0	$0	($2,660)	($2,660)
Ag Homestead Land First Tier Limit Increased					
Property Tax Refund Interaction		$0	$0	($640)	($640)
School Bond Credit Interaction		$0	$0	$1,250	$1,420
Green Acres Allowed for Certain Property		$0	$0	(negligible)	(negligible)
ITIN for Homestead Classification		$0	($2,000)	($2,000)	($2,000)
Homestead Resort Tier Limits Increased		$0	$0	($10)	($10)
Exclusion for Veterans with a Disability Modified					
Market Value Exclusion Increased		$0	$290	$310	$340
Surviving Spouse Reapplication Allowed		$0	negligible	negligible	negligible
Homestead Market Value Exclusion Increased		$0	$0	$6,080	$6,080
Definition of Attachments and Appurtenances Modified		$0	$0	($30)	($30)

Delinquent Property Tax Interest Rate Changed		$0	$0	$0	$0
Targeting Property Tax Refund Increased		$0	($1,900)	($2,000)	($2,700)
Senior Deferral Program Modified		$0	($260)	($640)	($650)
Levy Limits Modified for Public Safety		$0	$0	$0	$0
Metro Fiscal Disparities Area Definition		$0	negligible	negligible	negligible
Northwest MN Multi-County Housing and Redevelopment Authority Levy Authority		$0	$0	$0	$0

Article 4: Property Tax Aids, Credits, and Refunds

Electric Generation Transition Aid Established		$0	($2,120)	($3,430)	($1,420)
Phase Out Utility Valuation Transition Aid		$0	$4	$9	$14
Property Tax Refund Interaction		$0	$70	$110	$40
Income Tax Interaction		$0	$20	$40	$10
LGA Appropriation Increased		$0	($40,000)	($40,000)	($40,000)
Mahnomen Reimbursement Aid		$0	($160)	($160)	($160)
LGA Increase – Hibbing		$0	$0	$0	$0
Property Tax Refund Interaction		$0	$1,090	$1,090	$1,090
Income Tax Interaction		$0	$390	$390	$390
CPA Appropriation Increased		$0	($40,000)	($40,000)	($40,000)
Property Tax Refund Interaction		$0	$1,090	$1,090	$1,090
Income Tax Interaction		$0	$390	$390	$390
LGA Payment Shift		$0	($74,885)	$74,885	$0
PILT Modifications		$0	($1,720)	($1,720)	($1,720)
Property Tax Refund Interaction		$0	$50	$50	$50
Income Tax Interaction		$0	$20	$20	$20
Soil and Water Conservation District Aid		($12,723)	($12,723)	($12,723)	($12,723)
LGA Penalty Forgiveness – Echo	($46)	$0	$0	$0	$0
LGA Penalty Forgiveness – Morton	($79)	$0	$0	$0	$0
Public Safety Aid		($300,000)	$0	$0	$0
Crisis Response & Criminal Investigation Account Transfer		($25,000)	$0	$0	$0

Tribal Nation Housing and Homelessness Aid	($44,000)	$0	$0	$0
Spring Grove Fire Remediation Grant	($250)	$0	$0	$0
Class 4d Transition Aid Established	$0	$0	($580)	($580)
Property Tax Refund Interaction	$0	$0	$20	$20
Income Tax Interaction	$0	$0	$10	$10
Article 6: Minerals Taxes				
Gross Proceeds Tax	$0	$0	$1,500	$1,400
State Distribution of Gross Proceeds Tax to Local Units	$0	$0	$0	($1,500)
Repeal Net Proceeds Tax	$0	$0	$0	$0
Repeal State Distribution of Net Proceeds Tax to Local United	$0	$0	$0	$0
Article 7: Tax Increment Financing				
TIF – Small Cities	$0	$0	$0	$0
TIF – Bloomington	$0	$0	$0	$0
TIF – St. Paul	$0	$0	$0	$0
TIF – Savage	$0	$0	$0	$0
TIF – Chatfield	$0	$0	$0	$0
TIF – Duluth Port Lot D	$0	$0	$0	$0
TIF – Duluth Medical Exchange	$0	$0	$0	$0
TIF – Fridley	$0	$0	$0	$0
TIF – Plymouth	$0	$0	$0	$0
TIF – Ramsey	$0	$0	$0	$0
TIF – Shakopee	$0	$0	$0	$0
TIF – West St. Paul	$0	$0	$0	$0
TIF – Woodbury	$0	$0	$0	$0

Article 8: Office of the State Auditor: Tax Increment Financing General Law Modifications

TIF Administrative Updates		$0	$0	$0	$0

Article 11: Public Finance

Debt Financing Modified		$0	$0	$0	$0
Metropolitan Council Transit Bonding Authority					
Property Tax Refund Interaction		$0	($50)	($610)	($830)
Income Tax Interaction		$0	($20)	($220)	($300)
St. Paul Bonding Authority		$0	$0	$0	$0
Virginia Debt Limit Exemption		$0	$0	$0	$0

Article 13: Miscellaneous

Property Tax Service of Petitions		$0	$0	$0	$0
Tourism Improvement Districts		$0	$0	$0	$0

Article 15: Department of Revenue: Fire and Police State Aids

Fire and Police State Aids Recodification		$0	$0	$0	$0
General Fund Total	**($125)**	**($381,983)**	**($172,434)**	**($20,669)**	**($96,049)**

Various Effective Dates

***Non-General Fund Impacts**

Iron Range School Consolidation Account				
Make Permanent Additional Distribution	$870	$1,730	$1,730	$1,730
Douglas J. Johnson Transfer	$3,500	$3,500	$3,500	$3,500
Taconite County Road and Bridge Fund				
Make Permanent Reduction Distribution	($850)	($1,690)	($1,690)	($1,690)
Taconite Environmental Protection Fund				
Make Permanent Reduction Distribution	($10)	($20)	($20)	($20)
Gross Proceeds and Assistance Area	$0	$0	$0	$130
Douglas J. Johnson Economic Protection Fund				
Make Permanent Reduction Distribution	($10)	($20)	($20)	($20)
Gross Proceeds and Assistance Area	$0	$0	$0	$50

Transfer to Iron Range School Consolidation	($3,500)	($3,500)	($3,500)	($3,500)
Transfer to IRRR Account	$0	($6,600)	($6,600)	($6,600)
Taconite Property Tax Relief Account				
Transfer to IRRR Account	($6,000)	$0	$0	$0
Gross Proceeds and Assistance Area	$0	$0	$0	$90
Iron Range Resources and Rehabilitation Account				
Transfer to IRRR Account	$6,000	$0	$0	$0
Gross Proceeds and Assistance Area	$0	$0	$0	$540
Douglas J. Johnson Transfer	$0	$6,600	$6,600	$6,600
Crisis Response and Criminal Investigation Account				
Transfer from General Fund	$25,000	$0	$0	$0

REVENUE ANALYSIS DETAIL

<u>Article 3: Property Taxes</u>

Levy Authority Increased for Watershed Districts (Section 1)
The effective date is beginning with assessment year 2024.
Under current law, a watershed district may levy up to 0.048 percent of their estimated market value for their general fund, with a maximum $250,000.

The proposal would increase the maximum general fund levy authority for watershed districts to 0.096 percent of their estimated market value up to $500,000.

- According to the Minnesota Board of Water and Soils Resources, there are 45 watershed districts in the state. Under current law districts have levy authority for several fund types with varying limits. Watershed district levies totaled $67.7 million for taxes payable in 2023.
- With the increased levy authority under the proposal, it is estimated that watershed districts levies would increase by approximately $6 million.
  - Higher levies would result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2026.
  - Higher levies would result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2026.

Solar Real Property Classification Modified (Section 2)
The effective date is beginning with assessment year 2024.
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 real property contains two or more solar energy generating systems that in aggregate are over one megawatt but cannot be combined for the purposes of the production tax, then the real property upon which the systems are located must be classified as class 3a.

- It is assumed that "property" refers to land containing two or more solar energy generating systems constructed as part of a single project or belonging to a single owner but deemed as not meeting the requirements for the solar energy production tax.
- Under this assumption, it is estimated that approximately 150 solar energy generating systems are located on land that would be subject to reclassification under the proposal.
- Reclassifying the underlying land to class 3a would shift property taxes onto the impacted parcels and away from other property, including homesteads, decreasing homeowner property tax refunds by less than $5,000 in FY 2026.

Tribal Land Exemption (Section 3)

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

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 2023.
- The estimated tax due on this property in 2023 includes approximately $10,000 of state general tax which would not be paid under the proposal.
- For taxes payable in 2024 and thereafter, 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 2023, there would be no shifting of property taxes because taxes have already been determined.

- For taxes payable in 2024, 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 2025.

Elderly Living Facilities Exemption (Section 4)
The effective date is beginning with property taxes payable in 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;
- it is owned and operated by a nonprofit corporation organized under chapter 317A;
- 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.

To receive the exemption for taxes payable in 2023, an initial exemption application must be filed with the county assessor by June 15, 2023.

- Saint Ann's Seniors' Residence in the city of Duluth would be eligible for the property tax exemption.
- For taxes payable in 2023, there would be no shifting of property taxes because taxes have already been determined.
- Beginning with taxes payable in 2024, the proposal would shift property taxes away from the exempted facility and onto all other properties, including homesteads, increasing state-paid homeowner refunds by approximately $10,000 in fiscal year 2025.

Energy Storage Systems Exemption (Sections 5-6)
The effective date is beginning with assessment year 2024.
The proposal would create a property tax exemption for personal property consisting of an energy storage system, provided that:
1) the property is not located in an energy community, as defined in the Inflation Reduction Act of 2022, Public Law 117-169, section 13101; and
2) the storage capacity of the system does not exceed 300 megawatt-hours.

An energy storage system is defined as 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.

- The primary beneficiary of the exemption would be Gopher Energy Storage, LLC, with two large battery storage systems: a 9MW site in Isanti County and a 6MW site in Anoka County.
- There may be other smaller energy storage systems that would also qualify for the exemption.
- For taxes payable in 2025 and thereafter, the exemption would shift 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 2026.

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

Class 4d Modified and Report Required (Sections 7, 17-19, 21, 23, 28, 38)
The effective date is beginning with assessment year 2024.
Under current law, each unit of class 4d qualifying low-income rental housing has a classification rate of 0.75% for the first tier of market value and 0.25% for the remaining market value. The first tier market value limit per unit is $100,000 for assessment years 2022 and 2023. For assessment 2024 and after, the first tier market value limit is adjusted annually by the average statewide change in estimated market value of property classified as 4a apartments and 4d low-income rental housing properties, excluding new construction.

Additionally, 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 change the current class 4d qualifying low-income rental housing classification to class 4d(1). It would remove the tiered classification rates and set the classification rate at 0.25% for all class 4d(1) property. To be classified as class 4d(1), 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(1) prior to assessment year 2024. These changes would be effective beginning with assessment year 2024.

A report would be required identifying not more than ten properties within each county with the greatest number of class 4d(1) units and how each owner used property tax savings resulting from the class rate decrease. The report would be due from each county to the commissioner of revenue and the legislature by March 15, 2026.

The proposal would also 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. These changes would be effective beginning with assessment year 2024.

- In assessment year 2022, there were approximately 3,800 parcels statewide that contained class 4d low income rental housing property. The total market value for class 4d property in the same year was $9.2 billion statewide.
- According to the Minnesota Community Land Trust Coalition, there are 13 community land trust organizations in Minnesota that have a portfolio of about 1,400 homes throughout the state.

- It is assumed that about $350 million of market value would change from class 1a residential homestead to class 4d(2) community land trust units under the proposal.
- 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 by $2.97 million beginning in fiscal year 2026.
- As a result of properties receiving a reduced classification rate under class 4d(2), property tax refunds paid by the state would decrease by $310,000 beginning in fiscal year 2026.

Agricultural Homestead Land First Tier Limit Increased (Section 8)
The effective date is beginning with assessment year 2024.
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 year 2023, the first tier valuation limit is $2.15 million.

The proposal would increase the first tier valuation limit to $3.5 million for assessment year 2024. Beginning with assessment year 2025, the tier limit would continue to be changed annually in the same manner as under current law.

- In assessment year 2022, there were approximately 76,000 agricultural homesteads statewide. About 9,000 of those agricultural homesteads have a taxable market value greater than the assessment year 2022 tier limit of $1.89 million. Approximately $24.9 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%.
- It is estimated that approximately 27%, or $6.8 billion, of agricultural homestead value currently in the second tier would qualify for the first tier under the proposal.
- For agricultural homesteads that are valued higher than the proposed tier limit of $3.5 million, the average tax decrease would be approximately $2.400.
- 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 $640,000 beginning in fiscal year 2026.
- 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 $1.4 million beginning in taxes payable 2025. 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.

Green Acres Allowed for Certain Property (Section 9)
The effective date is beginning with assessment year 2024.
Under current law certain agricultural properties may qualify for the Minnesota Agricultural Property Tax Law program (Green Acres). Properties in this program pay property taxes based on the value of their agricultural land as opposed to the actual value of the land which may be higher due to development pressures. One of the requirements for being in the program is the property must be at least ten acres.

This proposal would allow properties that were enrolled in Green Acres in assessment year 2012 but did not qualify for the program in assessment years 2013-2023 due to no longer meeting the ten acre requirement as a result of eminent domain to be allowed back in the program.

- Under the proposal, it is assumed a limited number of properties would receive the deferment who are currently not receiving the deferment.
- Additional agricultural properties receiving this deferment would shift some property taxes away from agricultural properties and onto all other properties including homesteads.
- The shift in taxes onto homesteads would cause an increase in state-paid property tax refunds paid of less than $5,000 beginning in FY 2026.

ITIN for Homestead Qualification (Sections 10-16, 24)
The effective date is for homestead applications filed in 2023 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 13,500 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 1,900 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 $2.0 million beginning in FY 2025.

Tier Limits Increased for Homestead Resort Properties (Section 20)
The effective date is beginning with assessment year 2024.
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 2023, about 2,000 parcels contain class 1c homestead resort property. The total statewide taxable market value for class 1c property is $723.9 million and the total net tax capacity is $5.5 million.
- Of the 2,000 parcels containing class 1c property, about 390 have a taxable market value higher than the current first tier limit of $600,000.
- Under current law, 51% of the total class 1c taxable market value statewide is in the first tier, 42% is in the second tier, and 7% 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 63% of total class 1c taxable market value statewide would be in the first tier, 32% in the second tier, and 5% 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 2026.
- Number of Taxpayers: Approximately 390 parcels would have a reduced net tax capacity under the proposal.

Exclusion for Veterans with a Disability Modified (Section 22)
The effective date is beginning with assessment year 2023.
<u>Exclusion Amounts Modified</u>
The proposal would increase the maximum market value exclusion for homesteads of a veteran with a disability:
- from $150,000 to $165,000 for a veteran with a 70% or greater disability, and
- from $300,000 to $330,000 for a veteran with a total (100%) and permanent disability.

- There are approximately 21,000 homesteads currently receiving the exclusion.

- Under the proposal, approximately 14,000 homesteads would receive a larger exclusion for property taxes payable in 2024.
- The proposal would result in a net savings to the state of $290,000 in fiscal year 2025 due to a reduction in state-paid homeowner property tax refunds (PTR) to qualifying homesteads.
- For taxes payable in 2024, the proposal would reduce state-paid homeowner refunds to qualifying homesteads by $470,000, resulting in a savings to the state general fund.
- At the same time, the proposal would shift an estimated $3.4 million in property taxes onto other properties, including other homesteads, increasing state-paid homeowner refunds by $180,000. The overall savings to the state general fund is net of this cost.
- It is assumed that the number of homesteads that benefit under the proposal will increase by 5% annually; it is further assumed that the average refund will increase by 3% annually.
- Number of Taxpayers: Approximately 14,000 homesteads.

Surviving Spouse Reapplication Allowed

Under current law, the number of years that a surviving spouse may continue receiving the exclusion is not limited. 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.
- Under the proposal, it is assumed that fewer than ten homesteads would reapply for the exclusion, resulting in a net savings to the state of less than $5,000 in fiscal year 2025.
- Number of Taxpayers: Assumed to be fewer than ten.

Homestead Market Value Exclusion Increased (Section 23)

The effective date is beginning with assessment year 2024.

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, 1.18 million homesteads qualify for the homestead market value exclusion for taxes payable 2023. The total exclusion statewide is $16.63 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 96% of homesteads that currently receive the exclusion.
- An additional 184,000 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 $11.20 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 $52.88 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 $6.08 million beginning in fiscal year 2026.
- Number of Taxpayers: Approximately 1.31 million homesteads would newly qualify or receive a larger homestead market value exclusion under the proposal.

Definition of Attachments and Appurtenances Modified (Section 25)
The effective date is beginning with assessment year 2024.
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.
- It is not clear what other attachments and appurtenances – beyond metering and streetlighting equipment – might be eligible for exemption under “not limited to”; therefore, the estimate takes into account only metering and streetlighting equipment.
- For taxes payable in 2025, the exemption would shift an estimated $530,000 in property taxes away from electric cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by $30,000 in fiscal year 2026.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2025 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Delinquent Property Tax Interest Rate Adjusted (Sections 26-27)
The effective date is January 1, 2024.
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 5%.
- 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 29)
The effective date is beginning with refunds based on taxes payable in 2024.
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 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 50,000 taxpayers will claim additional property tax refunds for payable year 2024 for a total of $5.2 million. Under the proposal, these taxpayers would receive an average refund increase of $33.

- 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 10,000 in the first year.
- Total refunds paid by the state are estimated to increase by $1.9 million in fiscal year 2025.

Senior Deferral Program Income and Tenure Changes (Sections 30-33)
The effective date is beginning with application for deferral of taxes payable 2024.
This 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 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 2025. Applications received between June 2023 and October 2023 would be eligible for deferral under the new requirement beginning for taxes payable in 2024. The first full year of impact would be fiscal year 2026.

Levy Limit Modified for Public Safety (Section 34)
The effective date is following local approval.
The proposal would allow Anoka County to exclude any levy for public safety improvements and equipment from the certified levy of the county. Any levy for these purposes would be separately certified to the county auditor. The proposal also extends the expiration date for bonding and levying for public safety improvements and equipment from December 31, 2023 to December 31, 2033.

- The proposal is assumed to have no impact on the state general fund. Under current law, general county levy limits are not in effect so there is assumed to be no impact on levies.

Metropolitan Fiscal Disparities Area Definition Modified (Sections 35-36)
The effective date is beginning with taxes payable 2024.
Under current law, the metropolitan area fiscal disparities program partially shares commercial-industrial property tax base among all jurisdictions within a defined geographic area.

The proposal would remove the portions of the cities of Cannon Falls, Hanover, and Rockford from the metropolitan fiscal disparities geographic area.

- For taxes payable 2023, the portion of Cannon Falls that falls within the metropolitan fiscal disparities geographic area had no commercial-industrial property, so the proposal would have no effect on the city's property taxes.
- For taxes payable 2023, both Hanover and Rockford are net recipients in the metropolitan fiscal disparities program, meaning the tax base they are distributed from the program is more than the tax base they contribute to the program. The net tax capacity gained from the program is a relatively low share of each city's total taxable net tax capacity: 2.0% in Hanover and 0.1% in Rockford.
- By removing Hanover and Rockford from the fiscal disparities program, the tax base in both cities would decrease, which would increase tax rates for all properties in both cities. An increase in tax rates would increase local taxes on all properties, including homesteads, which would increase property tax refunds paid by the state in these two cities by less than $5,000.
- The tax base for other taxing jurisdictions in the metropolitan fiscal disparities program would increase due to removing two net beneficiary cities, which would decrease tax rates. A decrease in tax rates would decrease taxes on properties, including homesteads, which would decrease property tax refunds paid by the state by less than $5,000.
- The overall property tax refund interaction is net of these changes.

Northwest Minnesota Multi-Housing and Redevelopment Authority Levy Authority (Section 37)
The effective date is the day following local compliance.
Under current law, the Northwest Minnesota Multicounty Housing and Redevelopment Authority (HRA) is a special taxing district operating in Kittson, Polk, Marshall, Pennington, Red Lake, and Roseau counties. Levy amounts are limited to 0.0185 percent of the estimated market value within the district.

The HRA has authority to levy 25 percent of the total permitted levy amount without approval from the governing bodies. This authority will expire starting for taxes payable 2024. The bill would preserve this authority through taxes payable 2034.

- It is assumed that there would be no state revenue impact from the proposal. It is assumed that increasing the special taxing district levy authority would result in an equal reduction in its governing bodies levy authority, so the net change in levy authority is zero.

Article 4: Property Tax Aids, Credits, and Refunds

Electric Generation Transition Aid Established (Sections 1, 16, 18)
The effective date is beginning with aids payable 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 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. First year aid payments would be certified in the same year they are paid.

The bill would also repeal the current Utility Valuation Transition Aid program that was enacted in 2008.

- 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. Four of these jurisdictions would no longer qualify for aid beginning in FY 2026 due to current tax capacity exceeding the 90% threshold for aid elimination.
- 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 $3.43 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 $1.42 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.
- Phasing out the current Utility Valuation Transition Aid would result in a savings to the state general fund beginning in FY 2025.
- Under current law, four jurisdictions are projected to receive aid totaling $17,000 in 2024, $18,000 in 2025, and $19,000 in 2026.

- Under the proposal, only cities or townships eligible to receive aid in payable year 2023 would be eligible to receive aid in 2024 to 2026.
- The proposal would reduce aid to eligible jurisdictions by 25% in 2024, 50% in 2025, and 75% in 2026. This would result in a savings to the state general fund totaling $4,000 in FY 2025, $9,000 in FY 2026, and $14,000 in FY 2027. No aid would be paid beginning in FY 2028.

LGA Appropriation Increased (Sections 2-6, 9-11, 13, 19-20, 23, 29)
The effective date is beginning with aids payable in calendar year 2024.
Under current law, the appropriation for local government aid (LGA) is $564,398,012 for aids payable in 2024 and thereafter.

The proposal would increase the LGA appropriation by $40 million for aids payable in 2024 and thereafter. The proposal would also modify the LGA distribution formulas, increase the Mahnomen property tax reimbursement and increase formula aid to the city of Hibbing.

- Increasing the appropriation for LGA to cities would increase state general fund costs by $40 million in calendar year 2024 and thereafter.
- The proposal would also increase the annual property tax reimbursement to the county and city of Mahnomen by a combined $160,000.
- Increasing formula aid to the city of Hibbing would shift aid to the city of Hibbing and away from other cities receiving local government aid. There would be no state general fund cost associated with this change because total aid is set to a fixed appropriation level.
- 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 2025, resulting in a savings to the state general fund.

CPA Appropriation Increased (Sections 7-8, 14)
The effective date is beginning with aids payable in calendar year 2024.
Under current law, the appropriation for county program aid (CPA) is $118,795,000 for need aid and $145,873,444 for tax base equalization aid for aids payable in 2024.

The proposal would increase the CPA appropriation by $40 million for aids payable starting in 2024 and thereafter. The appropriation increase would be split with need aid increasing $17.7 million and tax base equalization aid increasing $22.3 million.

- Increasing the appropriation for CPA would increase state general fund costs by $40 million starting in calendar year 2024 and thereafter.
- It is assumed that the permanent increase in aid to counties 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 2025, resulting in a savings to the state general fund.

Local Government Aid One-Time Payment Shift (Section 12)
The effective date is for aids payable in 2019.
Under current law, LGA is paid in two equal installments on July 20 and December 26.

The bill changes the payment dates of LGA in payable year 2025 only. Cities would receive three installments: (1) 12.39% on March 20, 2025, (2) 37.61% on the regular first payment date of July 20, 2025, and (3) the remaining 50% on the regular second payment date of December 26, 2025.

- Shifting 12.39% of the 2025 LGA payments to March 20, 2025 would increase state general fund costs in fiscal year 2025 by $74.885 million and reduce state general fund costs by an equal amount in fiscal year 2026.

Payment in Lieu of Taxes Modified (Section 15)
The effective date is beginning with aids payable 2024.
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 increase the payment per acre from $2 to $2.25 for commissioner and county administered PILT lands.

- Increasing the per acre payment rates from $2 to $2.25 for commissioner and county administered PILT would increase costs to the state general fund by $1.72 million beginning in FY 2025 and thereafter.
- 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 2025.
    - Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2025.

Soil and Water Conservation District Aid (Section 17)
The effective date is beginning with aids payable 2023.
The proposal would create an aid program for soil and water conservation districts. The aid program would have an annual appropriation of $12.723 million starting in calendar years 2023 and thereafter. 70% of the appropriation would be split evenly between all soil and water conservation districts, 20% apportioned based on a soil and water conservation district's share of nonpublic lands, and the remaining 10% would be based on a soil and water conservation district's share of adjusted state population.

- 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 Counites 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 $12.723 million starting for fiscal year 2024 and thereafter.

LGA Penalty Forgiveness – Echo (Section 21)
The effective date is 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, 2023.

The payments totaling $46,060 would be made before the end of FY 2023 by June 30, 2023.

- 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 Echo would receive a payment of $46,060 in FY 2023.

LGA Penalty Forgiveness – Morton (Section 21)
The effective date is 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, 2023.

The payments totaling $79,476 would be made before the end of FY 2023 by June 30, 2023.

- 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 Morton would receive a payment of $79,476 in FY 2023.

Public Safety Aid Established (Section 22)
The effective date is beginning with aids payable 2023.
The proposal would create a one-time $300 million appropriation for public safety in aids payable year 2023. Townships with a population of at least 10,000 and all cities would receive 70% percent of the appropriation based on their population share with a $1,500 minimum. Counties and tribes would receive 30% of the apportion based on two population share related formulas.

- The one-time appropriation would increase state general fund costs by $300 million in fiscal year 2024.

Crisis Response and Criminal Investigation Account Transfer (Sections 24-25)
The effective date is July 1, 2023.
The proposal would create the crisis response and criminal investigation account that would receive a $25 million transfer from the state general fund in fiscal year 2024. In fiscal years 2024-2028 the commissioner of public safety may provide up to $5 million in grants to local law enforcement agencies or local governments, which would need to use the grants on crisis responses and criminal investigations.

- A one-time transfer would shift $25 million from the state general fund to the crisis response and criminal investigation account in fiscal year 2024.

Tribal Nation Housing and Homelessness Aid Established (Section 26)
The effective date is beginning the day following final enactment.
The proposal would create a one-time $44 million aid for Tribal Nations. All eleven Minnesota Tribal Nations would be eligible for the aid, and those applying for aid would receive an equal amount. The aid would need to be spent on homelessness prevention and housing instability. A Tribal Nation receiving aid would need to submit a report by February 1, 2024.

- The one-time appropriation would increase state general fund costs by $44 million in fiscal year 2024.
- There would be no property tax or income tax interactions as tribes do not levy property taxes.

City of Spring Grove Fire Remediation Grant (Section 27)
The effective date is the day following final enactment.
The bill would provide a one-time appropriation of $250,000 from the state general fund for a grant to the city of Spring Grove. The funds must be used for property tax abatements and other remediation costs associated with a 2022 fire in the city of Spring Grove.

- The one-time appropriation would result in a cost to the state general fund of $250,000 in fiscal year 2024.

Class 4d Transition Aid Established (Section 28)
The effective date is for aid payable in 2025 and 2026 only.
The proposal would also create a transition aid for calendar years 2025 and 2026 for cities that have a decrease in tax base of more than two percent due to the proposed changes to class 4d(1) in Article 3.

- The transition aid is estimated to be $580,000 for 37 cities in fiscal years 2026 and 2027.
- 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 all property tax interactions.

Article 6: Minerals Taxes

Gross Proceeds Tax and Taconite Production Tax Distributions Modified (Sections 1-12)
Various effective dates.
Gross Proceeds Tax
Under current law, the production of non-ferrous minerals is subject to a net proceeds tax of 2.0% in lieu of property taxes. Non-ferrous minerals include copper and nickel; precious metals such as gold, silver, and platinum; and energy resources such as coal, oil, and gas. The net proceeds tax is determined by calculating the gross proceeds from non-ferrous mining minus any allowable expenses, including payroll and equipment. The tax is paid to the state general fund on May 1 of the year following production and distributed to local governmental units and Iron Range Resources and Rehabilitation (IRRR) funds by December 15.

The proposal would make the following changes to the net proceeds tax on non-ferrous mining:
- Replace the current net proceeds tax with a gross proceeds tax of 0.4%.
- Create a $2.0 million minimum tax amount for companies that have obtained all required mining permits but are not actively mining. The minimum would be prorated based on the months subject to the minimum payment
- Expand the number of municipalities in the taconite assistance area.
- Change the distribution formula for mining tax proceeds.

Effective beginning for taxable years beginning after December 31, 2022.

Taconite Production Tax Distribution
Under current law, the county road and bridge fund receives 10.525 cents per taxable ton of taconite production 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 10 cents per taxable ton of taconite production for distribution years 2015-2023 and 5 cents per taxable ton starting in distribution year 2024 and thereafter.

The proposal would make permanent the 2015-2023 distribution rates to these funds. The iron range school consolidation and cooperatively operated school account would continue to receive a distribution of 10 cents per taxable ton of taconite production and the county road and bridge fund would continue to receive 10.525 cents per taxable ton of taconite production.

For the 2023 distribution only, the proposal would transfer up to $6 million of the excess balance from the taconite property tax relief account to the iron range resources and rehabilitation account.

For the 2023 distribution and thereafter, the proposal would transfer $3.5 million in annual funding from the Douglas J. Johnson Fund to the iron range school consolidation account. Starting with production year 2023, any remaining annual funds after the $3.5 million going to the Douglas J. Johnson Fund would instead go the iron range resources and rehabilitation account.

Gross Proceeds Tax
Non-Ferrous Mineral Production
- There are currently no non-ferrous mining activities in Minnesota. The proposed New Range Copper Nickel mine project near Hoyt Lakes is anticipated to begin production in 2026.

- According to information included in the Environmental Impact Statement from the Minnesota Department of Natural Resources, the New Range Copper Nickel mine would produce approximately 130,000 tons of copper/nickel in a normal production year. Production is projected to last for 20 years.
- The New Range Copper Nickel mine does not yet have all required permits. This estimate assumes the remaining permits will be acquired April 1st, 2025.
- Based on the 6-month average market spot prices for copper-nickel, this analysis assumes the gross proceeds in a normal year would total approximately $1 billion. Similar to other commodities sold on the market, mineral prices can be volatile over the short and long terms

Current Law Net Proceeds Tax

- During the first two years of production, it is assumed that deductible expenses would exceed the amount of gross proceeds. Therefore, zero net proceeds tax would be collected following the first two years.
- The amount of deductible expenses is expected to be higher during the initial years of the project when start up and new equipment costs are higher. The amount of deductible expenses as a percentage of gross proceeds is assumed to decline over time.
- Beginning with the third year of production, deductible expenses are assumed to total approximately 90% of gross proceeds, which at a 2.0% tax rate would yield a net proceeds tax of approximately $2.0 million beginning in FY 2029.
- After the first five years of production, the amount of deductible expenses are assumed to total approximately 80% of gross proceeds, which is assumed to be a normal year going forward. The amount of net proceeds tax would be estimated to total approximately $4.0 million in a normal year

Proposed Gross Proceeds Tax with Minimum

- It is assumed New Range Copper Nickel will obtain all necessary permits by April 1, 2025 and will begin production in 2026.
- With no production in 2025, the tax due in 2026 would be a $1.5 million minimum payment based on nine months subject to the minimum payment. The $1.5 million would be collected on May 1, 2026 (FY2026) and distributed to local units and IRRR on December 15, 2026 (FY2027).
- The gross proceeds tax would be due after the first year of production because there would be no allowable expenses to deduct.
- The first partial year of production in 2026 would produce an estimated $360 million in gross proceeds, which at a 0.4% tax rate would yield approximately $1.4 million in gross proceeds tax in FY 2027.
- The first full year of production would result in gross proceeds of $1 billion and an estimated gross proceeds tax of approximately $4.0 million beginning in FY 2028.
- Changing the municipalities in the taconite assistance area and the distribution formula changes would not impact the state general fund.

Taconite Production Tax Distribution

- The production tax distribution changes would have no effect on the state general fund; however, they would impact some local taconite distribution funds.

- Making permanent the 2015-2023 production tax distributions rates would shift approximately $1.7 million annually to the iron range school consolidation account and away from the county road and bridge fund.
- For the 2023 distribution only, up to $6 million would be transferred from the taconite property tax relief account to the iron range resources and rehabilitation account.
- For the 2023 distribution and thereafter, $3.5 million annual funding would be transferred from the Douglas J. Johnson Account to the iron range school consolidation account.
- For the 2024 distribution and thereafter, all remaining funds after the $3.5 million transfer that would have gone to the Douglas J. Johnson Account would instead go to the iron range resources and rehabilitation account. This amount is estimated to be $6.6 million annually.

Article 7: Tax Increment Financing

Tax Increment Financing –Small Cities Definition (Section 1)

The effective date is July 1, 2023.
Under current law, although the general rule does not permit it, small cities may use economic development tax increment finance (TIF) districts for small commercial developments, such as retail and office developments. A small city is a city with a population of 5,000 or less and is located 10 miles or more from of a home rule charter or statutory city with a population of 10,000 or more.

The proposal would change the definition of a small city. A small city would be defined as a city with a population of 5,000 or less and located five miles or more from a home rule charter or statutory city with a population of 10,000 or more.

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

Tax Increment Financing – Hopkins (Section 2)

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 increase the limitation on using increment on housing or redevelopment activities to 25 percent of total increments. The proposal would also increase the total amount of increment allowed to be spent on activities outside the district to 28 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 – Bloomington (Section 3)
The effective date is following local approval.
Under current law, the Port Authority of the City of Bloomington's Tax Increment Financing (TIF) District 1-I, Bloomington Central has an extended five-year rule duration of 21 years. The proposal would further extend the five-year rule to 26 years for the district.

The proposal would also allow the city of Bloomington or its port authority to extend the duration limit of the district for undeveloped parcels only from December 31, 2039 to December 31, 2044.

- 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 – St. Paul (Sections 4-5)
The effective date following local approval.
A 2008 session law allowed the city of St. Paul or the Housing and Redevelopment Authority of St. Paul to establish a redevelopment tax increment financing (TIF) district in a defined area. Special rules applied to the district created under the authority, including that the district terminates December 31, 2023. The proposal would extend the district through December 31, 2033.

Additionally, a 2008 session law, amended in 2014, allowed the city of St. Paul to use tax increment from this district to pay principal and interest on bonds for the RiverCentre Arena. The proposal would only allow increment to be used for this purpose through taxes payable 2023. For taxes payable 2024 and after, the district would be allowed to use increment to facilitate capital improvements within the city's RiverCentre complex.

- 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 6)
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 12 years for any TIF districts established under the 2014 Session Law. The proposal also extends to nine 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 – Duluth Port Lot D (Sections 7)
The effective date is following local approval.
Under current law, the city of Duluth or the Duluth Economic Development Authority is allowed to create one tax increment financing (TIF) district within a defined area. The district established under this authority has special rules removing the limitations on property eligible to be in a redevelopment district and removing restrictions on eligible expenditures.

The proposal would expand the current authority to allow Duluth or the Duluth Economic Development Authority to create no more than two TIF districts in that defined area. The proposal would also allow the duration of any district established under its authority to be extended 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.

Tax Increment Financing – Ramsey (Section 8)
The effective date is following local approval.
Under current law, special rules apply to redevelopment tax increment financing (TIF) district No. 14 in the city of Ramsey. The five-year rule has been extended by two years to November 28, 2023.

The proposal would extend the five-year rule for the district by an additional three years to November 28, 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 – Chatfield (Section 9)
The effective date is following local approval.
The proposal would authorize the city of Chatfield or its economic development authority to establish an economic development district to construct a multilevel hotel in a defined area. The first floor of the hotel must not exceed 15,000 square feet.

- 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 – Duluth Medical Exchange (Section 10)
The effective date is following local approval.
The proposal would allow the economic development authority of the city of Duluth or the city of Duluth to establish one or more redevelopment tax increment financing (TIF) districts within a defined area classified as the Medical Regional Exchange District and East 1st Street Corridor. The proposal would provide special rules for the district, including removing requirements for establishing a redevelopment district and removing restrictions on how increment may be used.

- 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 11)
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 used to make grants, loans, and loan guarantees for the development, rehabilitation, or financing of housing or to match other funds from federal, state, or private resources for housing projects. The city of Fridley would be required to provide two reports to the legislature, in 2025 and 2027, including detailed information relating to each program financed with increment under this proposal. The authority to make transfers under this proposal expires December 31, 2027.

- 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 12)
The effective date is following local approval.
The proposal would authorize the creation of one or more 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, removing limitations on the permitted use of increment from the district, and allowing no more than 75 percent of increments from the district to be used for improvements to Chankahda Trail, formerly known as Hennepin County Road 47, outside the project area. The authority to approve a TIF plan to establish a TIF district under the proposal expires December 31, 2030.

- 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 13)
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 – West St. Paul (Section 14)
The effective date is following local approval.
The proposal would allow the economic development authority of the city of West St. Paul or the city of West St. Paul to establish one or more redevelopment tax increment financing (TIF) districts within a defined area. The proposal would provide special rules for the district. These include removing restrictions on redevelopment districts and removing restrictions on expenditures incurred in connection with development of the property.

- 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 8: Office of the State Auditor: Tax Increment Financing General Law Modifications

TIF Administrative Updates (Sections 1-12)
The effective date is the day following final enactment.
The proposal would make several 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.

Article 11: Public Finance

Miscellaneous Debt Financing Provisions Modified (Sections 1-10, 12-15)

The effective date is July 1, 2023.
The proposal makes several modifications to local debt government financing. It 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, update the definition of capital equipment with regards to capital notes used to purchase capital equipment for county purposes, clarify special taxing district rules for some port authorities and economic development authorities, update the definitions of public facilities project and public facility bonds, and clarifies the municipal water and wastewater treatment systems subject to certain limits on obligations.

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

Metropolitan Council Transit Bonding Authority (Section 11)

The effective date is the day following final enactment.
The proposal authorizes the Metropolitan Council to issue $104.545 million in certificates of indebtedness, bonds, or other obligations for capital expenditures prescribed in the council's transit capital improvement program. Of the total authorization, the council may issue debt obligations of up to $51.500 million after July 1, 2023 and $53.045 million after July 1, 2024.

- Bonding principal and interest would be paid by increasing property tax levies.
- Based on data from the Metropolitan Council, $854,000 of new debt service levy would be paid in taxes payable 2024. Debt service levies will increase in future years as more of the authorized bonds are issued.
- Any additional debt service levies would increase homeowner taxes starting in taxes payable 2024. Property tax refunds would increase by $50,000 in fiscal year 2025.
- Additional deductions for income tax itemization would lower income tax receipts. Income tax collections are estimated to decrease by $20,000 in fiscal year 2025.

St. Paul Bonding Authority Extended and Increased (Section 16)
The effective date is following local approval.
Under current law, the city of St. Paul is authorized to issue bonds for capital improvements in the aggregate principal amount of $20 million each year through 2024.

The proposal would increase the bonding authority to $30 million for each year and extend the authority through 2035.

- The expanded bonding authority for St. Paul is assumed to have no impact on the state general fund. The city has the option to levy for the cost of the financing in the overall city levy under current law.

Virginia Debt Limit Exemption (Section 17)
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 13: Miscellaneous

Property Tax Service of Petitions (Section 6)
The effective date is July 1, 2023.
The proposal would make several changes to the defense or objection of property taxes services and filings process. These changes include how a petition may be filed, and when and who needs to receive a copy of the petition.

- Changing the petition service requirements would have no effect on the state general fund.

Tourism Improvement Districts Established (Sections 8-17)
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.

Article 15: Department of Revenue: Fire and Police State Aids

Fire and Police State Aids Recodification (Sections 1-25)
The effective date is for aids payable in calendar year 2024 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.

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

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