DEPARTMENT OF REVENUE

PROPERTY TAX
Omnibus Tax Bill
Articles 3-4, 6-9, 12, 15, 17

June 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 Laws 2023, Chapter 64, Articles 3-4, 6-9, 12, 15, 17

	Fund Impact				
	F.Y. 2023	**F.Y. 2024**	**F.Y. 2025**	**F.Y. 2026**	**F.Y. 2027**
			(000's)		
Article 3: Property Tax					
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)
Class 4d Modified					
Low Income Rental Property Class Rate		$0	$0	($2,920)	($2,920)
Community Land Trust Classification		$0	$0	$260	$260
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)
Exclusion for Veterans with a Disability Modified					
Surviving Spouse Eligibility Modified		$0	$30	$40	$40
Surviving Spouse Reapplication Allowed		$0	negligible	negligible	negligible
Homestead Market Value Exclusion Increased		$0	$0	$6,080	$6,080
TNT Notice Supplemental Information Modified		$0	$0	$0	$0
Senior Property Tax 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
Albany School District Exemption	($46)	$0	$0	$0	$0

<u>Article 4: Property Tax Aids</u>

Electric Generation Transition Aid		$0	($2,120)	($3,430)	($1,420)
Repeal Utility Valuation Transition Aid		$0	$17	$18	$19
Property Tax Refund Interaction		$0	$70	$110	$40
Income Tax Interaction		$0	$20	$40	$10
Homestead Credit Refund Increased		$0	($25,400)	($25,700)	($25,900)
LGA Appropriation Increased		$0	($80,000)	($80,000)	($80,000)
Mahnomen Reimbursement Aid		$0	($160)	($160)	($160)
Property Tax Refund Interaction		$0	$2,180	$2,180	$2,180
Income Tax Interaction		$0	$790	$790	$790
CPA Appropriation Increased		$0	($80,000)	($80,000)	($80,000)
Property Tax Refund Interaction		$0	$2,180	$2,180	$2,180
Income Tax Interaction		$0	$790	$790	$790
LGA Payment Shift		$0	($60,586)	$60,586	$0
PILT Modified and Report Required		$0	($9,300)	($10,200)	($11,000)
Property Tax Refund Interaction		$0	$250	$280	$300
Income Tax Interaction		$0	$90	$100	$110
Soil and Water Conservation District Aid		($15,000)	($15,000)	($12,000)	($12,000)
Local Homeless Prevention Aid – Tribes Added					
Property Tax Refund Interaction		$0	($70)	($70)	($70)
Income Tax Interaction		$0	($20)	($20)	($20)
Statewide Local Housing Aid		($22,500)	($22,500)	($10,000)	($10,000)
Property Tax Refund Interaction		$0	$540	$240	$240
Income Tax Interaction		$0	$190	$90	$90
Tribal Nation Aid		$0	($35,000)	($35,000)	($35,000)
Public Safety Aid		($300,000)	$0	$0	$0
LGA Penalty Forgiveness – Echo	($46)	$0	$0	$0	$0

LGA Penalty Forgiveness – Morton	($79)	$0	$0	$0	$0
Homestead Credit Refund - Onetime Increase		($136,000)	($1,400)	$0	$0
Renter Property Tax Refund - Onetime Increase		($47,800)	($500)	$0	$0
Targeting Property Tax Refund - Onetime Increase		($23,100)	($200)	$0	$0
Class 4d Transition Aid		$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 Units		$0	$0	$0	$0
Article 7: Renter's Credit					
Renter Income Tax Credit Established		$0	($378,600)	($382,300)	($386,000)
Renter Property Tax Refund Repealed		$0	$0	$245,500	$247,300
Article 8: Tax Increment Financing					
TIF – Small Cities		$0	$0	$0	$0
TIF – Hopkins		$0	$0	$0	$0
TIF – Bloomington		$0	$0	$0	$0
TIF – St. Paul		$0	$0	$0	$0
TIF – Savage		$0	$0	$0	$0
TIF – Duluth Port Lot D		$0	$0	$0	$0
TIF – Ramsey		$0	$0	$0	$0
TIF – Chatfield		$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 – Shakopee		$0	$0	$0	$0
TIF – West St. Paul		$0	$0	$0	$0
TIF – Woodbury		$0	$0	$0	$0
<u>Article 9: Office of the State Auditor: Tax Increment Financing General Law Modifications</u>					
TIF Administrative Updates		$0	$0	$0	$0
<u>Article 12: Public Finance</u>					
Debt Financing Modified		$0	$0	$0	$0
St. Paul Bonding Authority		$0	$0	$0	$0
Virginia Debt Limit Exemption		$0	$0	$0	$0
<u>Article 15: Miscellaneous</u>					
Property Tax Service of Petitions		$0	$0	$0	$0
Delinquent Property Tax Interest Rate Changed		$0	$0	$0	$0
Tourism Improvement Districts		$0	$0	$0	$0
Ramsey County Tax Judgment Sales		$0	$0	$0	$0
Crane Lake Watershed District Debt Relief		($1,294)	$0	$0	$0
Minneapolis Grants		($10,000)	$0	$0	$0
Northfield Infrastructure Grant		($300)	$0	$0	$0
Spring Grove Fire Remediation Grant		($250)	$0	$0	$0
Windom Appropriations		($14,000)	$0	$0	$0
<u>Article 17: Department of Revenue: Fire and Police State Aids</u>					
Fire and Police State Aids Recodification		$0	$0	$0	$0
General Fund Total	**($171)**	**($570,254)**	**($705,979)**	**($324,066)**	**($387,051)**

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

REVENUE ANALYSIS DETAIL

<u>Article 3: Property Tax</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 new law increases 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 will increase by approximately $6 million.
    - Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2026.
    - Higher levies will 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 new law, 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 will be subject to reclassification under the proposal.
- Reclassifying the underlying land to class 3a will 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 new law, the exemption expires with taxes payable in 2034. In addition, eligible property is not required to file a statement of exemption with the assessor.

- Property in Minneapolis owned by the Chippewa Tribe is 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 new law reinstates 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 will not be paid under the new law.
- For taxes payable in 2024 and thereafter, the exemption from the commercial-industrial state general tax will have no impact on state revenues, because the tax rate will be adjusted to yield the amount of revenue required by statute.
- For taxes payable in 2023, there is no shifting of property taxes because taxes have already been determined.
- For taxes payable in 2024, the new law will 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 new law exempts an elderly living facility from property taxes if:

- the facility is located in a first class city with a population less than 110,000;
- the facility is owned and operated by a nonprofit organization with tax exempt status under section 501(c)(3) of the Internal Revenue Code;
- 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 is eligible for the property tax exemption.
- For taxes payable in 2023, there is no shifting of property taxes because taxes have already been determined.
- Beginning with taxes payable in 2024, the new law will 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.

Class 4d Modified (Sections 5, 15-18, 25)
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 new law will change the current class 4d qualifying low-income rental housing classification to class 4d(1). It will 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 will 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. Additionally, property owners must use the property tax savings from 4d(1) classification for one or more eligible uses, which include property maintenance, property security, improvements to the property, rent stabilization, and increases to the property's replacement reserve account. These changes will be effective beginning with assessment year 2024.

The new law also creates a new classification for property owned by a community land trust and used as a homestead by the occupant. These properties will 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) will maintain homestead status for the purposes of qualifying for property tax refunds. These changes will 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 will change from class 1a residential homestead to class 4d(2) community land trust units under the proposal.
- The new law will 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 will 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 will decrease by $310,000 beginning in fiscal year 2026.

Agricultural Homestead Land First Tier Limit Increased (Section 6)
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 new law will increase the first tier valuation limit to $3.5 million for assessment year 2024. Beginning with assessment year 2025, the tier limit will 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 will 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 will 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 will be approximately $2.400.
- The new law will 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 will 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 will 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 new law will have no effect on the agricultural homestead market value credit.

Green Acres Allowed for Certain Property (Section 7)
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.

The new law will 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.

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

ITIN for Homestead Qualification (Sections 8-14, 21)
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 new law, property owners with a valid individual taxpayer identification number (ITIN) issued by the Internal Revenue Service will 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 new law will 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 will result in an increase in property tax refunds paid by the state.
- According to Minnesota individual income tax return filing summaries, there are 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 will be homeowners and receive homestead status under the proposal.
- It is assumed that approximately 1,900 additional homeowners will become eligible and file for a property tax refund under the new law, resulting in an increase in state general fund costs of $2.0 million beginning in FY 2025.

Exclusion for Veterans with a Disability Modified (Section 19)
The effective date is beginning with assessment year 2023.
Surviving Spouse Eligibility Modified
Under current law, if a deceased veteran had a total (100%) and permanent disability, then the surviving spouse may make a first-time application for the $300,000 Homestead Exclusion for Veterans with a Disability only if the veteran died after December 31, 2011 and the application is filed within two years of the veteran's death or by June 1, 2019, whichever is later.

The new law allows the surviving spouse of a deceased veteran who had a total (100%) and permanent disability to apply for the $300,000 exclusion at any time after the veteran's death, even if the veteran died at a time when the exclusion did not yet exist.

- The Homestead Exclusion for Veterans with a Disability was created by the 2008 Legislature and was first available for property taxes payable in 2009.

- It is estimated that at the time the program was created, there were approximately 1,000 surviving spouses of deceased veterans whose homesteads would have met the qualifications for the $300,000 exclusion.
- By assessment year 2023, it is estimated that under the new law approximately 200 surviving spouses will still be eligible for the exclusion.
- A 50% participation rate is assumed for assessment year 2023.
- The new law results in a net savings to the state of $30,000 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 new law will reduce PTR to qualifying homesteads by an estimated $40,000, resulting in a savings to the state general fund.
- At the same time, the new law will shift an estimated $280,000 in property taxes onto other properties, including other homesteads, increasing PTR by $10,000. The overall savings to the state general fund is net of this cost.
- Number of Taxpayers: Approximately 100 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 new law allows 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 new law, it is assumed that fewer than ten homesteads will 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 20)

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 new law will increase the homestead market value exclusion for most homesteads. The exclusion will 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 will be $38,000 minus 9% of the value over $95,000. Homesteads valued at $517,200 or more will 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 new law, all homesteads over $76,000 and less than $413,800 of market value will receive an increased homestead market value exclusion. This represents 96% of homesteads that currently receive the exclusion.
- An additional 184,000 homesteads will qualify for the homestead market value exclusion under the new law due to the increase in maximum qualifying market value from $413,800 to $517,200.
- The total homestead market value exclusion will increase by $11.20 billion statewide.
- The new law will reduce the taxable market value and net tax capacity for homesteads newly qualifying for the exclusion and those receiving a larger exclusion. Property taxes will 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 will 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 will decrease by $6.08 million beginning in fiscal year 2026.
- Number of Taxpayers: Approximately 1.31 million homesteads will newly qualify or receive a larger homestead market value exclusion under the new law.

Truth-in-Taxation Notice Supplemental Information Required (Sections 22-24)
The effective date is beginning with taxes payable 2024.
Under current law, a separate statement of summary budget information must be sent with truth in taxation proposed property tax notices.

The new law modifies what supplemental information is required to be sent with the proposed property tax notices.

- Changing the information sent with proposed property tax notices will have no effect on the state general fund.

Senior Deferral Program Income and Tenure Changes (Sections 26-29)
The effective date is beginning with application for deferral of taxes payable 2024.
The new law makes 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 new law modifies the number of years a senior citizen is 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 new law increases 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 new law, reducing the requirement from 15 years to 5 years will 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 new law, increasing the requirement from $60,000 to $96,000 years will increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation will increase approximately 35% under the new law, 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 will be eligible for deferral under the new requirement beginning for taxes payable in 2024. The first full year of impact will be fiscal year 2026.

Levy Limit Modified for Public Safety (Section 30)
The effective date is following local approval.
The new law will 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 will be separately certified to the county auditor. The new law also extends the expiration date for bonding and levying for public safety improvements and equipment from December 31, 2023 to December 31, 2033.

- The new law 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 31-32)
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 new law removes 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 new law will 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 will decrease, which will increase tax rates for all properties in both cities. An increase in tax rates will increase local taxes on all properties, including homesteads, which will 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 will increase due to removing two net beneficiary cities, which will decrease tax rates. A decrease in tax rates will decrease taxes on properties, including homesteads, which will 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 33)
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 was set to expire starting for taxes payable 2024. The new law preserves this authority through taxes payable 2034.

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

Exemption for Albany School District Hospital Property (Section 34)
The effective date is the day following enactment.
The new law creates an exemption from property taxes payable in 2023 for hospital property acquired by the Albany Public School District in September 2022. An exemption application must be filed with the county assessor, after which the county auditor must certify to the Department of Revenue the amount of taxes that were due on the property prior to the exemption being granted. An amount necessary to make a payment to the county is appropriated from the general fund in fiscal year 2023.

- The property, now owned by the school district, is already exempt from property taxes beginning with taxes payable in 2024.
- The new law results in a cost to the state general fund of $46,000 in FY 2023.

Article 4: Property Tax Aids

Electric Generation Transition Aid (Sections 1, 21, 33)

The effective date is beginning with aids payable 2024.
The new law creates an electric generation transition aid program. Counties, cities/towns, and school districts will 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 will 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 will 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 will decrease by 5% of the initial aid until it is below $5,000 at which point the aid will be zero. Jurisdictions will 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 will be certified in the same year they are paid.

The new law also repeals 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 will begin receiving aid in FY 2025 with a combined $2.12 million cost to the state general fund. It is estimated that four of these jurisdictions will 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.
- It is estimated that four additional local jurisdictions will begin receiving aid in FY 2026, increasing state general fund costs by an additional $3.0 million to a total of $3.43 million. It is projected that three of these four jurisdictions will no longer qualify for aid beginning in FY 2027 due to current tax capacity exceeding the 90% threshold for aid elimination, which will reduce the total combined aid to $1.42 million.
- It is assumed that local jurisdictions receiving the new aid will reduce property tax levies by a portion of the aid increase. Lower levies will reduce property taxes on all property.
    - Lower property taxes will result in lower homeowner property tax refunds, reducing costs to the state general fund beginning in FY 2025.
    - Lower property taxes will 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 new law. The aid increases from these retirements are outside the current forecast window.
- Repealing the current Utility Valuation Transition Aid will result in a savings to the state general fund beginning in FY 2025.

Homestead Credit Refund Increased (Sections 2-3)
The effective date is beginning with refunds based on property taxes payable in 2024.
Under current law the copay percentages for homeowners claiming a property tax refund range from 15% to 50% depending on household income.

The new law lowers the homeowner copay percentages for all income ranges by 3 percentage points.

- By lowering the copay percentages for homeowners, state-paid property tax refunds to homeowners will increase by $25.4 million beginning in FY 2025.
- Under the new law, approximately 89% of homeowner PTR claimants will receive an increased refund, with the average refund increase being approximately $50.
- Number of Taxpayers: 506,000 homeowner PTR claimants will receive an increased refund.

LGA Formula Changed and Appropriation Increased (Sections 4-8, 11-13, 15, 23, 26, 33)
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 new law increases the LGA appropriation by $80 million for aids payable in 2024 and thereafter. The new law also modifies the LGA distribution formulas and increases the Mahnomen property tax reimbursement.

- Increasing the appropriation for LGA to cities will increase state general fund costs by $80 million in calendar year 2024 and thereafter.
- The new law also increases the annual property tax reimbursement to the county and city of Mahnomen by a combined $160,000.
- It is assumed that the permanent increase in aid to cities will reduce property tax levies by a portion of the increase. This will reduce property taxes on all property including homesteads.
- The reduced property tax burden will 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 9-10, 16)
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 new law increases the CPA appropriation by $80 million for aids payable starting in 2024 and thereafter. The appropriation increase is split with need aid increasing $35.4 million and tax base equalization aid increasing $44.6 million.

- Increasing the appropriation for CPA will increase state general fund costs by $80 million starting in calendar year 2024 and thereafter.

- It is assumed that the permanent increase in aid to counties will reduce property tax levies by a portion of the increase. This will reduce property taxes on all property including homesteads.
- The reduced property tax burden will 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 14)
The effective date is for aids payable in 2024 and thereafter.
Under current law, LGA is paid in two equal installments on July 20 and December 26.

The new law changes the payment dates of LGA in payable year 2025 only. Cities will receive three installments: (1) 9.402% on March 20, 2025, (2) 40.598% 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 9.402% of the 2025 LGA payments to March 20, 2025 will increase state general fund costs in fiscal year 2025 by $60.586 million and reduce state general fund costs by an equal amount in fiscal year 2026.

Payment in Lieu of Taxes Modified and Report Required (Sections 17-19, 29)
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 new law makes the following changes to the PILT program:
- Increases the payment per acre from $2 to $3 for commissioner and county administered PILT lands
- Creates a new payment based on the total amount of PILT land in the county. Counites where PILT land is 25% or more of the total land in the county will receive an additional 18 cents per acre for all PILT land in the county. Counties where PILT land is more than 10% but less than 25% of the total land in the county will receive an additional 8 cents per acre for all PILT land in the county.
- Changes the appraised value formula to be based on either the current assessed value of the land or the 2022 or subsequent appraised value of land, whichever is greater
- Adds an annual inflation adjustment to the per acre PILT payment rates

The new law also requires the Department of Revenue to produce a report on the valuation methods used to value state-owned lakeshore property.

- Increasing the per acre payment rates from $2 to $3 for commissioner and county administered PILT lands and creating new payments to counties with over 10% PILT land will increase costs to the state general fund beginning in FY 2025.
- Adjusting the per acre PILT payment rates for annual inflation will increase costs to the state general fund beginning in FY 2026.
- It is assumed that the increase in PILT will reduce property tax levies by a portion of the aid increase. Lower levies will reduce property taxes on all property.

- Lower property taxes will result in lower homeowner property tax refunds, reducing costs to the state general fund beginning in FY 2025.
- Lower property taxes will result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2025

Soil and Water Conservation District Aid (Section 20)
The effective date is beginning with aids payable 2023.
The new law creates an aid program for soil and water conservation districts. The aid program will have an appropriation of $15.0 million for calendar years 2023 and 2024, and $12.0 million in calendar year 2025 and thereafter. 80% of the appropriation will be split evenly between all soil and water conservation districts, 10% apportioned based on a soil and water conservation district's share of nonpublic lands, and the remaining 10% is 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 will therefore be included in aid payments.
- The new aid program will increase state general fund costs by $15.0 million in fiscal years 2024 and 2025 and $12.0 starting in fiscal year 2026 and thereafter.

Local Homeless Prevention Aid – Tribes Added (Section 22)
The effective date is beginning with aids payable 2023.
Under current law, starting in aids payable 2023, the Local Homeless Prevention aid program will begin paying counties $20.0 million annually until aids payable 2028.

The new law would shift $2.4 million of the current appropriation from counties to Tribal governments. 11 Tribal governments are eligible. All tribes that apply will receive an equal share of the $2.4 million aid appropriation.

- There will be no property tax interactions associated with aid going to Tribal governments as they do not levy property taxes.
- It is assumed that reducing aid to counties will increase property tax levies by a portion of the increase.
  - Higher levies will result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2025.
  - Higher levies will result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2025.
  - There will be no property tax interactions for the first year of increased aid payable in 2023 as local property tax levies have already been finalized.

Statewide Local Housing Aid (Section 24)
The effective date is beginning with aids payable 2023.
The new law creates a state housing aid and grant program. The state aid will be paid to cities not located in the metropolitan area (with populations of at least 10,000), counties, and seven Tribal governments. Counties, cities, and Tribal governments receiving money from the aid program will need to spend this funding on qualifying projects.

The grant program will be administered by the Minnesota Housing Finance Agency (MHFA). Cities not located in the metropolitan area and with populations under 10,000 will be eligible for grants of at least $25,000 to be spent on qualifying projects. Grants will be prioritized to local governments that have a higher proportion of cost-burdened households.

The total annual appropriation for aid and grants will be $10 million. The grant program will receive an annual appropriation equal to an amount that will set its account balance to $1.25 million, which will come out of the county's portion of the state aid program. The appropriation to counties will be $6.8 million minus the amount needed to set the grant program's account balance to $1.25 million. The city appropriation will be $2.0 million. The tribal government appropriation will be $1.2 million. In aids payable 2023 and 2024, there will be an addition aid appropriation of $12.5 million spilt between the four funds.

Each county will receive 0.6% of the total county appropriation plus their statewide share of cost-burdened households. Each eligible city will receive funding based on their statewide share of cost-burdened households. Eligible Tribal governments that apply for the aid will receive an equal share of the total tribe appropriation.

- The statewide housing aid payments to local and Tribal governments will first be made in calendar year 2023, increasing state general fund costs beginning in FY2024.
- It is assumed that local governments receiving an annual increase in aid will reduce property tax levies by a portion of the increase. Lower levies will reduce property taxes on all property.
  - Lower property taxes will result in lower homeowner property tax refunds, reducing costs to the state general fund.
  - Lower property taxes will result in lower income tax deductions, increasing revenues to the state general fund.
  - There will be no property tax interactions for the first year of increased aid payable in 2023 as local property tax levies have already been finalized.
  - There will be no property tax interactions associated with tribal aid as tribal governments do not levy property taxes.

Tribal Nation Aid (Section 25)
The effective date is beginning with aids payable 2024.
The new law creates an aid program for eleven federally recognized tribal nations located in Minnesota. The aid program will have a $35 million annual appropriation. Distributions to the tribes that apply to participate will be a 50% equal share and 50% proportionally based on a tribe's membership share.

- The new aid program will increase annual state general fund costs by $35 million for fiscal year 2025 and thereafter.
- There will be no property tax interactions as tribal governments do not levy property taxes.

Public Safety Aid (Section 27)
The effective date is for aids payable 2023.
The new law creates a one-time $300 million appropriation for public safety aid in payable year 2023. Townships with a population of at least 10,000 and all cities will receive 70% percent of the appropriation based on their population share. Counties and tribes will receive 30% of the appropriation based on two population share related formulas.

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

LGA Penalty Forgiveness – Echo (Section 28)
The effective date is the day following final enactment.
The new law allows 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 file its financial reports for 2020 before June 1, 2023.

The payments totaling $46,060 will 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 will receive a payment of $46,060 in FY 2023.

LGA Penalty Forgiveness – Morton (Section 28)
The effective date is the day following final enactment.
The new law allows 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 file its financial reports for 2020 before June 1, 2023.

The payments totaling $79,476 will 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 will receive a payment of $79,476 in FY 2023.

One-Time Increase in Renter Property Tax Refund and Homestead Credit Refund (Section 30)
The effective date is only for refunds based on rent paid in 2022 and property taxes payable in 2023.
The new law will provide a one-time 20.572% increase in property tax refunds to renters and homeowners. Renters will receive an increase of their property tax refund based on rent paid in 2022 and homeowners will receive an increase of their homestead credit refund based on property taxes payable in 2023. The proposed increases are separate from the initial refund calculations so filers will be eligible to receive a total combined refund in excess of the initial maximum refund limits.

- The one-time refund increases will increase state general fund costs by $185.7 million, with renters receiving a total increase of $48.3 million and homeowners receiving a total increase of $137.4 million.
- Approximately 312,000 renters will receive an average refund increase of $155, and 563,000 homeowners will receive an average refund increase of $244.
- Most of the increased refunds will be paid in the current filing year for fiscal year 2024. Because filers have until the following August 15th to submit a claim for a current year refund, a small portion of 2022 return year refunds will be a paid in the following fiscal year 2025.

One-Time Increase in Targeting Property Tax Refund (Section 31)
The effective date is for refunds based on property taxes payable in 2023 only.
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 new law provides a one-time increase in refunds for taxes payable 2023. The minimum annual change will decrease to 6 percent to qualify for the refund and the maximum refund will be $2,500 for refunds based on taxes payable in 2023 only.

- Under current law, it is estimated that 164,000 taxpayers will claim the additional property tax refund for payable year 2023 for a total of $17.7 million. Under the new law, these taxpayers will receive an average refund increase of $94.
- Decreasing the minimum year-to-year change will make more taxpayers eligible for the refund. Claims made by these newly eligible taxpayers are estimated to increase refunds paid by $7.9 million.
- Total refunds paid by the state are estimated to increase by $23.1 million in fiscal year 2024 and $0.2 million in fiscal year 2025.

Class 4d Transition Aid Established (Section 32)
The effective date is for aid payable in 2025 and 2026 only.
The new law creates 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 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 will reduce property tax levies by a portion of the increase, which will reduce property taxes on all property classes, including homesteads.

  - Lower levies will result in lower homeowner property tax refunds, reducing costs to the state general fund.
  - Lower levies will result in lower income tax deductions, increasing revenues to the state general fund.
- 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 1-13)
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 new law makes 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 will 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 new law makes permanent the 2015-2023 distribution rates to these funds. The iron range school consolidation and cooperatively operated school account will continue to receive a distribution of 10 cents per taxable ton of taconite production and the county road and bridge fund will continue to receive 10.525 cents per taxable ton of taconite production.

For the 2023 distribution only, the new law will 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 new law will 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 will instead go the iron range resources and rehabilitation account.

Beginning with distributions 2023 Iron Range Resources and Rehabilitation will issue revenue bonds up to $42.0 million with the proceeds used for making grants to school districts within the taconite assistance area. Grants need to be used on building projects.

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 will 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 will be a $1.5 million minimum payment based on nine months subject to the minimum payment. The $1.5 million will be collected on May 1, 2026 (FY2026) and distributed to local units and IRRR on December 15, 2026 (FY2027).
- The gross proceeds tax will 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 will produce an estimated $360 million in gross proceeds, which at a 0.4% tax rate will yield approximately $1.4 million in gross proceeds tax in FY 2027.
- The first full year of production will 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 will not impact the state general fund.

Taconite Production Tax Distribution

- The production tax distribution changes will have no effect on the state general fund; however, they will impact some local taconite distribution funds.
- Making permanent the 2015-2023 production tax distributions rates will 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 will 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 will 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 will instead go to the iron range resources and rehabilitation account. This amount is estimated to be $6.6 million annually.

Article 8: 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 new law will change the definition of a small city. A small city will 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 changes to the general TIF provisions will 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 new law increases the limitation on using increment on housing or redevelopment activities to 25 percent of total increments. The new law also increases the total amount of increment allowed to be spent on activities outside the district to 28 percent.

- The 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 new law further extends the five-year rule to 26 years for the district.

The new law also allows 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 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 new law extends 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 new law only allows increment to be used for this purpose through taxes payable 2023. For taxes payable 2024 and after, the district will be allowed to use increment to facilitate capital improvements within the city's RiverCentre complex.

- The 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 new law extends the five-year rule to 12 years for any TIF districts established under the 2014 Session Law. The new law also extends to nine years the rule on the geographic enlargement of a district.

- The 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 new law expands 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 new law also allows the duration of any district established under its authority to be extended by five years.

- The 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 new law extends the five-year rule for the district by an additional three years to November 28, 2026.

- The 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 new law authorizes 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 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 new law allows 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 new law provides special rules for the district, including removing requirements for establishing a redevelopment district and removing restrictions on how increment may be used.

- The 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 new law allows 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 will 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 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 new law authorizes the creation of one or more redevelopment tax increment financing (TIF) district within specified parcels in the city of Plymouth. The new law 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 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 new law allows 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 will be allowed to establish one or more soil deficiency districts within the defined project area, providing that the area meets the specified conditions. The new law provides special rules that will apply to these districts.

The new law also extends the five-year rule to ten years and the six-year rule to 11 years for any districts established under its authority.

- The 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 new law allows 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 new law provides 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 authority to approve a TIF plan to establish a TIF district under this authority expires December 31, 2030.

- The 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 new law allows 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 will be considered activities within the district. Additionally, the new law allows the city to extend the duration of the district by five years.

- The 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: 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 new law makes 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 new law is effective the day following final enactment. However, some changes only apply to districts whose request for certification was after certain dates.

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

<u>Article 12: Public Finance</u>

Miscellaneous Debt Financing Provisions Modified (Sections 1-14)
The effective date is July 1, 2023.
The new law makes several modifications to local debt government financing. It extends the allowable length of some certificates of indebtedness or capital notes used for financing by local governments from 10 years to 20 years, updates the definition of capital equipment with regards to capital notes used to purchase capital equipment for county purposes, clarifies special taxing district rules for some port authorities and economic development authorities, updates 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.

St. Paul Bonding Authority Extended and Increased (Section 15)
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 new law increases the bonding authority to $30 million for each year and extends 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 16)
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 new law allows 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 will 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 15: Miscellaneous

Property Tax Service of Petitions (Section 7)
The effective date is the day following final enactment.
The new law makes 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 will have no effect on the state general fund.

Delinquent Property Tax Interest Rate Adjusted (Sections 8-9)
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 new law, for both delinquent property taxes and the unpaid balance on any repurchase contract:
1) the 10% minimum interest rate is removed, and
2) counties have 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 is reduced.
- This will 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 new law will increase Department of Education payments to school districts by an unknown amount.

Tourism Improvement Districts Established (Sections 12-21)
The effective date is beginning the day following final enactment.
The new law allows municipalities to create tourism improvement districts. A district may only be created upon request by a majority of impacted business owners. Qualifying businesses need to be a lodging business.

Municipalities will be allowed to collect service charges from businesses within the tourism improvement districts. Funds must be used to promote or improve businesses within the districts.

- The service charges are assumed to have no impact on the state general fund. Tourism improvement districts will not have property tax levy authority.

Ramsey County Tax Judgment Sales (Section 25)
The effective date is following local approval, which must be completed by December 31, 2023.
Under current law, before a parcel of real property is forfeited to the state, there is a redemption period during which delinquent taxes, penalties, and interest may be paid, allowing a property owner to regain title to the parcel free and clear of the delinquent tax lien.
- In most cases, the redemption period is three years.
- However, the period of redemption for all lands located in a targeted community as defined in section 469.201, subdivision 10, except homesteaded lands as defined in section 273.13, subdivision 22, is one year.

Under the new law, the period of redemption is three years for all lands that are, or previously were, located in a targeted community in Ramsey County and are subject to possible forfeiture resulting from delinquent property taxes for taxes payable in 2023 or later.

- Under the new law, Ramsey County might collect more delinquent property taxes, penalties, and interest while potentially forgoing the proceeds from some sales of tax-forfeited property.
- The new law will not impact local government aids administered by the Department of Revenue.
- However, distributions of local revenue to school districts reduce state-paid general education aids, so the new law may impact Department of Education payments to Ramsey County school districts by an unknown amount.

Crane Lake Watershed District Debt Relief (Section 29)
The effective date is July 1, 2023.
The new law provides a one-time appropriation of $1,294,000 from the state general fund for a grant to the Crane Lake Water and Sanitary District. The funds must be used to retire debt.

- The one-time appropriation will result in a cost to the state general fund of $1,294,000 in fiscal year 2024.

Minneapolis Grants (Section 30)
The effective date is the day following final enactment.
The new law provides a one-time appropriation of $10 million from the state general fund for a grant to the city of Minneapolis. $8 million must be spent on businesses located on Lake Street and $2 million must be spent on two property acquisitions.

- The one-time appropriation will result in a cost to the state general fund of $10 million in fiscal year 2024.

City of Northfield Grant (Section 31)
The effective date is the day following final enactment.
The new law provides a one-time appropriation of $300,000 from the state general fund for a grant to the city of Northfield. The funds must be used for infrastructure related to a cooperatively owned manufactured home park.

- The one-time appropriation will result in a cost to the state general fund of $300,000 in fiscal year 2024.

City of Spring Grove Fire Remediation Grant (Section 32)
The effective date is July 1, 2023.
The new law provides 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 will result in a cost to the state general fund of $250,000 in fiscal year 2024.

City of Windom Appropriations (Sections 33-34)
The effective date is the day following final enactment.
The new law provides a one-time appropriation of $14 million from the state general fund for grants to the city and school district of Windom. The funds must be used for the following projects:

- $10 million for the Windom HyLife Affordable Housing Development
- $2 million for wastewater improvements
- $1 million for recruitment efforts to find a purchaser of the HyLife Foods Windom processing plant
- $1 million for the Windom school district

- The one-time appropriation will result in a cost to the state general fund of $14 million in fiscal year 2024.

Article 17: 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 new laws 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.

- These changes do not impact the state general fund.

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