Gross Operating Revenues Tax Idea – Summary of November 2024 Feedback Sessions

The Minnesota Department of Revenue held feedback sessions in November 2024 to hear from stakeholders and respond to questions about the Idea for a Gross Operating Revenues Tax. Sessions occurred after the first round of engagement about this idea.

In this document, we:

- Provide a high-level summary of November feedback sessions.
- Answer questions we received as part of the registration for November feedback sessions.

The first round of engagement included:

- A summary of the idea, distributed February 2024
- Written feedback from stakeholders
- Several meetings, one-on-one or with organizations
- Meetings open to all interested, held May and June 2024
- Summary Information, analyzing the Idea using hypothetical rates and comparing to the property tax system, published August 1, 2024
- An overview of the current system, published August 23, 2024
- Consolidated responses to written feedback, published August 23, 2024
- We focused on summarizing and responding to feedback we received on or before June 4, 2024, in the summary published August 23, 2024.
- Summary of discussions during the May and June 2024 meetings, published August 23, 2024
- Questions generated from feedback, published August 23, 2024

The second round of engagement has included:

- Additional feedback from stakeholders
- Feedback sessions held November 2024
- Summary Information Lookback, analyzing the Idea using hypothetical rates, compared to the property tax system for the 2019 through 2024 assessment years, published November 21, 2024
- This document, summarizing the discussions during the November 2024 meetings
- Our second consolidated response to written feedback received after June 4, 2024, and before December 10, 2024.

Overview of November 2024 Feedback Sessions

Sessions began with an opening from Department of Revenue Commissioner Paul Marquart. Then the department's panelists answered questions, prioritizing those submitted ahead of time. Next, there was an opportunity for those attending to provide open comment. In closing, we heard from Property Tax Division Director Jon Klockziem.

We designed sessions to be repetitive and offer a chance for attendees to fit at least one session into their schedules. By its nature, each session provided different insights given the differing attendees and the questions or feedback they provided.

Attendees

The Commissioner of Revenue, Paul Marquart, attended three of the four meetings in person. For the other meeting, we shared a recorded message from the commissioner with attendees.

The Property Tax Division Director, Assistant Director, Department's Public Engagement Director, Commissioner's Office Policy Staff, and State Assessed Property Section Supervisor attended every meeting.

People from a wide variety of organizations attended the public meetings. Some of the organizations included companies that are currently assessed by the department, local jurisdictions, and attorneys.

Public Meeting	Location	Approximate Attendees
11/13/2024	Virtual	100
11/14/2024	Hybrid / Mankato, MN	25
11/18/2024	Hybrid / Park Rapids, MN	40
11/19/2024	Virtual	55

The number of attendees is approximate. Some people attended more than one meeting.

Meeting Summary

This section summarizes participant discussion and comments.

Further Information Needed

Many stakeholders noted the information provided by Revenue does not address potential negative impacts to local jurisdiction and does not provide any certainty about potential significant tax burden shifts that may occur. Stakeholders identified these areas as needing more analysis:

- Tax burden shifts and potential financial impacts to local communities.
- Forward-looking analysis and forecast changes due to Minnesota's carbon free by 2040 law.

The department clarified that the summary information of the estimated financial impact of the idea by county and by city/township is for all taxing jurisdictions. The county estimate includes all taxing jurisdictions within the county, same with the city/township estimate.

Some stakeholders, currently involved in litigation with the department, do not want us to analyze a new idea based on the current level of taxes when they disagree with the current level of taxes.

> Revenue is not able to forecast the financial impacts of this idea or of the current system.

Some stakeholders are concerned about the variability in revenue and if the idea would be more predictable and stable.

Transition Aid to Local Jurisdictions

The aid outlined in the idea document does not consider the combined effects of other aid reductions, overall tax revenue reductions, and future sustainability of jurisdictions.

Local jurisdictions expressed concern on how they would continue to budget and provide services once transition aid expires.

Revenue noted the idea for transition aid is based on aid the legislature passed for when a qualifying electric generation facility retires. This included a phase out. Also, the legislature passed a transition aid when Rule 8100 was updated in 2007, which did not phase or end.

Stakeholders suggest a transition aid more comparable to when Rule 8100 was updated that does not phase out or end.

Levies and School Referendums

The idea would remove utility, pipeline, and railroad operating property from properties that pay their share of the levy, and the tax generated from the idea would be outside of the levy. Therefore, local jurisdictions are expected to reduce their levy by the amount of tax generated from the idea to limit shifts among taxpayers.

There is a general concern from many stakeholders that a large portion of a jurisdiction's levy is paid by utility, pipeline, and railroad companies. Shifting away from a levy-based system to an alternative taxing mechanism creates uncertainty for those jurisdictions.

Currently, these properties pay their share of a levy. Stakeholders are concerned that moving to an alternative taxing mechanism would treat them differently than other commercial industrial properties taxed at the local level.

Referendum levies for local government units and for school districts are levied against **referendum market value** of all property within the governmental subdivision. This does not apply to tax levies for the payment of debt obligations approved by voters after June 30, 2008.

Referendum market value means the market value of all taxable property, including the portion of Class 2a agricultural property consisting of the house, garage, and surrounding on acre of land. Property classified as Class 2, Class 4c(4), and Class 4c(12) are not included in referendum market value.

One county followed up the discussion with some additional details after the meeting. The county explained their school debt is $155 million, which is only the portion applicable to the county. They also explained in addition to referendum levies, there are operational levies of the school districts which can be over $1,200 per student.

The discussion, initiated from a company, focused on the implications of this idea for exempting utility, pipeline, and railroad operating property from contributing to referendum levies. Several companies expressed wanting to pay their fair share of the tax burden in the jurisdictions where their operating property is located. Several companies also expressed concern that they currently pay more than their fair share.

Income Taxes

Some stakeholders disagree with replacing property tax with a revenue tax, especially considering business income is already taxed.

The department views this Idea as creating a tax in lieu of property taxes, rather than a second income tax. Specifically, because the revenue generated from the tax under this idea would be distributed to the local taxing jurisdictions.

Valuation vs Revenue-Based Tax

Some stakeholders only find a revenue-based calculation, such as an income approach used to estimate value, appropriate when determining value and not appropriate for determining an alternate tax. The stakeholders find an income approach more reflective of market value for income-producing properties. Other stakeholders stated that original cost is very stable and is a reasonable way to estimate market value.

Another stakeholder stated its revenues are forecasted to increase at a faster rate than invested plant, which it believes would cause overall taxes paid to increase at a faster rate with a change to taxing revenue versus staying with the current methodology.

When estimating market value for utility, pipeline, and railroad operating property, unitary valuation is well known nation-wide and often includes a cost and income approach to estimate the value.

Tax Rate Predictability

Many stakeholders are concerned the rate is unknown and would be a policy decision for legislators to make. Several stakeholders do not want to move forward until the rate is known.

There are also concerns that accountability on the tax assessor will decrease at the expense of the taxpayer.

Some local jurisdictions are specifically concerned that they already have to fight for everything they get in county program aid and other aid or funds at the legislature, causing them to worry about the stability of the rate if legislators can change the rates as they see fit.

Other Ideas

The department has published and analyzed an idea we believe increases stability and predictability, but we are open to other ideas from stakeholders.

Many suggested improving the current system. Others stated they no longer have an issue with the current system, but that the biggest issue is litigation and the timeline.

> Revenue's response: As stated in [the document debuting our Idea](), one analysis indicated 12 companies would see a tax increase between 5.3% and 9.4% and 50 companies would see a tax decrease greater than 10%. Yet, the overall tax paid by these companies was only reduced **2.18%.**
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> Even if we estimated zero change in tax for a company, there was still a change in tax at the local level. This is because we currently spread market value to where operating property is located, and then the local tax rates are applied. With this idea, we calculate the tax and then spread it out to the local jurisdictions where the property is located, there is no jurisdiction-specific rate applied.
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> There are over 2,500 cities and townships and around 120 companies in the analysis.

Decreases in Tax Liability for Companies

Some stakeholders are concerned about the number of companies estimated to see a decrease in their tax liabilities compared to the number of cities and townships expected to see a decrease.

Other States

Several stakeholders suggested or asked if the department reviewed the processes and systems used in other states. One stakeholder stated that North Dakota has a simple process.

> You can read more about valuation framework used by other states in the [State Assessed Property Section Review]().

Administrative Appeals

The administrative appeals process was updated starting with the 2018 assessment year. The updates allowed the department to enter into binding settlements when in the best interest of the state. This update has seemed to reduce litigation.

Deadlines

The timeline and deadlines in the current system do not work for many stakeholders. However, the updates we provide in the Virtual Room to local jurisdictions, help communicate values as soon as possible.

In Closing

Commissioner Marquart closed three of the four meetings and Property Tax Division Director, Jon Klockziem, closed the other meeting.

The Department believes Minnesota taxpayers have the most to lose. We want to see if we can find a process with more transparency and predictability to reduce the costs to Minnesota taxpayers. There is ambiguity and costs related to the discretionary factors in the current system.

Responses to Questions

During registration for the November meetings, several attendees submitted questions for the panel. Attendees also asked questions during the meetings. We address many of these questions during the meetings and restated them here.

1. **What was done to study increasing stability, predictability, and transparency in the current process before focusing on an entirely new concept?**
   Question from: Finance Director, City of Monticello

Revenue's response: Our valuations of utility and pipeline operating property follow Minnesota Rules, chapter 8100, and our valuations of railroad operating property follow Minnesota Rules, chapter 8106. The valuations under these frameworks are predictable, but there are still many inputs and variables in the valuation process.

We reviewed the current system as part of the mandated review of the framework used to value utility, and pipeline operating property and the methodology in Minnesota Rules, chapter 8100. Stakeholders identified issues they had with the current system, including timing of reporting, issuing valuations, and administrative appeals. Without major structural change to the Rule, only small changes can be made.

The administrative appeals process was updated beginning with the 2018 assessment year, which allowed the department to enter into binding settlements, when in the best interest of the state. Tax Court petitions have declined since the new process began.

2. **What are your plans to improve the current system moving forward should this Gross Operating idea fail to materialize?**
   Question from: County Assessor, Carlton County

   What options to adjust the current system were considered before studying a different tax based on an entirely different system?
   Question from: Finance Director, City of Monticello

Revenue's response: Some pain points identified by stakeholders, including timing of appeals and valuations, require legislative changes. However, other stakeholders can contribute to improvements.

The department issued two reports regarding the valuation framework for utility and pipeline operating property.

We will:

- Continue to communicate with county employees through the Virtual Room to provide more timely updates than are available through corrected, certified values.
- Work toward completing valuations and administrative appeals as quickly and accurately as we can.
- Reach administrative appeal settlements when it is in the best interest of the state and defend the valuations as best we can.

Companies report property records to the department, and we issue values using those property records to the counties. Counties then submit the value information through PRISM submissions. These records do not always match. We will continue to educate on the importance of these records matching and resolving differences between the records.

We would like to hear from others about what they think can change in the current system to allow for more stability and predictability while maintaining fairness.

3. **Will there be any changes to the appeals process considered? It is essential that if it is altered that appeals are handled and dealt with during the current tax year and not allowed to build up into multi-year appeals. Small rural districts do not have the tax base diversity to handle a high level of reapportionment in event of appeals court redistribution.**
   Question from: Superintendent/Elementary Principal, Marshall County Central Schools

Revenue's response: Under the Gross Operating Revenues Tax Idea, there are far less variables and the variables are objective, lending itself to much less disagreement and litigation.

With the current system, there are limitations to what we can do to move the process forward, but we are trying not to let litigation sit as long as it had in the past. The active litigation as of November 2024 only included the 2023 and 2024 assessment years. In the past, litigation was stayed pending the outcome of other company's litigation or every time the department issued a new valuation, that was added to existing litigation and the cases were stayed again to get the new year consolidated. I think we've all worked toward not allowing huge delays after learning from that process.

4. **Please address stability. Small rural counties, townships, and school districts depend on stability and because utilities, pipelines, and railroads make up significant portions of tax base it needs to be stable without a high degree of fluctuation.**
   Question from: Superintendent/Elementary Principal, Marshall County Central Schools

Revenue's response: Our summary information lookback document analyzes the 2019 through 2024 assessment years – it shows least variability in property taxes. I think that is because of the different levers you can pull to adjust the overall tax. The estimated market values are more variable, and this is because of the complexities in the current system.

There's a trade-off to consider between simplicity and stability. We hear the current system has flaws, and one of those is how complicated it is and how hard it is for many to understand. Can we shift to something else that is easier to understand and calculate and is more objective while maintaining stability? I think the data shows we can. But no system is perfect and there are pros and cons to each.

5. **Transition aid will not suffice, so please provide guidance for how you plan to make the counties whole moving into the future that are deemed to be losers under this proposal?**
   Question from: County Assessor, Carlton County

Revenue's response: The meaning of "whole" can mean something different to everyone, and we need to understand more context to the question. We want the transition of moving from one system to another to be as painless as possible, but we also recognize funding streams will change. The transition aid is a bridge to get from one taxing mechanism to the other, it is not a source to maintain a current level of revenue indefinitely.

We would ask for the thoughts of stakeholders on how to make a transition to a new taxing mechanism easier. We would look to the legislature to make these policy decisions.

6. **There is a part of the "idea" where the "aid" goes away if the NTC [Net Tax Capacity] of the county goes up 10%. In AG [agricultural] counties, rollercoaster AG values make a 10% increase normal.**

   Question from: County Auditor/Treasurer, Traverse County

Revenue's response: We molded the transition aid identified in the document outlining the idea after the existing Electric Generation Transition Aid, which also has an aid elimination provision. This information about net tax capacity and the fluctuation in certain jurisdictions is helpful to understand.

This is a great example of specific conversations stakeholders can have with lawmakers. Any changes will impact stakeholders differently and explaining to lawmakers the potential impacts and outcomes will be very helpful. Lawmakers will be making decisions on the qualifications of who would qualify for this aid and the parameters of the aid.

7. **There appears to be a double taxation of cooperative revenues. Roughly 60%-70% of distribution cooperatives' revenues get passed on to their G&T [generation and transmission cooperative] and is included in the G&T revenues. Is there any plan to eliminate this double-taxation of revenues?**

   Question from: Controller, Great River Energy

   Under the gross operating revenue model proposal, how can we avoid double taxation of revenues for cooperatives? The members in our cooperative will be taxed on their revenue which then flows up to our revenue which then would be subject to tax again.

   Question from: Manager, Accounting and Financial Reporting, Great River Energy

Revenue's response: We would like to understand more about the relationship between the distribution and transmission cooperatives and how revenues are accounted for on the cooperatives' books.

We've heard something similar from regulated utilities, that their revenue is generated based on their need. Essentially, they work backwards from expenses and allowed return to estimate revenues. If expenses increase, revenues increase and could create a circular issue if one of the expenses is based on revenue.

Would it be best to take out certain line items from gross operating revenues? How are those items defined? We do not want to get into a situation where we are making the process more complicated and subjective if we are not clearly defining the items.

It's also important to consider that we do not know the rate. At this point, the department analyzed rates to keep the current level of taxes (at the aggregate level) and there is not double taxation in the current system.

8. **Why are you using gross revenues for utilities when the cost of gas changes each month and can significantly impact the gross revenues? Not all utilities pay the same price for gas, depending on contracts, so their gross revenue per term sold could be higher than their**

counterparts to make up for the higher cost of gas; however, that does not impact the utility's bottom line, so they would be taxed on a higher base than other utilities.

Question from: Corporate Controller, Greater Minnesota Gas

Revenue's response: There will be an amount of variability with the tax amount as it applies to all companies under this idea. That is why we developed an analysis to allow stakeholders to analyze differences based on:

- Three-year weighted average of gross operating revenues
- One-year gross operating revenues
- Three-year weighted average net operating income
- One-year net operating income

The tax is only higher per company when you compare different elements that do not make up the tax. If we want to build a relationship to gross operating revenues and net operating income, that is another model to consider.

This is like the pass-through revenue item question. It's important to consider we do not know the rate applied to the revenues at this point, and we've analyzed the current level of taxes to estimate what rates may keep the same level of taxes.

9. **How would the removal of the utility companies (from state assessments to the proposed gross operating revenue tax) effect the fiscal disparities program in the Arrowhead Region?**

   Question from: County Assessor, Cook County

Revenue's response: The fiscal disparities program is a tax-base sharing feature of the property tax system. There is a program for the seven-county metro area and a program for the taconite area. Jurisdictions contribute a portion of their net tax capacity to an abstract area-wide tax base. This portion of the net tax capacity is based on the aggregate growth in the commercial/industrial tax base to the jurisdiction since the base year. The contribution is subtracted from the total net tax capacity of the jurisdiction when determining taxable net tax capacity.

There is a lag from when the fiscal disparities tax is calculated to when the commercial/industrial properties within the area pay it. If this idea were implemented, it would affect the commercial/industrial properties paying the fiscal disparities tax that was calculated the year prior, which could cause some significant swings in the remaining properties to pay the tax.
If this idea were to move forward, there would be shifts in the jurisdictions who are net beneficiaries and net payers for this program. One option to reduce the swings where is to adjust the base years for utility, pipeline, and railroad operating property.

We want stakeholders to give their opinion on how best to minimize shifts. The counties administer the Fiscal Disparities Program, and we would look to them for ideas to reduce impacts.

We also want to know if stakeholders think it would be beneficial to implement a fiscal disparities program under the idea, such as creating a tax sharing feature under the idea.

10. **Inflation is naturally reflected in the revenues, so including the CPI [Consumer Price Index] in the tax rate would have a duplicitous effect. Is Revenue willing to use a flat tax rate rather than one that increases with inflation?**

Question from: Controller, Great River Energy

Revenue's response: Legislature would be deciding the rate, but the department would not recommend an inflation adjustment after reviewing the feedback.

When considering the solar and wind energy production taxes, these taxes are based on the energy a system produces times a rate. There is not natural adjustment to keep up with inflation (or deflation). With this idea, however, revenues may increase as inflation increases and decreasing with deflation.

11. **Is there a flexibility by Revenue to keep the March 31 filing date rather than moving to the proposed March 1 date?**
    Question from: Controller, Great River Energy

    Why the change from the current March 31 deadline to March 1 in the proposal? With year end close and prepping for an annual audit taking place right after, it is hard enough to get reporting completed by March 31. If we must file by March 1, our audit is not complete and could result in amended filings.
    Question from: Manager, Accounting and Financial Reporting, Great River Energy

Revenue's response: The dates are not set and there is room to recommend dates that work best for most. We need to hear from stakeholders on what dates work best.

12. **I feel keeping some value to the structures and part of the revenue provides a more stable tax base. If the tax goes to a straight Gross Revenue formula and those structures are not used how will the taxes on this be collected?**
    Question from: Commissioner, Kittson County

Revenue's response: The idea would be to have a portion of the tax allocated or assigned to structures that are still in place and is used in the operations. If the structure is removed, it would no longer receive a portion of the tax. If it is real property and not part of the operations, it would be locally assessed as other real property in the jurisdiction.

This question may be asking what it would look like to calculate an objective tax based in part on revenues and in part on the cost of the structures. Under the current system, we use a cost approach, which looks at the depreciated original cost of the assets and an income approach, which looks at the earning ability of the assets. The idea would be taking revenues generated times a rate to calculate a tax. The stakeholder could be suggesting finding an object calculation using structures, such as mile of railroad track, miles of transmission for pipeline or electric line, or number of meters.

13. **With wind turbines and solar farms being constructed at millions of dollars for each site, how do we tax these so-called green energy structures?**
    Question from: Commissioner, Kittson County

Revenue's response: Under Minnesota Statute, the personal property of solar energy generating systems and the real and personal property of wind energy conversion systems are exempt from property tax. The exemption does not apply to the land on which they are located. If those systems meet certain requirements, they are subject to a production tax. For wind, the production tax is a tiered rate based on the size of the system. For solar, it is one flat rate. The tax is distributed as 80% to the county and 20% to the city or township where the systems are located.

14. **The Department should explain in more detail how it determined the proposed rates and should explain why it believes those rates are fair.**
    Question from: Tax Manager, Northern Natural Gas

Revenue's response: We estimated the property taxes assessed on utility, pipeline, and railroad operating property payable in 2024, using the 2023 assessed values. To do that, we took the assessed values times the utility or railroad effective tax rate by city/township. If the utility or railroad effective tax rate by city/township was not available, we used a county average. For each company, we then compared the taxes under the gross operating revenues tax idea, identifying hypothetical rates that would minimize the aggregate difference between the idea and property tax estimate. The addendum in the summary information dated August 1, 2024, details the calculations and the assumptions.

To estimate the taxes under the idea, the department took each company's gross operating revenues from the 2022 calendar year, times the allocation factor from the company's 2023 assessment, times the hypothetical rate, and then spread that out across the company's operating property in Minnesota.

The department is not making a statement regarding fairness, which is very subjective. We analyzed rates to remain revenue neutral at the statewide level.

15. **Does Revenue have intentions in the near term of proposing legislation in this area?**
    Question from: Public Records & Property Valuation Director, St. Louis County

Revenue's response: We do not have intentions of proposing legislation at this time.

16. **Beyond what has been already communicated, has Revenue considered opportunities to soften any larger increases or decreases in valuation resulting in potentially large tax burden shift? In reviewing the drat impact information provided, there are some potentially large winners and large losers. Considering that the State of Minnesota's overarching mission is to "improve the lives of all Minnesotans by working collaboratively to implement policies that achieve results" with a priority of community partnering to "achieve common goals", has there been any consideration given to using a fiscal disparities type tool to even out any large fluctuations? St. Louis County is not making that recommendation; however, it seems like a tool that we may wish to explore during this process, especially if the valuation methodology is to change.**
    Question from: Public Records & Property Valuation Director, St. Louis County

Revenue's response: We would like to hear from stakeholders on what a fiscal disparities type program could look like if we would transition to this idea. Those administering the fiscal disparities program may have ideas to simplify the calculations or process or to replicate the tax sharing feature under a new taxing mechanism.

17. **How does the gross operating revenues tax look going forward, given solar and wind are exempt?**
    Question from: Commissioner, Wright County

Revenue’s response: We are not able to forecast going forward. However, we note utilities have stated they are not able to identify the portion of their revenues generated from solar or wind systems subject to the energy production tax. Therefore, the department proposes calculating the gross operating revenues tax and then reducing it by the amount of solar or wind energy production tax, rather than reducing revenues.

18. **Energy produced outside the grid, for example, if Xcel buys energy outstate, how does that get counted for?**
    Question from: Commissioner, Wright County

Revenue’s response: Under the current system, we calculate the valuation of a company’s operating property, working together as an integrated whole. This includes property outside of Minnesota. After determining the unit value, the next step is to allocate a portion of the value to Minnesota. Under the idea, we propose taking the gross operating revenues of the system (of those revenues generated in more than just Minnesota) and allocating revenues to Minnesota in a similar manner to the current allocation of unit value.

19. **What happens to taxes paid under new idea if utility shuts down for repairs over several years? What type of short-term impact may that have on local taxes paid?**
    Question from: County Administrator, Stevens County

Revenue’s response: Under this idea, a company reports its revenues and allocation statistics. The tax is calculated as system-wide revenues times an allocation factor times a rate. The tax is then spread out to jurisdictions where the operating property is located, based on original cost of the operating property in the jurisdiction. If one facility is down for repairs or shuts down for temporarily for other reasons, the facility will still receive a portion of the tax.

20. **What is the proposal for taxing dry cask storage?**
    Question from: Commissioner, Goodhue County

Revenue’s response: This proposal does not impact dry cask spent fuel storage. In the current system, to the extent the spent fuel increases the company’s net operating income and net book value of its operating assets, the company’s estimated market value would increase, all else held equal. If the original cost of operating property increases at a facility, the facility receives a larger portion of the company’s estimated market value of its taxable operating property, all else held equal.

The U.S. Department of Energy and the Minnesota Public Utilities Commission would be the primary regulators for stored nuclear waste.

Next Steps

As mentioned at the listening sessions, we will take time to reflect and decide in summer of 2025 on any potential future public engagement opportunities around the idea.

You can continue to send feedback to State Assessed Property and we will periodically provide consolidated responses.

Likewise, we encourage you to explore and propose any ideas you have for improvements to the current system or for a new system that achieve the goals of predictability, stability and transparency.