

PROPERTY TAX
Senate Omnibus Tax Bill
Articles 2, 4, 6-7, 9-10, 13

May 14, 2025

**Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of S.F. 2374 (Rest) 1st Engrossment

	Fund Impact				
	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u>	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
	(000's)				
<u>Article 2: Property Taxes</u>					
Airport Property Exemption		\$0	(\$30)	(\$30)	(\$30)
Leased Conservation Land Exemption		\$0	(negligible)	(negligible)	(negligible)
Cooperative Distribution Systems Exemption		\$0	(\$40)	(\$40)	(\$40)
Leech Lake Band Exemption		\$0	\$0	(\$10)	(\$10)
Electric Generation Facility Exemption		\$0	\$0	\$0	\$0
Mille Lacs Band Exemption		\$0	\$0	(negligible)	(negligible)
Grand Portage Band Exemption					
School Bond Credit Interaction		\$0	\$0	negligible	negligible
Property Tax Refund Interaction		\$0	\$0	(negligible)	(negligible)
Valuation Reduction for Conservation Easements		\$0	\$0	(unknown)	(unknown)
Ag Homestead Shareholder Limit Increased					
Property Tax Refund Interaction		\$0	(unknown)	(unknown)	(unknown)
Ag Market Value Credit Interaction		\$0	(unknown)	(unknown)	(unknown)
Estate Tax Interaction		\$0	(unknown)	(unknown)	(unknown)
Ag Homestead Qualifying Relatives Expanded					
Property Tax Refund Interaction		\$0	\$0	(unknown)	(unknown)
Ag Market Value Credit Interaction		\$0	\$0	(unknown)	(unknown)
Estate Tax Interaction		\$0	\$0	(unknown)	(unknown)
Special Ag Homestead Location Requirements Modified					
Property Tax Refund Interaction		\$0	\$0	(unknown)	(unknown)
Ag Market Value Credit Interaction		\$0	\$0	(unknown)	(unknown)
Estate Tax Interaction		\$0	\$0	(unknown)	(unknown)
Class 4d Eligibility Clarified		\$0	\$0	\$0	\$0
Homestead Resort Tier Limits Modified		\$0	\$0	(\$40)	(\$40)

Class 2c Eligibility Modified	\$0	\$0	(unknown)	(unknown)
Ag Classification for Market Farming & Floriculture				
Property Tax Refund Interaction	\$0	\$0	(negligible)	(negligible)
Ag Market Value Credit Interaction	\$0	\$0	(negligible)	(negligible)
School Bond Credit Interaction	\$0	\$0	(negligible)	(negligible)
Exclusion for Veterans with a Disability Modified				
PTR Interaction - Veterans Homesteads	\$0	\$1,000	\$1,050	\$1,100
PTR Interaction - Other Homesteads	\$0	(\$400)	(\$410)	(\$430)
Agricultural Water Quality Credit Created				
Income Tax Interaction	\$0	\$40	\$40	\$40
Purely Public Charity Housing Exemption				
Property Tax Refund Interaction	\$0	(\$10)	(\$60)	(\$60)
Income Tax Interaction	\$0	\$30	\$1,160	\$1,210
Interest Rate Modified for Confessions of Judgment	\$0	\$0	\$0	\$0
Expenditure Limit Increased for Musical Entertainment	\$0	\$0	\$0	\$0
Border City Zone Modifications	\$0	\$0	\$0	\$0
Land Bank Property Tax Abatement	\$0	(\$10)	(\$10)	(\$20)
Bloomington Port Authority Exemption	\$0	(\$20)	(\$20)	(\$20)
Fiscal Disparities Tax Statement Modified	\$0	\$0	\$0	\$0
<u>Article 4: Property Tax Aids</u>				
School Seasonal Tax Base Aid Created	\$0	(\$3,422)	(\$3,813)	(\$3,839)
Property Tax Refund Interaction	\$0	\$310	\$310	\$310
Income Tax Interaction	\$0	\$60	\$60	\$60
LGA Sparsity Adjustment	\$0	\$0	\$0	\$0
Township Aid Formula Modified	\$0	\$0	\$0	\$0
LGA Appropriation Reduced	\$0	\$20,000	\$20,000	\$20,000
Property Tax Refund Interaction	\$0	(\$590)	(\$590)	(\$590)
Income Tax Interaction	\$0	(\$190)	(\$190)	(\$190)
CPA Appropriation Reduced	\$0	\$20,000	\$20,000	\$20,000
Property Tax Refund Interaction	\$0	(\$590)	(\$590)	(\$590)
Income Tax Interaction	\$0	(\$190)	(\$190)	(\$190)

SWCD Aid Increased		(\$2,430)	(\$2,430)	(\$2,787)	(\$2,787)
Fire Protection & EME Aid Modified		\$0	(\$1,555)	(\$1,555)	(\$1,555)
Property Tax Refund Interaction		\$0	\$25	\$25	\$25
Income Tax Interaction		\$0	\$10	\$10	\$10
Public Safety Aid Reporting Requirements		\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Stewart	(\$88)	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Alpha	(\$18)	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Odin		\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Trosky		\$0	\$0	\$0	\$0
Local Homeless Prevention Aid Expiration Repealed		\$0	\$0	\$0	\$0

Article 6: Tax Increment Financing

TIF Temporary Authority Clarified		\$0	\$0	\$0	\$0
Ramsey TIF		\$0	\$0	\$0	\$0
Maplewood TIF		\$0	\$0	\$0	\$0
Maple Grove TIF		\$0	\$0	\$0	\$0
St. Paul TIF		\$0	\$0	\$0	\$0
Bloomington TIF		\$0	\$0	\$0	\$0
Brooklyn Center TIF		\$0	\$0	\$0	\$0
Brooklyn Park TIF		\$0	\$0	\$0	\$0
Eden Prairie TIF		\$0	\$0	\$0	\$0
Edina TIF		\$0	\$0	\$0	\$0
Marshall TIF		\$0	\$0	\$0	\$0
Minnetonka TIF		\$0	\$0	\$0	\$0
Moorhead TIF		\$0	\$0	\$0	\$0
Oakdale TIF		\$0	\$0	\$0	\$0

Plymouth TIF	\$0	\$0	\$0	\$0
St. Cloud TIF	\$0	\$0	\$0	\$0

Article 7: Public Finance

Local Government Debt Financing Modified	\$0	\$0	\$0	\$0
--	-----	-----	-----	-----

Article 9: Taxation of Gas Production

Taxation of Gas Production Established	\$0	\$0	Unknown	Unknown
--	-----	-----	---------	---------

Article 10: Miscellaneous

SFIA Payment Reduction	\$0	\$1,750	\$1,840	\$1,930
Local Government Cannabis Aid Repeal				
Cannabis Gross Receipts Revenues	\$8,900	\$14,800	\$18,700	\$22,200
Carryforward Cancel to General Fund	\$5,042	\$0	\$0	\$0
Cancellation of Laws 2023 Minneapolis Grants	\$10,000	\$0	\$0	\$0
South St. Paul Grant	(\$250)	\$0	\$0	\$0

Article 13: Department of Revenue: Miscellaneous

Add 4d(2) to 1b Remaining Value	\$0	\$0	\$0	\$0
General Fund Total	\$9,644	\$11,512	\$48,548	\$52,860
			\$56,494	

Various Effective Dates

Non-General Fund Impacts

Special Revenue Fund

Local Government Cannabis Aid Repeal	\$0	\$12,500	\$13,800	\$18,000
Cannabis Gross Receipts Tax Revenues	(\$8,900)	(\$14,800)	(\$18,700)	(\$22,200)
Carryforward Cancel to General Fund	(\$5,042)	\$0	\$0	\$0
Special Revenue Fund Total	(\$13,942)	(\$2,300)	(\$4,900)	(\$4,200)

Clean Water Fund

Agricultural Water Quality Credit Created	\$0	(\$1,080)	(\$1,160)	(\$1,220)
---	-----	-----------	-----------	-----------

Helium Property Tax Relief Account

Taxation of Gas Production Established	\$0	\$0	Unknown	Unknown
--	-----	-----	---------	---------

REVENUE ANALYSIS DETAIL

Article 2: Property Taxes

Airport Property Exemption (Section 1)

The effective date is beginning with taxes payable in 2026.

Under current law, if airport property owned by a unit of local government is leased to or used by any person or entity in connection with a business conducted for profit, then the property is taxed as if the lessee or user was the owner of the property. However, the property is exempt from property taxes if:

- 1) it is not owned or operated by the Metropolitan Airports Commission, nor by a city of over 50,000 in population or such a city's airport authority; and
- 2) it is used as a hangar for the storage or repair of aircraft; or used to provide aviation goods, services, or facilities to the airport or general public; or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area.

Under the proposal, the same conditions for exemption would also apply to an airport hangar used for the manufacture of aircraft.

In addition, the proposal would reduce by 50% the net tax capacity of airport property leased to or used by any person or entity if the property is:

- 1) owned or operated by a city of over 50,000 but under 150,000 in population or such a city's airport authority;
- 2) not owned or operated by the Metropolitan Airports Commission; and
- 3) used as a hangar for the storage, repair, or manufacture of aircraft; or used to provide aviation goods, services, or facilities to the airport or general public; or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area.

The 50% reduction in net tax capacity would be applied to taxes payable in 2026 through 2037.

- The proposal would reduce the net tax capacity of the Cirrus manufacturing hangar located at the Duluth International Airport as well as other airport property in the cities of Duluth, Rochester, and St. Cloud.
- This would reduce the commercial-industrial state general tax on eligible properties. However, the reduction in state general tax would have no impact on state revenues in payable years 2026 through 2037, because the tax rate would be adjusted to yield the amount of revenue required by statute.
- Beginning with taxes payable in 2026, an estimated \$460,000 in local property taxes would shift onto other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$30,000 in fiscal year 2027.
- Over the twelve-year period from taxes payable in 2026 through 2037, the total reduction in local property taxes on the eligible properties is estimated to be approximately \$6.6 million.
- Three percent annual growth is assumed.

Leased Conservation Land Exemption (Section 1)

The effective date is taxes payable in 2026.

Under current law, when property that is exempt from property taxes is leased, loaned, or otherwise made available and used by a private individual, association, or corporation in connection with a business conducted for profit, then property taxes are imposed to the same extent as though the lessee or user was the owner of the property, with some exceptions.

Under the proposal, exempt property that is leased, loaned, or otherwise made available to a private individual, corporation, or association would remain exempt from property taxes if:

- 1) the property is owned by a nonprofit conservation organization; and
 - 2) the private individual, corporation, or association is using the property for grazing activities that further the nonprofit conservation organization's conservation objectives.
- Property owned by The Nature Conservancy would be eligible for the proposed exemption.
 - Beginning with taxes payable in 2026, the exemption would shift property taxes away from the exempted conservation land and onto all other properties, including homesteads, increasing homeowner property tax refunds by less than \$5,000 in FY 2027.

Cooperative Distribution Systems Exemption (Sections 2, 18-19)

The effective date is beginning with assessment year 2025.

Under current law, Rural Electric Association (REA) cooperatives pay a tax of \$10 for each 100 members in lieu of all personal property taxes on distribution lines – and attachments and appurtenances of those distribution lines – located in a rural area.

Under the proposal, this sentence in statute:

“The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon distribution lines and the attachments and appurtenances thereto of such associations, located in rural areas.”

would be replaced with the following clarification:

“The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon that part of the association's distribution system, not including substations, or transmission or generation equipment, located in rural areas.”

- The \$10-per-100-members tax is already being paid by REA cooperatives, meaning the proposal would, in effect, create an exemption for the newly eligible personal property.
- Under the proposal, metering and streetlighting equipment would be eligible for exemption from property taxes.
- For taxes payable in 2026, the exemption would shift an estimated \$750,000 in local property taxes away from cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$40,000 in fiscal year 2027.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2026 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Leech Lake Band Exemption (Section 3)

The effective date is beginning with assessment year 2026.

The proposal would create a property tax exemption for property that:

- 1) was classified as class 3a for taxes payable in 2025;
- 2) is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);
- 3) was on January 1, 2024, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
- 4) is used exclusively for Tribal purposes or institutions of purely public charity.

Eligible property would be limited to one parcel that does not exceed 40,000 square feet. Property used for single-family housing, market-rate apartments, agriculture, or forestry would not qualify for the exemption.

- Property in Minneapolis owned by the Leech Lake Band of Ojibwe would be eligible for the proposed exemption.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible parcel and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in fiscal year 2028.
- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Electric Generation Facility Exemption (Section 4)

The effective date is taxes payable in 2029.

The proposal would exempt the attached machinery and other personal property of an electric generation facility that is located outside the metropolitan area, has more than 40 megawatts and less than 50 megawatts of installed capacity, and is designed to use natural gas as a primary fuel. The facility must be owned and operated by a municipal power agency and be located within 1,000 feet of an existing natural gas pipeline. Construction of the facility must commence after January 1, 2026, and before January 1, 2028. Electric transmission lines, gas pipelines, and interconnections are not eligible for the exemption.

- Once constructed, the electric generation machinery at the Steele Energy Station in Owatonna (owned by the Southern Minnesota Municipal Power Agency) would be eligible for the exemption.
- Land and buildings at the facility would still be subject to property taxes.
- Beginning with taxes payable in 2029, the exemption would shift property taxes away from the electric generation facility and onto all other properties, including homesteads, increasing homeowner property tax refunds by an estimated \$50,000 in fiscal year 2030.

Mille Lacs Band Exemption (Section 5)

The assumed effective date is beginning with assessment year 2026.

The proposal would create a property tax exemption for property that meets the following conditions:

- 1) it is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);

- 2) it was on January 2, 2025, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
- 3) the market value of the portion of the property used exclusively for noncommercial Tribal government activities does not exceed in the aggregate 7,955 square feet.

Property used for single-family housing, market-rate apartments, parking facilities, agriculture, or forestry would not qualify for the exemption.

- It is assumed that only the Mille Lacs Band of Ojibwe Urban Office, located in the Ventura Project mixed-use housing development in Minneapolis, would be eligible for the exemption.
- It is further assumed that an initial application for exemption would be filed for assessment year 2026.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible property and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2028.
- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Grand Portage Band Exemption (Section 6)

The effective date is beginning with assessment year 2026.

The proposal would create a property tax exemption for property that:

- 1) was classified as class 2b for taxes payable in 2025;
- 2) is located in a county with a population greater than 5,580 but less than 5,620 (according to the 2020 federal census);
- 3) is located in an unorganized territory with a population less than 800 (according to the 2020 federal census); and
- 4) was on January 2, 2023, and is for the current assessment, owned by a federally recognized Indian Tribe located within the state of Minnesota.

- Property in Cook County owned by the Grand Portage Band of Chippewa would be eligible for the proposed exemption.
- Beginning with taxes payable in 2027, the eligible parcels would no longer receive the School Building Bond Credit, resulting in a savings to the state general fund of less than \$5,000 in fiscal year 2028.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible parcels and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2028.

Valuation Reduction for Conservation Easements (Section 7)

The effective date is assessment year 2026.

Under current law, the assessor may not adjust the value of real property subject to a conservation restriction or easement, except when:

- 1) the conservation restrictions or easements cover riparian buffers along lakes, rivers, and streams that are used for water quantity or quality control; or

- 2) the easements are in a county that has adopted, by referendum, a program to protect farmland and natural areas since 1999 (Dakota County); or
- 3) the conservation restrictions or easements were entered into prior to May 23, 2013.

Under the proposal, a metropolitan county that has adopted a program to protect farmland or natural areas may, by resolution, authorize the assessor to consider the impact of the conservation easement on the property's value. If those conditions are met, the proposal would allow the assessor to adjust the value of real property subject to a conservation easement.

- Prior to assessment year 2014, the assessor was allowed to adjust the value of real property subject to a conservation restriction or easement.
- Since assessment year 2014, the assessor may not adjust the value of real property subject to a conservation restriction or easement, except as noted in the explanation above.
- Beginning with assessment year 2026, the proposal could reduce land values on property subject to a conservation easement.
- Reduced land values on eligible property would shift property taxes onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by an unknown amount beginning in fiscal year 2028.

Agricultural Homestead Shareholder Limit Increased (Section 8)

The effective date is beginning with homestead applications in 2025.

Under current law, a “family farm corporation,” “family farm,” or “partnership operating a family farm” may not have more than 12 shareholders, members, or partners in order to receive agricultural homestead classification.

The proposal would increase the number of allowable shareholders, members, or partners from 12 to 18. This limit reflects both the maximum number of shareholders, members, or partners in an entity for the entity to qualify for agricultural homestead classification as well as the maximum number of agricultural homesteads that may be established by the entity under special agricultural homestead laws.

- By increasing the number of shareholders, members, or partners allowed, it is assumed that the number of properties qualifying as agricultural homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land would change from 1.00% to 0.50% for the tier of value (\$3.8 million for assessment year 2025) and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural homestead and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by an unknown amount beginning in fiscal year 2027.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2026.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a

small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

Agricultural Homestead Qualifying Relatives Expanded (Section 9)

The effective date is beginning with assessment year 2026.

Under current law, agricultural relative homestead may be granted if a grandchild, child, sibling, or parent of the owner was occupying or farming the property.

The proposal expands qualifying relatives for agricultural relative homestead to include grandparents, stepparents, stepchildren, uncles, aunts, nephews, and nieces.

- By expanding the list of qualifying relatives, it is assumed that the number of properties qualifying as agricultural relative homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural relative homestead land would change from 1.00% to 0.50% for the tier of value (\$3.8 million for assessment year 2025) and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural relative homestead and onto all other properties, including other homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by an unknown amount beginning in fiscal year 2028.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2027.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

Special Agricultural Homestead Location Requirements Modified (Section 9)

The effective date is beginning with assessment year 2026.

Under current law, both the owner and the person actively farming an agricultural property must live within four cities or townships of the property to qualify for special agricultural homestead classification.

The proposal would expand these location requirements. Both the owner and the person actively farming would be required to live within the county where the property is located or an adjacent county to qualify for special agricultural homestead.

- By expanding the location requirements for special agricultural homestead, it is assumed that the number of properties qualifying as agricultural homestead would increase statewide. The classification rate for all properties changing from agricultural non-homestead land to agricultural homestead land would change from 1.00% to 0.50% for the tier of value (\$3.8 million for assessment year 2025) and 1.00% for the remaining value.
- The proposal would cause a shift in property taxes away from properties newly qualifying for agricultural homestead and onto all other properties, including other homesteads.

- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by an unknown amount beginning in fiscal year 2028.
- The proposal would also increase the market value eligible for the agricultural homestead market value credit, increasing the credit by an unknown amount beginning in taxes payable 2027.
- Adequate data is not available to estimate the impact of the proposal on estate taxes. Since the additional property that would be available for the farm subtraction is assumed to be a small share of the total currently available, the impact on estate tax revenue would be small. However, it is likely that the impact could be significant for a small number of taxpayers.

Class 4d Eligibility Clarified (Section 10)

The effective date is beginning with assessment year 2026.

Under current law, in order for a property to qualify for class 4d(1) low-income rental housing classification, at least 20% of the units in the property must meet one or more of the following criteria:

1. Project-Based Section 8,
2. Low Income Housing Tax Credits,
3. Rental Assistance units financed through Rural Housing Service of USDA,
4. Rent and income restrictions placed on units by state, federal, or local unit of government as evidenced by a document recorded against the property.

The proposal clarifies that the rent and income restrictions specified in this subdivision only apply to properties eligible for class 4d(1) under the last criterion.

- The proposed clarifying changes would not impact the state general fund.

Homestead Resort Tier Limits Modified (Section 11)

The effective date is beginning with assessment year 2026.

Under current law, class 1c homestead resort property has three classification tiers.

The first tier includes the first \$600,000 of value and has a classification rate of 0.50%, the second tier includes value over \$600,000 and below \$2.3 million and has a classification rate of 1.00%, and the third tier includes value over \$2.3 million and has a classification rate of 1.25%. Only the third tier is subject to state general property taxes.

The proposal would increase the classification tier limits for class 1c homestead resorts.

The first tier would include the first \$1.5 million of value, the second tier would include value between \$1.5 million and \$4.5 million, and the third tier would include value over \$4.5 million. The classification rates for each tier would not change. The third tier would remain subject to state general property taxes.

- For taxes payable in 2025, about 1,900 parcels contain class 1c homestead resort property. The total statewide taxable market value for class 1c property is \$813 million and the total net tax capacity is \$6.5 million.
- Of the 1,900 parcels containing class 1c property, about 440 have a taxable market value greater than the current first tier limit of \$600,000.

- Under current law, 45% of the total class 1c taxable market value statewide is in the first tier, 45% is in the second tier, and 10% is in the third tier.
- The proposal would shift class 1c market value from the higher tiers to the lower tiers. Under the proposal, approximately 72% of total class 1c taxable market value statewide would be in the first tier, 22% in the second tier, and 6% in the third tier.
- By increasing the classification tier limits for homestead resorts, the classification rate for a portion of the value currently above the first tier limit would change from the second tier rate of 1.00% to the first tier rate of 0.50%. Likewise, a portion of the value currently above the second tier limit would change from the third tier rate of 1.25% to the second tier rate of 1.00%. The total statewide net tax capacity for class 1c property would be reduced by approximately 18%.
- The proposal would cause a shift in property taxes away from properties newly qualifying for a lower tier classification rate and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by \$40,000 beginning in fiscal year 2028.

Class 2c Eligibility Modified (Section 12)

The effective date is beginning with assessment year 2026.

To be eligible for class 2c managed forest land classification under current law, a property must be no less than 20 and no more than 1,920 acres statewide per taxpayer, be managed under a forest management plan that meets all the requirements of M.S. Chapter 290C, and not be enrolled in the sustainable forest resource management incentive program.

The proposal would remove the requirement that a property's forest management plan meet all requirements of M.S. Chapter 290C to qualify for 2c classification. Instead, the forest management plan would only need to meet the definition under M.S. 290C.02, subd. 7 and be written by an approved plan writer as defined M.S. 290C.02, subd. 2. The proposal would allow land wholly or partially subject to a conservation easement to qualify for 2c classification.

- Under current law, one of the requirements of forest management plans under M.S. Chapter 290C is that a property meet the definition of "forest land" to qualify for 2c classification. This definition states that, among other things, forest land does not include certain land enrolled in state and federal easement programs.
- The proposal would allow land enrolled in easement programs to be eligible for 2c classification. The amount of land that would become class 2c under the proposal is unknown.
- The classification rate for class 2c is one of the lowest at 0.65%. Properties changing from other property types to class 2c under the proposal would likely receive a lower classification rate than under current law.
- The proposal would cause a shift in property taxes away from properties newly qualifying for class 2c managed forest land and onto all other properties, including homesteads.
- As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by an unknown amount beginning in fiscal year 2028.

Market Farming & Floriculture Classified as Agricultural (Section 12)

The effective date is beginning with assessment year 2026.

Market Farming: Under current law, continuous acreage with a residence may qualify for 2a agricultural classification if it is less than 11 acres in size and is used for a qualifying intensive use, including intensive market farming.

The proposal expands the definition of land that may be considered agricultural to include continuous acreage with a residence that is less than 15 acres in size, is used in the preceding year for market farming, and the property owner verifies that they have earned at least \$20,000 in the most recent tax year.

Floriculture: Under current law, properties may qualify for 2a agricultural classification if they meet certain requirements, including producing an agricultural product for sale.

The proposal would expand the list of agricultural products that qualify for 2a agricultural classification to include floriculture. Floriculture would be defined as the production of bedding and garden plants, foliage plants, potted flowering plants, and cut flowers.

- It is assumed that a small number of properties engaged in market farming and/or floriculture would be eligible for agricultural classification under the proposal.
- Under the proposal, property used for market farming and/or floriculture would qualify for 2a homestead or 2a non-homestead agricultural classification. Property qualifying for class 2a homestead under the proposal would receive lower classification rates than under current law. Property qualifying for class 2a non-homestead under the proposal may receive lower classification rates than under current law, depending on its current law classification.
- The proposal would shift property taxes away from properties newly classified as agricultural and onto all other properties, including homesteads.
- The shift in taxes onto homesteads would increase state-paid property tax refunds by less than \$5,000 beginning in fiscal year 2028.
- Properties newly classified as 2a agricultural homestead would be eligible for the agricultural homestead market value credit, increasing the credit by less than \$5,000 beginning in fiscal year 2028.
- Properties newly classified as 2a agricultural homestead or non-homestead would also be eligible for the school building bond credit, increasing the credit by less than \$5,000 beginning in fiscal year 2028.

Exclusion for Veterans with a Disability Modified (Section 13)

The effective date is beginning with assessment year 2025.

The proposal would increase the maximum market value exclusion for homesteads of a veteran with a disability:

- from \$150,000 to \$175,000 for a veteran with a 70% or greater disability, and
 - from \$300,000 to \$350,000 for a veteran with a total (100%) and permanent disability.
-
- In assessment year 2024, approximately 26,000 homesteads received the exclusion.
 - In assessment year 2025, an estimated 19,300 homesteads would receive a larger exclusion under the proposal.

- The proposal would result in a net savings to the state of \$600,000 in fiscal year 2027 due to a reduction in state-paid homeowner property tax refunds (PTR) to qualifying homesteads.
- For taxes payable in 2026, the proposal would reduce state-paid homeowner property tax refunds to qualifying homesteads by \$1 million, resulting in a savings to the state general fund.
- At the same time, the proposal would shift an estimated \$6.8 million of property taxes onto other properties, including other homesteads, increasing state-paid homeowner property tax refunds by \$400,000. The overall savings to the state general fund is net of this cost.
- It is assumed that the number of homesteads enrolled in the program will increase by 5% annually.

Agricultural Water Quality Credit Created (Section 14-16, 20-21)

The effective date is beginning with taxes payable in 2026.

The proposal would create a new agricultural water quality property tax credit of \$5 per acre of qualifying land. To be eligible for the credit, property must be classified as 2a agricultural or 2b rural vacant, be certified as enrolled in the Minnesota Agricultural Water Quality Certification Program (MAWQCP), and be in one of eight counties (Dodge, Fillmore, Goodhue, Houston, Mower, Olmsted, Wabasha, or Winona). The credit would only be used to reduce net tax capacity-based property taxes and would be the final credit applied in the computation of net property taxes. Appropriations for the credit would come from the Clean Water Fund.

- According to the Minnesota Department of Agriculture, there are currently approximately 1.1 million certified acres and 1,500 producers enrolled in the MAWQCP statewide.
- Approximately 221,000 certified acres and 280 producers enrolled in the program are located in counties eligible for the proposed water quality property tax credit. It is assumed that all these certified acres are classified as 2a or 2b property and would be eligible for the credit.
- The agricultural water quality credit is estimated to be \$1.11 million in taxes payable 2026, \$1.16 million in taxes payable 2027, and \$1.22 million in taxes payable 2028. These numbers have been converted to fiscal years for the purpose of this estimate.
- Lower property taxes for property owners receiving the credit would reduce deductions on income tax returns, increasing state tax collections by \$40,000 beginning in fiscal year 2027.

Purely Public Charity Housing Exemption (Section 17)

The effective date is beginning with assessment year 2025.

Under current law, property owned by a qualifying institution of purely public charity is exempt from property taxes if the property is used for the charitable purpose of the qualifying organization.

In its opinion filed March 27, 2024, the Minnesota Supreme Court upheld the Minnesota Tax Court decision that affordable housing properties owned by Alliance Housing Incorporated or North Penn Supportive Housing LLC (collectively referred to as Alliance) are eligible for a property tax exemption because:

- 1) they are owned by an eligible charitable organization, and
- 2) the use of the property corresponds with Alliance's tax-exempt charitable purpose.

The court's decision impacts all future exemption applications for similar properties beginning with assessment year 2025. However, under a separate provision of current law (Minnesota Statutes 273.19 subd. 1), tax-exempt property held under a lease for a term of at least one year is considered, for all purposes of taxation, as the property of the person holding the lease. Therefore, the tenants of eligible Alliance properties (and other similar properties that apply for exemption) will now be liable for personal property taxes beginning with taxes payable in 2026.

Under the proposal, if rental housing property is exempt from taxation due to ownership by an eligible charitable organization, then the tenants would also be exempt from personal property taxes, regardless of the terms of the lease.

- For assessment year 2025 only, it is assumed that all Alliance properties included in the court case have applied for exemption but that other affordable housing properties have not.
- Under the proposal, neither Alliance nor the tenants of Alliance properties would be liable for property taxes beginning with taxes payable in 2026.
- For taxes payable in 2026, eligible Alliance properties would be exempt from property taxes, which would shift tenant-paid personal property taxes away from the Alliance properties and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in fiscal year 2027.
- Under current law, the property taxes payable in 2026 will be paid by the tenants of exempted Class 4d property instead of the property owners. The tenants will be eligible for the renter's credit on their income tax return, based on rent paid in 2025.
 - 1) Under current law, occupied units on eligible Alliance properties will no longer receive the Class 4d low-income rental housing classification because the tenants, as the new taxpayers, do not *provide* low-income rental housing.
 - 2) As a result, the net tax capacity (NTC) class rate for taxes payable in 2026 will be the apartment class rate of 1.25%, rather than the Class 4d rate of 0.25%, which will increase the NTC taxes for tenants by a factor of five (relative to what Alliance would have paid).
- Under the proposal, no property taxes would be paid; therefore, the tenants would not be eligible for the renter's credit, resulting in a savings to the general fund of \$30,000 in fiscal year 2027.
- If the proposal were to become law, it is assumed that additional eligible low-income rental housing properties would also apply for exemption, resulting in additional shifting of property taxes onto other properties, including homesteads, which would increase state-paid homeowner property tax refunds but decrease state-paid renter's credits.
- Tax year impact is allocated to the following fiscal year.

Interest Rate Modified for Confessions of Judgements for Homesteads (Section 22)

The effective date is January 1, 2026.

Following a tax judgment sale – also known as “bidding in for the state” – there is a three-year redemption period. During the redemption period, the owner may enter into a confession of judgment. The confession of judgment consolidates all delinquent taxes, costs, penalties, and interest accrued (up to the time of the confession) into a single amount, payable as ten equal annual payments. A 10% down payment is made immediately and the remaining nine installments are paid with interest on or before December 31 of each year following the year of the confession.

Under current law, the interest rate on confession of judgment installment payments for owner-occupied homestead property (class 1a or 1b) is equal to 2% above 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 5% and no higher than 14%. The interest rate is fixed for the duration of the judgment.

Under the proposal, the interest rate would be exactly 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 5% and no higher than 14%.

50% of the interest collected as part of the annual installment payments is distributed to the school districts within the county. The remaining 50% is apportioned to the county and to the city or town (in which the property is located) based on their respective local tax rates.

- The current interest rate on confession of judgment contracts for owner-occupied homestead property is 10%.
- The current interest rate based on the prime rate charged by banks is 8%.
- Under the proposal, the total amount of interest distributed to counties, school districts, and towns and cities would be reduced.
- This would not impact local government aids administered by the Department of Revenue.
- However, interest distributed to school districts reduces state-paid general education aids, so the proposal would increase Department of Education payments to school districts by an unknown amount.

Public Expenditure Limit Increased for Musical Entertainment (Section 23)

The effective date is the day following final enactment.

Under current law, cities of the third class with populations between 10,001 and 20,000 can spend up to \$3,000 annually on free musical entertainment for the public.

The proposal would increase the annual expenditure limit from \$3,000 to \$10,000.

- The proposed changes to the expenditure limit may have an impact on levy decisions in the future, which may result in small changes in property tax refunds and income tax deductions.

Border City Zone Modifications (Sections 24-27)

The effective date is for taxable years beginning after December 31, 2024.

Under current law, border city enterprise zones provide income, sales, or property tax reductions for businesses in cities on the western border of the state. The allocations are apportioned among the cities of Dilworth, East Grand Forks, Moorhead, Ortonville, and Breckenridge by population.

The proposal would:

- remove the acreage limits for development zones in the cities of Dilworth, Moorhead, and Ortonville, allowing these cities to designate all or any part of the city as a development zone (as is already the case for Breckenridge and East Grand Forks).

- allow tax reductions to be used for reimbursement of land acquisition costs for business expansion within the zone if determined necessary to prevent relocation outside the state.
- allow tax reductions to be granted to recreation and entertainment facilities as well as to retail food or beverage service businesses operating under a franchise agreement that requires the business to be located in the state.
- There would be no state general fund impacts from the proposed modifications.

Land Bank Property Tax Abatement (Sections 28-31)

The effective date is the day following final enactment.

The proposal defines a “land bank organization” as a non-profit organization that, at least in part, acquires, holds, or manages vacant, blighted, foreclosed, or tax-forfeited property for future development, redevelopment, or disposal.

Under current law, an abatement of property taxes may be granted for the purpose of local economic development if the abatement meets one of eight criteria that clearly define the public benefit. Under the proposal, the public benefit criteria would be expanded to include:

- (ix) provide for the development of affordable housing to households at or below 80 percent of area median income; or
- (x) allow the property to be held by a land bank organization for future development.

Under the proposal, abatements granted on the basis of either (ix) or (x) above would be limited to a period of no more than five years. In addition, an abatement must be repaid with interest if the land for which the abatement was granted is used for a purpose other than the purpose given by the land bank organization prior to redevelopment.

- It is assumed that the only organization with eligible property is Land Bank Twin Cities.
- Under current law, all political subdivisions are required to add back to their current year levies the total estimated amount of all current year economic development abatements.
- Under the proposal, property taxes would shift from the parcels eligible for an abatement onto all other properties in those local jurisdictions, including homesteads.
- Because the levies set in one calendar year are collected as property taxes in the following calendar year, the property tax shift would occur in the year following the abatement.
- Based on data provided by Land Bank Twin Cities, approximately \$0.5 million in property taxes will be due in 2025 on property eligible for an abatement under the proposal.
- It is assumed that approximately half of Land Bank Twin Cities parcels would receive an abatement for taxes payable in 2025.
- Under this assumption, approximately \$0.25 million in property taxes would shift onto other properties beginning with taxes payable in 2026, resulting in a cost to the general fund of \$10,000 beginning in fiscal year 2027 due to increased homeowner property tax refunds.

Bloomington Port Authority Exemption (Section 32)

The effective date is upon local approval for taxes payable in 2026 through 2031.

Under current law, property held by a political subdivision for later resale for economic development purposes is eligible for an exemption from property taxes for up to nine years.

Under the proposal, property that was acquired by the Port Authority of the city of Bloomington in May 2016 and was exempt for taxes payable in 2017 through 2025 would continue to be exempt for taxes payable in 2026 through 2031.

To receive the extended exemption, an initial exemption application must be filed with the assessor by June 30, 2025.

- Under the proposal, three parcels purchased by the Port Authority of Bloomington in May 2016 would be eligible for the extended exemption.
- The parcels are currently taxable as commercial property for taxes payable in 2026.
- For taxes payable in 2026, extending the exemption would shift approximately \$400,000 in local property taxes away from the eligible parcels and onto all other property, including homesteads, increasing homeowner property tax refunds by \$20,000 in fiscal year 2027.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2026 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Fiscal Disparities Tax Statement Modified (Section 33)

The effective date is beginning with taxes payable in 2026.

Laws passed during the 2024 legislative session made changes to the notice of proposed property taxes and property tax statements for properties subject to Iron Range fiscal disparities taxes. The proposal would eliminate the changes made during the 2024 session.

- The proposal would have no impact on the state general fund.

Article 4: Property Tax Aids

Seasonal Tax Base Replacement Aid Created (Sections 1-2, 14)

The effective date is beginning with taxes payable in 2026.

The proposal creates a seasonal tax base replacement aid for school districts. The aid amount is based on the ratio of the seasonal recreational property to the total referendum market value tax base of each school district. The additional state aid would reduce school referendum levies.

- According to the Minnesota Department of Education, the proposed seasonal tax base replacement aid is estimated to be \$3.80 million in taxes payable 2026, \$3.81 million in taxes payable 2027, and \$3.84 million in taxes payable 2028. These numbers have been converted to fiscal years for the purposes of this estimate.
- School referendum levies would decrease by the amount of aid each year. This would decrease property taxes for all properties, including homesteads.
 - Lower property taxes would result in lower homeowner property tax refunds, reducing costs to the state general fund beginning in fiscal year 2027.
 - Lower property taxes would result in lower income tax deductions, increasing revenues to the state general fund beginning in fiscal year 2027.

LGA Sparsity Adjustment (Sections 3-4)

The effective date is aid payable in 2026

The proposal would create a sparsity adjustment in the city local government aid (LGA) formula. A sparsity adjustment of 200 would be added to the revenue need calculation for:

- 1) cities with a population of 10,000 or more and an average population density of less than 150 per square mile, and
 - 2) cities with a population of less than 10,000 and an average population density of less than 30 per square mile.
- Under the proposal, there would be 15 cities estimated to qualify for a sparsity adjustment.
 - There would be no state cost associated with the change in the formula distribution because total aid is set to a fixed appropriation level. The formula change would shift aid to certain cities receiving a sparsity adjustment and away from other cities receiving local government aid.

Township Aid Formula Modified (Section 5)

The effective date is beginning with aid payable in 2026.

Under current law, \$10 million is appropriated annually from the general fund to be distributed to townships according to the product of: (1) each township's agricultural property factor, (2) its town area factor, (3) its population factor, and (4) a fixed constant of 0.0045.

Under the proposal, the Township Aid formula would be modified by replacing the fixed constant of 0.0045 as follows:

- 1) The "town aid factor" is defined as the product of: (1) each township's agricultural property factor, (2) its town area factor, and (3) its population factor.
 - 2) The aid amount for each township is equal to its share of the statewide sum of all "town aid factors" multiplied by the appropriation amount.
- The formula modification would ensure that in any given year the total aid distributed is not less than the appropriation set in statute.
 - However, there would be no state cost associated with the formula modification because total aid is already projected to equal the appropriation during the forecast period.

LGA Appropriation Reduction (Sections 6, 13)

The effective date is

Under current law, the appropriation for local government aid (LGA) is \$644,398,012 for aids payable in 2026 and thereafter.

The proposal would decrease the LGA appropriation by \$20 million for aids payable in 2026 and thereafter. For payable year 2026 only, each city's calculated aid would be proportionately reduced until the total aid equals the appropriation amount.

- Decreasing the appropriation for LGA to cities would decrease state general fund costs by \$20 million in fiscal year 2027 and thereafter.

- It is assumed that cities receiving less local government aid would increase property tax levies by a portion of the reduced aid. Higher levies would increase property taxes on all property.
 - Higher property taxes would result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2027.
 - Higher property taxes would result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2027.

CPA Appropriation Reduction (Sections 7, 12)

The effective date is beginning for aids payable in calendar year 2026.

Under current law, the appropriation for county program aid (CPA) is \$151,197,053 for need aid and \$190,471,391 for tax base equalization aid for aids payable in 2026 and thereafter.

The proposal would decrease the CPA appropriation by \$20 million for aids payable in 2026 and thereafter. The appropriation decrease would be split with need aid decreasing \$8.9 million and tax base equalization aid decreasing \$11.1 million. For aids payable in 2026 only, tax base equalization aid amounts can be reduced to 94% of the previous year's amount as opposed to the normal 95%.

- Decreasing the appropriation for CPA would decrease state general fund costs by \$20 million in fiscal year 2027 and thereafter.
- It is assumed that counties receiving less county program aid would increase property tax levies by a portion of the reduced aid. Higher levies would increase property taxes on all property.
 - Higher property taxes would result in higher homeowner property tax refunds, increasing costs to the state general fund beginning FY 2027.
 - Higher property taxes would result in higher income tax deductions, decreasing revenues to the state general fund beginning in FY 2027.

Soil & Water Conservation District Aid Increased (Section 8)

The effective date is beginning with taxes payable in 2025.

The soil and water conservation district aid program was created in 2023. Under current law, soil and water conservation districts received \$15 million in aid for payable years 2023 and 2024. For aids payable in 2025 and thereafter, the annual appropriation for aid is \$12 million.

The proposal would increase the aid amount in 2025 and 2026 to \$14,430,000 and increase the aid amount to \$14,787,000 in 2027 and thereafter.

- The appropriation would increase state general fund costs by \$2.43 million in fiscal years 2026 and 2027 and by \$2.787 million in fiscal year 2028 and thereafter.

Fire Protection & EMS Aid (Section 9)

The effective date is beginning with aids payable in 2026.

The proposal would create an aid program for fire protection and emergency medical services special taxing districts. The \$1.555 million appropriation would be distributed based on a district's levy amount, with calculated aid equal to 50% of a district's most recent five-year average levy. If

the total calculated aid for all districts exceeded the total appropriation, aid amounts would be reduced proportionately. Districts established less than six years ago would use the average of all prior year levy amounts. Annual aid distributions would be certified by August 1st and paid in the following year on July 20th.

- The new aid program would increase state general fund costs by \$1.555 million beginning in fiscal year 2027 and thereafter.
- It is assumed that the new aid would reduce property tax levies by a portion of the increase. Lower levies would decrease property taxes on all property.
 - Lower levies would result in lower homeowner property tax refunds, reducing costs to the state general fund beginning in FY 2027.
 - Lower levies would result in lower income tax deductions, increasing revenues to the state general fund beginning in FY 2027.

Public Safety Aid Reporting Requirements Modified (Section 10)

The effective date is day following final enactment.

The bill would establish a reporting requirement for recipients of public safety aid. Local units that received over \$10,000 in aid, counties, and Tribal governments would be required to submit a report by January 15, 2026, to the commissioner of public safety. The report would include the amount of aid received and the ways the aid was used or will be used.

- The provision would not impact the state general fund.

LGA Penalty Forgiveness – City of Stewart (Section 11)

The effective date is day following final enactment.

The bill would allow the city of Stewart to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of \$87,501.50 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Stewart would receive a payment of \$87,501.50 in FY 2025.

LGA Penalty Forgiveness – City of Alpha (Section 11)

The effective date is day following final enactment.

The bill would allow the city of Alpha to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of \$18,472 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Alpha would receive a payment of \$18,472 in FY 2025.

LGA Penalty Forgiveness – City of Odin (Section 11)

The effective date is day following final enactment.

The bill would allow the city of Odin to receive payment for the amount of its 2024 Local Government Aid (LGA) and 2024 Small Cities Assistance that was withheld for failing to meet financial reporting requirements with the state auditor. The city must file its 2023 financial reports by June 1, 2025.

Up to \$39,909 of the current LGA appropriation would be available for the payment to be made before the end of fiscal year 2025 by June 30, 2025.

- Under the proposal there would be no additional costs to the state general fund in fiscal year 2025 because the money for payment is already appropriated for LGA and Small Cities Assistance. Any unpaid payments would not cancel to the state general fund until after June 30, 2025.

LGA Penalty Forgiveness – City of Trosky (Section 11)

The effective date is day following final enactment.

The bill would allow the city of Trosky to receive payment for the amount of its 2024 Local Government Aid (LGA) and 2024 Small Cities Assistance that was withheld for failing to meet financial reporting requirements with the state auditor. The city must file its 2023 financial reports by June 1, 2025.

Up to \$25,003 of the current LGA appropriation would be available for the payment to be made before the end of fiscal year 2025 by June 30, 2025.

- Under the proposal there would be no additional costs to the state general fund in fiscal year 2025 because the money for payment is already appropriated for LGA and Small Cities Assistance. Any unpaid payments would not cancel to the state general fund until after June 30, 2025.

Local Homeless Prevention Aid Expiration Repealed (Section 15)

The effective date is July 1st, 2025.

Under current law, the local homeless prevention aid program annually pays \$20 million to counties and tribal governments for family homeless prevention. The aid is set to expire in aids payable 2029.

The bill would remove the expiration date and keep the aid program going into perpetuity.

- The bill would have no effect on the state general fund during the forecast window.
- Starting in fiscal year 2030 and thereafter, the aid program not sunseting would cost the state general fund \$20 million.

Article 6: Tax Increment Financing

TIF Temporary Authority Clarified (Section 1)

The effective date is the day following final enactment.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would clarify that all transferred increments must be spent, loaned, or invested by December 31, 2025 or else they must be returned to the district. The proposal also defines what is included in the requirement to return increment to the district.

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

Ramsey TIF (Section 2)

The effective date is following local approval.

Under current law, special rules apply for a redevelopment tax increment financing (TIF) district in the city of Ramsey relating to the Northstar Transit Station.

The proposal would add another special rule for the TIF district: it would extend the time in which the city is allowed to adopt interfund loan resolutions. Under current law, an interfund loan or advance must be authorized by resolution no later than 60 days after money is transferred, advanced, or spent, whichever is earlier. The proposal would extend that deadline to December 31, 2025.

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

Maplewood TIF (Section 3)

The effective date is following local approval.

Under current law, special rules apply for any redevelopment tax increment financing (TIF) districts in the city of Maplewood relating to the 3M Renovation and Retention Project Area.

The proposal would expand the project area within which expenditures are allowed for these districts.

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

Maple Grove TIF (Section 4)

The effective date is following local approval.

Under current law, the city of Maple Grove was allowed to establish tax increment financing (TIF) districts within a defined project area that were subject to special rules as established by the legislature in 2014 and revised in 2017. The project area includes rights-of-way for all present and future highway interchanges abutting the project area.

The proposal would expand the definition of the project area to include rights-of-way for all present and future highway interchanges serving the project area. Some of the special rules that apply to these districts are also modified:

- The five-year rule for development activity to commence is extended from eight years to 13 years.
- The number of years increments from a soil deficiency district may be collected is extended from 20 years to 25 years.
- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

St. Paul TIF (Section 5)

The effective date is following local approval.

Under current law, special rules apply to the Ford Site Redevelopment Tax Increment Financing (TIF) District in the City of St. Paul, including being allowed to waive increments for up to four years and setting a different certification date if increments are waived.

The proposal would add another special rule for the Ford Site Redevelopment TIF District: it would extend the five-year rule for development activity to commence to ten years.

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

Bloomington TIF (Section 6)

The effective date is following local approval.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would allow the city of Bloomington to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-C or TIF District No. 1-G could be used for this purpose. The use of transferred increment would have to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 would be returned to the district.

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

Brooklyn Center TIF (Section 7)

The effective date is following local approval.

The proposal would allow the city of Brooklyn Center or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply, such as excluding it from requirements for establishing a redevelopment district and excluding it from

certain rules on the use of increment. The authority to establish a TIF district under this authority expires December 31, 2031.

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

Brooklyn Park TIF (Sections 8-10)

The effective date is following local approval.

The proposal would allow the city of Brooklyn Park or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts in three locations: the Village Creek Area, the 610/Zane Area, and the Biotech Area. Each location has its own defined area within which a TIF district may be created. Any districts established under this authority would have special rules that apply that would exclude it from requirements for establishing a redevelopment district and exclude it from certain rules on the use of increment. The authority to request certification of any district under this proposal expires December 31, 2031.

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

Eden Prairie TIF (Section 11)

The effective date is following local approval.

The proposal would allow the city of Eden Prairie or its economic development authority to establish one or more redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply that would exclude it from requirements for establishing a redevelopment district and exclude it from certain rules on the use of increment. The authority to approve a TIF plan and establish a TIF district under this proposal expires December 31, 2026.

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

Edina TIF (Sections 12-13)

The effective date is following local approval.

The proposal would extend the five-year rule for development activity to commence to ten years for two tax increment financing (TIF) districts in the city of Edina: 72nd & France 2 and 70th & France. The proposal would also allow the city of Edina or its housing and redevelopment authority to extend the duration of the 72nd & France 2 TIF District by five years and the 70th & France TIF District by ten years.

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

Marshall TIF (Section 14)

The effective date is following local approval.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would allow the city of Marshall to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-1, TIF District No. 1-7, or TIF District No. 2-1 could be used for this purpose. The use of transferred increment would have to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 would be returned to the district.

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

Minnetonka TIF (Section 15)

The effective date is following local approval.

The proposal would extend the five-year rule for development activity to commence to ten years for the renewal and renovation tax increment financing (TIF) district established in 2021 by the city of Minnetonka and its Economic Development Authority. The proposal would also exclude these districts from certain rules on the use of increment.

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

Moorhead TIF (Section 16)

The effective date is following local approval.

Under current law, the five-year rule essentially requires development activity for a TIF district to be finished within a five-year period after the certification of the district. After this period has expired, increments may only be spent to pay off obligations that were incurred during the five-year period or for permitted expenditures under pooling. The six-year rule requires districts to be decertified when sufficient increment has been received to pay for these obligations.

The proposal would extend the five-year rule to ten years and the six-year rule to eleven years for Tax Increment Financing (TIF) District No. 31 in the city of Moorhead.

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

Oakdale TIF (Section 17)

The effective date is following local approval.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would allow the city of Oakdale to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-4 or TIF District No. 1-6 could be used for this purpose. The use of transferred increment would

have to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 would be returned to the district.

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

Plymouth TIF (Section 18)

The effective date is following local approval.

The proposal would allow the city of Plymouth to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply, such as excluding it from requirements for establishing a redevelopment district, excluding it from certain rules on the use of increment, and extending the five-year rule for development activity to commence to ten years. The authority to establish a TIF district under this authority expires December 31, 2031.

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

St. Cloud TIF (Section 19)

The effective date is following local approval.

The proposal would allow the city of St. Cloud or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply, such as excluding it from requirements for establishing a redevelopment district, excluding it from certain rules on the use of increment, and allowing increment to be spent on reconstruction, expansion, or new construction of adjacent public infrastructure. The authority to establish a TIF district under this authority expires December 31, 2031.

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

Article 7: Public Finance

Local Government Debt Financing Modified (Sections 1-11)

The effective date is July 1, 2025.

The proposal makes several modifications to local government debt financing. It would shorten the required timing of a number of public notices, add construction of a court house or justice center to debt obligations for which the state provides a guarantee, clarify which obligations for which a state guarantee may be provided, clarify which obligations fall under bond allocation act rules, and adjust the deadline for issuers that receive an allocation from the unified pool to issue obligations.

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

Article 9: Taxation of Gas Production

Taxation of Gas Production Established (Sections 1-43)

Various effective dates

The proposal would modify the taxation of gas production and distribution of tax revenues.

Gross Proceeds Tax

Under current law, mining of ores, metals and minerals are subject to the greater of a 0.4% gross proceeds tax or \$2.0 million per year.

The bill would add mining gas to the gross proceeds tax. Helium, carbon dioxide, and hydrogen mining would have a gross proceeds tax rate of 7.0% for the first three years of mining and 9.0% in years following. Helium, carbon dioxide, and hydrogen mining would not be subject to an annual minimum gross proceeds tax.

The bill would also create helium relief areas. All school districts with a boundary within 17 miles of a well, mine, structure or building used for gas production would be in the relief area. The helium relief area would be the geographic area of the school districts.

Gross proceeds tax distributions from gas production would be distributed as follows:

- 10% to the Iron Range Resources and Rehabilitation Board (IRRRB)
- 45% to counties, school districts, cities, and towns located in a helium relief area
- 45% to the Helium Property Tax Relief Account

Property Tax

Under current law property used in the business of mining that is subject to the gross proceeds tax is exempt from property tax.

The bill would expand the exemption to include property used in mining, quarrying, or refining gas.

Occupation Tax

Under current law, mining of ores, metals and minerals are subject to a 2.45% occupation tax on taxable income.

The bill would add mining gas to the occupation tax.

Occupation distributions from gas production would be allocated as follows:

- 40% to schools statewide
- 10% to the University of Minnesota
- 25% to counties located in a helium relief area
- 25% to tribes located in a helium relief area

Income/Franchise Tax

Under current law, corporations, individuals, estates and trusts engaged in the business of mining or producing iron ore, or mining, producing or refining other ores, metals, and minerals are exempt from Minnesota income and corporate franchise taxes if the taxpayer's business is subject to the occupation tax. Such taxpayers are still subject to income and corporate franchise taxes on other income or gains from property not used in the business of mining.

Corporate franchise taxpayers subtract from their Minnesota taxable income any income or gains and add to their Minnesota taxable income any losses from the business of mining which are not subject to the franchise tax. Royalties from the business of mining or producing iron ore are not included in this exemption and are subject to income and corporate franchise taxes.

Income and corporate taxpayers are generally required to use the adjusted basis for federal income tax purposes as the basis of their business property, with some exceptions. For assets placed in service before January 1, 1987, taxpayers engaged in the business of mining ores other than iron ore or taconite concentrates and who are subject to the occupation tax must use the occupation tax basis of property used in that business, rather than the adjusted basis.

The bill would expand the mining exemption from income and corporate franchises to include income or gains from the production of gas. It would expand the corporate franchise tax subtraction for mining income and addition for mining losses to include the production of gas. The proposal would also expand the definition of royalties to include mining, producing, or refining ores, metals, and minerals other than iron ore, and to include the production of gas.

Sales and Use Tax

Under current law, capital equipment is exempt from the sales and use tax. Capital equipment is defined as machinery and equipment purchased or leased, and used in Minnesota by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail. The machinery and equipment must be essential to the integrated production process. Integrated production process means a process or series of operations through which tangible personal property is manufactured, fabricated, mined, or refined.

Building materials, equipment, and supplies used for the construction of certain mineral production facilities are exempt from the sales and use tax.

The bill would expand mining to include metals and gas for the purposes of the capital equipment exemption. The bill would also expand the building materials, equipment, and supplies construction exemption for mineral production facilities to include ore, metal, and gas.

Helium Homestead Credit

The bill would create a helium homestead credit to residential homestead properties located in a helium relief area. The credit amount would be \$50 and paid with funds from the Helium Property Tax Relief Account.

- There are currently no gas mining activities in Minnesota.
- The potential Pulsar Helium Topaz Project in Lake County is exploring the mining of helium, carbon dioxide, and hydrogen.
- If production were to begin in calendar year 2027, it is assumed the first year of taxes would occur for fiscal year 2028.
- Due to uncertainty in the annual amount of future gas production, the tax revenues and distribution impacts to state funds are unknown.

Article 10: Miscellaneous

SFIA Payment Reduction (Sections 23, 51)

The effective date is beginning for payments in 2026.

Under current law, land enrolled in the Sustainable Forest Incentive Act (SFIA) program is eligible for an annual per-acre incentive payment. Payment rates vary based on the covenant duration and the number of acres enrolled.

The proposal would reduce annual SFIA payment rates by 10%. Under the proposal, landowners may elect to terminate participation in the SFIA program by July 1, 2026, without regard to the current statutory limitations.

- State general fund savings would be realized beginning in fiscal year 2027.

Local Government Cannabis Aid Repealed (Sections 24, 39, 53)

The effective date for repeal of the aid is beginning with aids payable in 2026.

The effective date for depositing cannabis gross receipts tax revenues in the general fund is July 1, 2025.

Under current law, 20% of the cannabis gross receipts tax is deposited into the special revenue fund and paid to counties and cities via local government cannabis aid.

The bill would repeal local government cannabis aid. The 20% of the cannabis gross receipts tax for local government cannabis aid would instead be deposited into to the state general fund beginning July 1, 2025. Any remaining balance in the special revenue fund would cancel to the general fund.

- Local government cannabis aid payments would end beginning with payable year 2026, decreasing state costs by \$12.5 million in FY 2027, \$13.8 million in FY 2028, and \$18.0 million in FY 2029.
- The 20% share of cannabis gross receipts tax revenues that were previously deposited into the special revenue fund and used to pay the aid would instead be deposited into the state general fund beginning on July 1, 2025, increasing revenues to the general fund beginning in FY 2026.
- An estimated balance of \$5.042 million remaining in the special revenue fund would cancel to the state general fund on January 2, 2026, increasing revenues to the general fund in FY 2026.

Cancellation of Minneapolis Grants (Section 40)

The effective date is the day following final enactment.

Under current law, the 2023 tax bill provided a one-time appropriation of \$10 million from the state general fund for a grant to the city of Minneapolis. \$8 million was to be spent on businesses located on Lake Street and \$2 million to be spent on two property acquisitions.

The proposal would cancel the \$10 million appropriation to Minneapolis from the 2023 tax bill.

- The cancellation of the 2023 tax bill appropriation would result in a state general fund savings of \$10 million in fiscal year 2025.

South St. Paul Grant (Section 42)

The effective date is the day following final enactment.

The proposal would provide a \$250,000 grant to the city of South St. Paul to be paid by June 30, 2025. The grant must be used to pay for planning and development costs within the city.

- The one-time appropriation would result in a cost to the state general fund of \$250,000 in fiscal year 2025.

Article 13: Department of Revenue: Miscellaneous

Add 4d(2) as an Option for Remaining Market Value of 1b Properties (Section 3)

Effective beginning with assessment year 2025.

Under current law, class 1b homesteads of persons who are blind or disabled receive a classification rate of 0.45% for the first \$50,000 of value. Any value over \$50,000 receives the same classification rates as 1a residential homesteads and 2a agricultural homestead house, garage, and first acre: 1.00% for value between \$50,000 and \$500,000 and 1.25% for any value over \$500,000.

During the 2023 legislative session, a new homestead property classification was created with a reduced classification rate: class 4d(2) homestead community land trusts. Properties classified as 4d(2) have a classification rate of 0.75%.

The proposal would allow class 1b properties that also qualify for class 4d(2) to receive the reduced classification rate of 0.75% for value over \$50,000.

- Approximately 11,100 parcels are at least partially classified as class 1b homesteads of persons who are blind or disabled in assessment year 2023.
- 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 the proposal would have no impact on the state general fund.

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