

HOUSE RESEARCH

Bill Summary

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Subject: Changing the definition of market value for purposes of the fire aid distribution formula

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Overview

Changes the definition of market value for purposes of the fire aid distribution formula by including an estimated value for exempt property that pays the wind energy production and taconite production taxes. Effective beginning for the distributions made in 2007.

Section

1 **Market value.** Includes an estimated value for exempt properties that pay the wind energy production tax or the taconite production tax in the definition of market value for purposes of the fire aid distribution formula. This value is determined by dividing the tax amounts by three percent, yielding an estimated hypothetical value for those properties. This is based on the premise that typical C/I properties pay an effective property tax rate of about 3 percent (i.e., property tax /estimated market value).

Effective for distributions made in 2007 and thereafter.

2 **Apportionment of fire state aid to municipalities and relief associations.** Incorporates the new definition of market value made in section 1 into the formula for apportioning fire state aid.

Effective for distributions made in 2007 and thereafter.

Section

Background: State fire aid is funded by a general fund appropriation. This appropriation equals the greater of (1) 107 percent of the state insurance premiums tax on fire, lightning and sprinkler coverage or (2) 2 percent of the reported premiums for the insurance. The state fire aid for 2005 was about \$30 million. The Department of Revenue allocates the initial fire state aid distribution one-half based on the population for each fire town, and one-half based on the market value of each fire town. The formula uses "market value" that includes both taxable property and tax exempt property, if the property is listed on the tax exempt abstracts filed with the commissioner of revenue. These exempt abstracts include the market value of most tax exempt property (government land and buildings, churches, schools, charities, and so forth), as well as natural resource lands for which in lieu payments are made. However, the abstract does not include any value for properties that pay wind energy production taxes and taconite production taxes. This bill includes an approximate value for that property.