

House Research Act Summary

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Analyst: Joel Michael, 651-296-5057
Karen Baker, 651-296-8959
Steve Hinze, 651-296-8956
Patricia Dalton, 651-296-7434
Nina Manzi, 651-296-5204

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Overview

This article provides a \$1.25 billion sales tax rebate. The rebate is increased to \$1.3 billion if an additional \$50 million is available at the close of fiscal year 1999.

Individuals who received a 1997 property tax rebate or who paid state income tax (unless they were someone else's "dependent") qualify for an "automatic" rebate that the Department of Revenue will pay to them without application. Individuals who qualified for a 1997 property tax rebate but did not claim one have until June 15, 1999 to file a 1997 return claiming a property tax rebate in order to qualify for automatic payment of the sales tax rebate.

The rebate amounts are based on estimates of the average sales tax paid by individuals at specified income levels. For married couples filing joint returns and heads of household, the minimum rebate is \$358 and the maximum rebate is \$5,000. For single and married separate filers, the minimum rebate is \$204 and the maximum is \$2,500. Nonresidents who paid sales tax on personal (non-business) purchases in 1997 may apply for a rebate equal to 69% of their actual purchases.

The Department of Revenue will pay the rebate to taxpayers, beginning August 1, 1999. Rebates not paid by October 1, 1999 bear interest.

1 Statement of purpose. Describes the Legislature's intent in enacting a sales tax rebate and asserts that it is

reasonable to rebate sales tax

reasonable to use estimates and averages to calculate individual rebates in the absence of a practical method of determining actual sales tax amounts paid by individuals

reasonable to use the Department of Revenue's *Tax Incidence Report*, which analyzes the relationship between income and tax burdens, to estimate sales tax liability

2 Sales tax rebate.

Paragraph (a). Eligibility. Defines a person eligible for a rebate as someone who filed for the 1997 property tax rebate before June 15, 1999 filed a 1997 income tax return with at least \$1 of liability before refundable credits, and was not claimed as a dependent on another return; or had property taxes abated in 1997 as part of a flood relief law.

Paragraphs (b) and (c). Rebate schedule. Provide tables showing the rebate amounts by taxable income. The minimum rebate is \$358 for married couples filing joint returns and head of household filers, and \$204 for single and married separate filers. The maximum rebate is \$5,000 for married couples filing joint returns and head of household filers and \$2,500 for single and married separate filers.

Paragraph (d). Rebate for nonresidents. Provides that individuals who were not residents of Minnesota for any part of 1997 who paid more than \$10 of consumer sales tax in that year may apply for a rebate. The rebate for nonresidents equals the lesser of 69 percent of the amount for which a claimant has receipts or the amount the claimant would have qualified for if they had been Minnesota resident. Claimants must apply to the commissioner by June 15, 1999.

Paragraph (e). Income. States that the rebate tables are based on federal taxable income plus Minnesota additions, such as out-of-state tax exempt bond interest and the itemized deduction for state income taxes (line 4 on the 1997 form M-1). For part-year residents the rebate is apportioned by the percentage that the claimant's Minnesota assignable income is of total income.

Paragraph (f). Adjustment of rebate amounts. Provides the total rebate amount will increase to \$1.3 billion if additional money is available in the general fund at the close of fiscal year 1999. The commissioner is to proportionately adjust the rebate tables as necessary.

Paragraph (g). Time for payment. Directs the Commissioner of Revenue to begin paying rebates by August 1, 1999. Rebates not paid by October 1, 1999 bear interest.

Paragraph (h). Amended returns. Provides that sales tax rebates will not be recomputed based on adjustments to a taxpayer's 1997 income tax return that are filed after June 15, 1999.

Paragraph (i). Divorced claimants. Directs the commissioner to issue separate rebate checks to taxpayers who filed a joint return in 1997 but separate returns in 1998. Also allows taxpayers who filed a joint 1997 return to request a check for one-half of the joint rebate, if the original check has not been cashed.

Paragraph (j). Tax disclosure laws. Provides that the rebate is subject to tax disclosure laws.

Paragraph (k). Delinquent taxes. Provides that the commissioner may retain the rebate to offset delinquent taxes.

Paragraph (l). Right to rebate. Provides that the right to the rebate lapses and the rebate reverts to the general fund for rebate checks not cashed by July 1, 2001.

Paragraph (m). Appeal of rebate amount. Provides a mechanism for taxpayers to protest if they did not receive a rebate or if they received an incorrect amount. The regular administrative and court appeal rights apply.

Paragraph (n). Revenue recapture. Provides that the rebate is subject to Revenue Recapture for debts owed to the state.

Paragraph (o). Appropriation. Appropriates the amount to pay rebates and interest to the commissioner of revenue in fiscal years 1999, 2000 and 2001.

Paragraph (p). Theft of rebates. Provides that the commissioner may issue an order of assessment for the amount of a rebate check that is forged or improperly endorsed. The assessment must be issued within two years unless cashing the check constituted forgery or theft, in which case there is no statute of limitation. The assessment can be appealed administratively and judicially, and collection may be commenced under chapter 289A.

Paragraph (q). Commissioner's authority. Authorizes the commissioner to take whatever action is deemed necessary to pay the rebate. Allows the commissioner, in consultation with the Department of Finance and State Treasurer, to contract with a private vendor to process, print, and mail the rebate checks and receive and disburse state funds when checks are cashed.

Paragraph (r). Payment by EFT. Authorizes the commissioner of revenue to pay the rebate by electronic funds transfer to individuals who received their 1999 income tax refund by electronic funds transfer.

3 Appropriation. Appropriates \$1.257 million to the commissioner of revenue for administering the rebate. Chapter 250, article 1, section 5 (the State Government Finance bill) also appropriated \$278,000 to the State Treasurer for the treasurer's cost of administering the sales tax rebate.

4 Effective date. Effective the day following final enactment.

Article 2: Income and Franchise Taxes

Overview

This article decreases individual income tax rates from 6 percent, 8 percent, and 8.5 percent to 5.5 percent, 7.25 percent, and 8 percent.

The article also:

Conforms to federal law on the treatment of S corporation banks, but retains the corporate franchise tax on these banks. Eighty (80) percent of the corporate franchise tax is allowed as a credit against the shareholder's individual income tax.

Allows a subtraction for 50 percent of charitable contributions over \$500 for taxpayers who claim the federal standard deduction;

Allows individuals a one-time subtraction in tax year 2000 for pension, IRA and Keogh contributions and ACRS depreciation that were included in taxable income in the early 1980s due to nonconformity with the federal income tax;

Provides an income-based phaseout for the education credit, which begins at \$33,500 and ends at \$37,500;

Changes the weighting of the three factor apportionment formula from 70-15-15 (sales-property-payroll) to 75-12.5-12.5, beginning for tax year 2001;

Defines business income to include all income that is constitutionally subject to apportionment, but allows a credit for tax paid to another state to avoid multiple taxation, if another state taxes the income as non-business income.

- 1 Notification of cancellation of tax debts.** Provides that the Department of Revenue's determination that a tax debt is uncollectible cancels the debt. This is an exemption to the general rule that determination by a state agency that a debt is uncollectible does not cancel it. The Commissioner of Revenue must notify the taxpayer that the tax liability has been written off as uncollectible. Effective June 30, 1999.
- 2 Definition of resident.** Clarifies that the commissioner of revenue and the tax court may not consider an individual's contributions to Minnesota and non-Minnesota charities in determining residency for income tax purposes.

3 Additions to federal taxable income (FTI). Eliminates the additions to FTI for S corporation banks. These additions include (1) pass through losses or expenses (under prior Minnesota law these are allowed at the corporate level as for a C corporation); (2)

actual distributions of property or cash from the S corporation bank, and (3) differences in basis (when the Minnesota tax basis is lower than federal), if shares in the S corporation bank are sold.

4 Subtractions from taxable income. Modifies two existing subtractions, strikes three subtractions, and provides for two new subtractions from Minnesota taxable income.

The changes to clause (3) allow the education expense deduction for qualifying children rather than dependents. This will allow custodial parents of children in grades K-12 to claim the deduction even if the divorce settlement allows the noncustodial parent to claim the child as a dependent. Effective beginning in tax year 2000.

The changes to clause (4) allow individual taxpayers to subtract individual retirement account (IRA), self-employed retirement plan (Keogh), and public employee pension contributions that were deductible for federal purposes but not for state purposes. Minnesota did not immediately adopt the expanded contributions rules for these plans under the federal Economic Recovery Tax Act of 1981. The law now allows taxpayers to deduct these contribution as they receive distributions from the plans. The bill would allow the amounts not yet deducted to be claimed in tax year 2000. The subtractions under prior law that apply when distributions are received are eliminated.

The stricken clauses (11) to (13) eliminate the subtractions from FTI for S corporation banks. These include (1) pass through income or gain from the S Corporation bank (under prior Minnesota law these are taxed at the corporate level as for a C corporation), (2) differences in basis (when the Minnesota tax basis is higher than federal), if shares are sold, and (3) the special deduction for additional distributions made equal to federal tax liability.

The new clause (11) allows individuals who claim the federal standard deduction to subtract charitable contributions from Minnesota taxable income. The subtraction equals 50 percent of contributions in excess of \$500. Individuals who itemize are allowed an itemized deduction for charitable contributions at the federal level; this itemized deduction flows through to the state income tax calculation. Effective beginning in tax year 1999.

The new clause (12) allows a subtraction for holocaust settlement payments. Extends the subtraction to individuals who were persecuted for racial or religious reasons by Nazi Germany or another Axis regime and their heirs. Effective beginning in tax year 1999.

5 Basis modifications. Eliminates the basis adjustment for S corporation banks. This basis adjustment provides the individual taxpayer's basis is to be computed as if the S corporation bank were a C corporation.

6 ACRS, individuals. Allows individuals to claim the remaining amount of their ACRS depreciation for assets placed in service in tax years 1981 and 1982 in tax year 2000. After the federal Economic Recovery Tax Act of 1981, Minnesota did not adopt the new ACRS rules until tax year 1983. The recovery of the remaining amounts was allowed at the end of the federal recovery period. This subtraction does not apply to properties that were sold before the end of tax year 1999. These properties would be subject to the adjustment of the amount of taxable gain, as required in past tax years.

7 Definition; Holocaust settlement payments. Defines "Holocaust settlement payments" to include payments received from a court case, payments under foreign laws providing for payment of holocaust claims, and other payments for holocaust claims including insurance claims, claims relating to looted art or financial assets, and claims relating to slave labor wages.

8 Income tax rates. Makes changes in the individual income tax rates:

the 6% rate is reduced to 5.5%

the 8% rate is reduced to 7.25%

the 8.5% rate is reduced to 8%

Nonresidents and part year residents. Eliminates the adjustments to calculating the Minnesota percentage used to apportion the tax liability of part year residents and non-residents. Under prior law, the numerator is determined without regard to the portions of FTI that are attributable to S corporation banks and the denominator includes the additions and subtractions to FTI.

- 9 Indexing.** Makes conforming changes in the indexing provisions to reflect that section 8 updates the tax brackets as they appear in statute to the amounts for tax year 1999.
- 10 Bank S Corporation credit.** Allows the shareholder of a bank S corporation a credit equal to 80 percent of the corporate franchise tax paid by the S corporation bank. Section 26 imposes the corporate franchise tax on financial institutions that are S corporations.
- 11 Credit for taxes paid to another state; corporations.** Allows a corporation to claim a credit for taxes paid to another state, if the other state treats the income as non-business income and assigns it to the state and Minnesota treats it as business income and apportions it. The credit equals the amount of tax paid to the other state, multiplied by the corporation's apportionment percentage. The credit cannot exceed the amount of Minnesota tax on the income (e.g., if the other state has a higher rate). If the other state adjusts the tax paid after the Minnesota return has been filed, the taxpayer must notify the commissioner. In addition, the taxpayer is deemed to consent to an extension of the statute of limitation and the credit is adjusted (either up or down, depending upon the order).
- 12 Working family credit.** Increases the working family credit for taxpayers with children by increasing the credit rate applicable to the first bracket by approximately ten percent. Adjusts the phase out percentages so the credit phases out at the same income level as under prior law. Effective beginning in tax year 1999.
- Also directs the commissioner to construct tables for taxpayers to use in determining the working family credit. Allows the commissioner to graduate the income brackets in the tables. The commissioner used this approach in administering the changes made to the working family credit in 1998. Effective retroactively to tax year 1998.
- 13 Education tax credit.** Expands the definition of fees and tuition eligible for both the education tax credit and deduction to include amounts paid to a teacher who is a member of the Minnesota Music Teachers Association. Under prior law, a music teacher must have a baccalaureate degree in order for music lessons to qualify for the credit and deduction. Effective beginning in tax year 1999.
- Also changes the definition of children for whom parents may claim the education credit from "dependent" to "qualifying child." "Qualifying child" is the definition used for determining eligibility for the federal earned income tax credit and the Minnesota working family credit. This change allows custodial parents with education-related expenses to claim the credit even if the child is claimed as a dependent on the noncustodial parent's income tax return under a divorce decree or separation agreement. Effective beginning for tax year 2000.
- 14 Education tax credit phaseout.** Provides the education tax credit is subject to an income-based phaseout, with the phaseout starting when household income reaches \$33,500, the maximum income at which the credit is allowed. No credit would be allowed to claimants with incomes over \$37,500.
- 15 Marriage penalty credit.** Provides a nonrefundable credit for married couples filing joint returns in which both spouses have earned income. The credit amount is shown on a lookup table and equals the additional income tax imposed on a married couple compared to single filers because of the width of Minnesota's income tax brackets. The maximum credit is \$261; and the credit amount and lookup parameters are adjusted annually for inflation.

- 16 AMT rate.** Reduces the alternative minimum tax (AMT) rate from 7% to 6.5%.
- 17 Alternative minimum tax preference items.** Eliminates the adjustments to alternative minimum taxable income for S corporation distributions. These parallel the additions and subtractions to FTI. Provides a subtraction from alternative minimum taxable income for holocaust settlement payments. Also makes a conforming change in the definition of tentative minimum tax to reflect the change in the AMT rate.
- 18 AMT credit.** Eliminates the adjustments for S Corporation bank distributions and items in calculation of the credit based on prior year's AMT. Also makes a conforming change in the AMT credit to reflect the change in the AMT rate.
- 19 Charitable contributions; corporate alternative minimum tax (AMT).** Clarifies that for the purpose of computing the corporate AMT, charitable contributions are not subject to the 15 percent limit under the regular corporate tax. The corporate charitable contribution deduction would continue to be limited to 15 percent of alternative minimum taxable income, as under prior law.
- 20 Net operating loss (NOL) carryovers.** Clarifies that the requirement to apportion net operating losses applies to corporations that conduct their entire business in Minnesota but are members of a unitary group required to apportion income.
- 21 Trade or business income.** Provides that all income of a trade or business, except non-business income, is subject to apportionment.
- 22 Unitary Business Principle.** Makes the definition of a "unitary business" consistent with the U.S. Supreme Court definition, and creates a presumption that a unitary business exists whenever business operations are of mutual benefit, dependent upon or contributory to one another. Clarifies that a sole proprietorship may be a unitary business, but neither requires nor permits proprietorships to file combined reports. Also strikes obsolete references.
- 23 Non-business income.** Makes the definition of "non-business income" consistent with U.S. and Minnesota Supreme Court cases that have found that certain types of unitary business income cannot be apportioned. Income derived from a capital transaction that solely serves an investment purpose is specifically defined as non-business income. (This codifies the rule in the most recent United States Supreme Court case on this issue, *Allied-Signal, Inc. v. Director, Division of Taxation*, 504 U.S. 768 (1992).) In most cases, non-business income is assigned to a taxpayer's domicile. Effective for tax years beginning after December 31, 1998.
- 24 Apportionment formula - multi-state businesses.** Changes the weighting of the apportionment formula for multi-state businesses. Most corporations are required to use a three factor formula, based on property, payroll, and sales. (The law allows certain Minnesota based mail order sales corporations to use single factor sales apportionment.) The sales factor is weighted 70 percent, while property and payroll are each weighted 15 percent. This section weights the sales factor 75 percent and property and payroll 12.5 percent each. Effective beginning for tax year 2001.
- 25 Apportionment formula - financial institutions.** Adopts the 75-12.5-12.5 apportionment formula for financial institutions.
- 26 S corporation status.** Eliminates the prohibition on banks electing to be S corporations for Minnesota income tax purposes. Any corporation that validly elects S corporation status for federal purposes would also be an S corporation for state purposes. However, bank S corporations would continue to pay the corporate franchise tax. Shareholders would be allowed a credit for a portion of the corporate franchise tax paid by the corporation.
- 27 S corporation tax apportionment.** Requires S corporation banks to apportion and report their corporate franchise tax to their shareholders. This tax is the amount that the shareholder is (partially) allowed as a credit against their individual income tax. The tax is apportioned based on the

shareholder's share of the S corporation's taxable income.

- 28 Definition of income.** Modifies the definition of "household income" to exclude Holocaust settlement payments. This definition is used for determining the property tax refund, dependent care tax credit, education tax credit, and eligibility for the senior property tax deferral program and disabled homestead classification.
- 29 Amnesty for prior years.** Provides that if a corporation reported all income as business income, the commissioner may not assess additional tax for the year by treating the income as non-business income. Effective for years before January 1, 1999.
- 30 AMT, bank S corporations.** Allows shareholders of bank S corporations a subtraction in computing the alternative minimum tax equal to the subtraction under the regular tax for the amount of the federal tax. This adjustment is effective for tax year 1998 only.
- 31 Appropriation.** Provides a \$50,000 appropriation in fiscal year 2000 and an additional \$50,000 in fiscal year 2001 from the general fund to one or more nonprofit organizations for the coordination and provision of taxpayer assistance services provided by volunteers to help low-income taxpayers prepare and file federal and state income tax returns, and claims for the property tax refund.
- 32 Effective date.** Provides the changes are generally effective for tax year 1999.

Article 3: Federal Update Overview

This article adopts the 1998 federal changes for purposes of the individual and corporate income tax, the property tax refund, and the estate tax.

1 Administrative provisions update. Updates to federal changes relating to tax administration.

Lengthens the time period for claiming a refund due to a net operating loss generated by a farm loss from two years to five years;

Broadens the availability of innocent spouse relief

2 Net income update. Adopts federal changes to the definition of "taxable income" made in the Internal Revenue Service Restructuring and Reform Act, the Omnibus Consolidated and Emergency Supplemental Appropriations Act, the Transportation Equity Act for the 21st Century, and the Ricky Ray Hemophilia Relief Fund Act. These acts include many technical changes to the definition of "taxable income." Substantive changes include:

Lottery winnings. Allows lottery winners who elect to receive annuity payments after winning prizes to recognize income as payments are made. Effective for prizes won after October 21, 1998.

Education loan interest deduction phaseout. Excludes employer-provided adoption assistance and U.S. bond interest from the income measure used in phasing out the deduction for education loan interest. Effective for loans incurred after August 5, 1977, and interest due after December 31, 1997.

Education loan interest deduction. Provides that interest paid on a loan from an employer's qualified pension plan does not qualify for deduction as education loan interest. Effective for loans incurred after August 5, 1977, and interest due after December 31, 1997. To be considered deductible interest, the debt must be incurred solely to pay higher education expenses. Effective for interest paid in tax years beginning after December 31, 1997.

Charitable contributions. Allows taxpayers to deduct the fair market value of appreciated stock given to a private foundation as a charitable contribution deduction. Effective for gifts made after June 30, 1998.

Casualty losses. Treats non-business theft or casualty losses incurred in a transaction entered into for profit as business losses for net operating loss purposes and as a miscellaneous itemized deduction not subject to the 2 percent federal adjusted gross income threshold. Effective retroactively to tax year 1987.

Farm income. Allows farmers who choose to receive federal production payments under the Federal Agriculture Improvement and Reform Act of 1996 (FAIR) in January rather than December to recognize the income in the year in which they receive the payment. Effective beginning with tax year 1996.

Shareholders of RICs and REITs. Provides that corporate shareholders who hold an 80 percent or more of a Regulated Investment Company (RIC) or a Real Estate Investment Trust (REIT) may not receive liquidating distributions tax free if they can claim a deduction for dividends paid on the distribution. Effective for distributions after May 21, 1998.

Education IRA. Provides that funds in an education IRA are deemed distributed 30 days after the IRA beneficiary's 30th birthday. Effective for tax years beginning after December 31, 1997.

Sale of principal residence. Allows the \$250,000 capital gain exclusion on the sale of a principal residence to be pro-rated for taxpayers who do not meet the two year ownership or use requirement because of employment, health, or unforeseen circumstances. The \$250,000 is reduced proportionately based on actual months of use and ownership.

Transportation fringe benefit. Allows employees to exclude from income cash benefits that they choose in place of employer-provided transportation fringe benefits such as bus pass, parking, and van pools. Effective beginning with tax year 1998. Adjusts the allowable exclusion for transportation fringe benefits for inflation beginning in 1999.

Small business stock. Allows certain partnerships and "S" corporations to sell qualified small business stock and use the proceeds to buy other small business stock without recognizing gain. Effective for sales after August 5, 1997.

Employer-provided meals. Provides that employer-provided meals are excluded from the income of all employees if the meals for at least half of the employees are provided for the convenience of the employer. Effective for tax years beginning before, on, or after July 22, 1998.

Vacation pay. Allows employers to deduct accrued vacation or severance pay only if the pay is actually received by the employee within two and a half months of the end of the tax year. Effective for tax years ending after July 22, 1998.

Corporate charitable deduction. Extends the enhanced corporate deduction for computer technology and equipment donations to elementary and secondary schools through the year 2000.

Personal injury recovery. Excludes from taxable income amounts received by HIV victims from the federal government through the Ricky Ray Fund. The Ricky Ray Fund is a \$750 million compensatory fund for hemophiliacs who contracted HIV from tainted blood products between 1982 and 1987. Those affected receive \$100,000 from the Ricky Ray Fund and an additional \$100,000 from a settlement fund established by the pharmaceutical companies that supplied the tainted blood. Effective for payments received after November 12, 1998.

Roth IRA. Provides that the election to spread income attributable to a conversion from a regular IRA to a Roth IRA over four years is elective rather than mandatory.

Mark-to-Market. Provides that trade receivables are not subject to the mark-to-market or the lower of cost or market provisions. Effective for tax years ending after July 22, 1998.

Stapled REITs. Provides that a "stapled" real estate investment trust (REIT) and its subsidiary will be treated as a single unit if after March 26, 1998, the REIT acquires new real property or

makes substantial improvement to existing property. The term "stapled REITs" refers to REITs that predate 1984 and have corporate subsidiaries. They are otherwise allowed to continue to treat income from the corporate subsidiaries separately.

Subpart F exceptions for active financing income. Extends for one year the exception that allows U.S. corporations with foreign-controlled banking and insurance subsidiaries to exclude unearned income of the subsidiary. U.S. corporations are otherwise required to recognize the unearned income of foreign-controlled subsidiaries that are engaged in business other than banking and insurance.

- 3 Subtractions from taxable income.** Clarifies that the Minnesota subtraction for health insurance expenses of self-employed taxpayers does not depend on the percentage subtraction allowed under federal law, but instead allows taxpayers to subtract at the state level any insurance expenses that are not subtracted at the federal level. Effective beginning in tax year 1999.
- 4 Update to alternative minimum tax (AMT) and net operating losses (NOL).** Updates references to the Internal Revenue Code, with the following effects:
- allows individual taxpayers a five year carry-back for net operating losses (NOL) from farming.
 - allows taxpayers calculating the AMT to use the 150% declining balance method of depreciation with the recovery period used for regular tax purposes without creating a timing preference under the AMT.
- 5 Property tax refund update.** Conforms the income measure used in the property tax refund to changes in the federal definition of adjusted gross income. Effective at the same time the federal changes take effect.
- 6 Estate tax.** Updates references to the Internal Revenue Code for technical changes to the federal definition of taxable estate. This definition is used to compute Minnesota's estate tax. Effective at the same time the federal changes take effect.
- 7 Effective.** Provides that the changes are generally effective for tax year 1999.

Article 4: Sales and Use Taxes

Overview

This article makes several minor changes and clarifications to sales tax administration including allowing construction materials suppliers to use different accounting methods for sales and income tax purposes.

The article contains a number of exemptions from the sales tax including the following:

- television commercials and certain inputs to television commercial production;
- purchases by outpatient surgical centers;
- materials used to construct buildings housing exempt biosolids processing equipment;
- construction materials and supplies for a beef processing facility in the city of Windom and an electrical generating facility that burns wood waste.

The following requirements were added to the general law that applies to local sales taxes:

- a general election must be held before the imposition of the tax;
- the tax must fund a specified capital project and the tax must expire when the project is completed; and
- a local government must wait at least one year after a local sales tax expires before re-imposing the tax.

The cities of New Ulm and Proctor are authorized to impose one-half percent local sales taxes for specified projects, subject to referendum approval.

- 1 Sales and use tax returns.** Allows a material supplier to the construction industry to report their sales on either a cash or an accrual basis, regardless of the accounting method used for income tax purposes. Effective for sales made after June 30, 1999.
- 2 Sales and use tax.** Adjusts the requirements for sales tax remittance to reflect the reporting options for materials suppliers in section 1.
- 3 Capital equipment refunds; refunds to purchasers.** States that if the purchaser does not include with the refund claim a detailed schedule of when the capital equipment was purchased, interest on the refund will be calculated from the date the claim is filed. Under prior law interest is calculated from the date of purchase. This will continue to be the case for purchasers who submit the information necessary to make that calculation. Effective for claims or amended returns filed starting July 1, 1999.
- 4 Materials consumed in production.** Exempts from sales tax crucibles and other items used in metal casting. Effective for all open tax years and for assessments and appeals for which the time limit has not run out. Applicants must file by the later of December 31, 1999, or the regular limit for filing for a refund (generally 3 ½ years after return is due).
- 5 Hospitals and outpatient surgical centers.** Exempts tangible personal property used in providing outpatient surgical care and urgent care at a non-profit outpatient surgical center. Under prior law this exemption was only available to non-profit hospitals. Purchases by physicians' offices, clinic and other medical facilities remain taxable. Effective for purchases after June 30, 1999.
- 6 Biosolids processing equipment.** Extends the sales tax exemption for the purchase of biosolids processing equipment to the materials used in constructing buildings to house the equipment. Effective retroactively to sales after June 30, 1998 but is limited to sales before July 1, 2001.
- 7 Prizes.** Provides a sales tax exemption for the sale of property to be used as prizes for games of skill or chance conducted at community carnivals, festivals, and fairs lasting less than six days. Effective for sales after June 30, 1999.
- 8 Construction materials and supplies; agricultural processing facility.** Provides a sales tax exemption for materials, supplies and equipment used in the expansion, remodeling or improvement of a beef slaughtering facility. The exemption applies regardless of whether the purchaser is the facility owner or a contractor. To qualify, the expansion project must be completed by December 31, 2001, exceed \$15 million in cost, add beef fabrication capabilities to the facility, and create at least 150 new jobs. The exemption applies to a facility located in the city of Windom. Effective the day after final enactment.
- 9 Television commercials.** Exempts from the sales tax, television commercials and tangible goods used or consumed in pre-production, production, and post-production of television commercials. This exemption does not extend to machinery and equipment or to fuels used in space heating or lighting. Effective for sales after June 30, 1999.
- 10 Construction materials and equipment; biomass electrical generating facility.** Provides a sales tax exemption for materials, supplies and equipment used in the construction, improvement, or expansion of an electrical generating facility, if the facility (1) uses exclusively wood waste and by-products for fuel; (2) uses a reciprocated grate combination system; and (3) has a total gross generating capacity of 15 to 21 megawatts. This exemption is effective for purchases made after the date of final enactment and before July 1, 2001.
- 11 Waste management containers and compactors.** Provides a sales tax exemption for waste management containers and compactors purchased by waste management service providers and used in providing waste management services. To qualify, the service provider must be collecting the solid

waste management tax on the containers and compactors. The exemption is effective for purchases made after June 30, 1999.

12 Local Sales Tax General Rules. Provides rules for the approval, use, and termination of local sales taxes. This section requires voters to approve a local sales tax at a general election. The proceeds of the tax must be dedicated exclusively to pay for capital improvements that are designated at least 90 days before the referendum. The tax must terminate after the improvement has been completed. After a local sales tax has terminated, the local unit may not impose a new local sales tax for one year. The one year moratorium applies to existing local sales taxes as well as to new local sales taxes.

13 Determination of where sales occur. States that retailers may use zip codes to determine whether a delivery sale is subject to a local sales tax if the zip code is entirely contained in the political subdivision that imposes the local tax. Otherwise, if the purchaser gives the retailer notice that the delivery address is outside the political subdivision, the retailer can not impose the tax unless they verify applicability of the local tax by a means other than the zip code. Effective the day after final enactment.

14 Use of revenue; Central Minnesota events center local tax law. Allows the local governments authorized to impose local taxes to fund the Central Minnesota events center and other regional projects to begin imposing the taxes even if the construction of the event center is delayed. Under prior law the taxes may not be imposed if sufficient fund sources for the event center are not identified. Requires that a portion of the revenues each year be reserved to fund the event center in the future. If construction of the events center has not begun by December 31, 2007, the reserved revenues will be used to pay the costs of existing "other " projects. Requires that all revenues raised after 2008 be used to pay for the event center and for existing bonds on the "other" projects.

15 Bonding authority; Central Minnesota events center local tax law. Clarifies that the special bonding authority of \$50 million, less the 1998 state capital grant for the Central Minnesota events center, is for bonds to construct the events center. States that bonds for the other regional projects, such as parks, libraries, and community centers, that are funded with revenues from these local taxes must be issued under regular city bonding authority. Prohibits the issuance of bonds for these other regional projects after December 31, 2008.

16 Termination of taxes; Central Minnesota events center local tax law. Provides the local taxes imposed expire when sufficient funds have been accumulated to pay for the Central Minnesota events center project or after 30 years, whichever is earlier. If the funding for the Central Minnesota events center has not been found by December 31, 2008, the taxes expire as soon as sufficient revenues have been raised to pay the bonds for the other regional projects which were issued prior to December 31, 2008.

17 New Ulm Local Sales Tax. Authorizes the city of New Ulm to impose a sales and use tax of up to one-half of one percent if approved by the voters of the city at the next municipal general election. The city is also authorized to impose an excise tax of up to \$20 per motor vehicle sold within the city. Revenues derived from those taxes would be used by the city to pay for the construction and improvement of a civic and community center and recreational facility. Capital expenses for the project are limited to \$9 million plus the cost of issuing the bonds. Authorizes the city to issue bonds to finance the project. The election for the issuance of the bonds may be held in conjunction with the election to authorize imposition of the taxes. The bonds are not included in the city's net debt limit. The taxes authorized under this section may be pledged to and used for the payment of the debt service only if the bonds are general obligations of the city. The taxes terminate when the costs of the projects are paid.

18 Proctor Local Sales Tax. Authorizes the city of Proctor to impose a sales and use tax of up to one-half of one percent if approved by the city voters at the next municipal general election or at a special

election held on November 2, 1998. The city is also authorized to impose a \$20 per motor vehicle excise tax. The revenues from the taxes would be used by the city to pay for construction and improvement of streets and to construct and equip the Proctor Community Activities Center. The amount that could be spent on these projects from the proceeds of the taxes is limited to \$3.6 million plus an amount equal to the cost of issuing the bonds. This section also exempts the bonds for the improvement projects from the referendum requirements and the net debt limits. The local sales taxes may be pledged to and used to pay the bonds only if the bonds are general obligations of the city. The taxes terminate after the costs of the projects are paid.

19 Effective dates.

Article 5: Property Taxes

Overview

Article 5 reduces property tax class rates for most types of property. The class rate changes are summarized in a table on page 29. The education homestead credit is expanded to offset the shift effects of the class rate changes. A new education agricultural credit is established to provide agricultural tax relief.

Other highlights include:

- a reduction in the maximum allowable market value increase for residential, agricultural and seasonal-recreational property from 10 percent to 8.5 percent per year; the "catch up" rate for properties with limited values significantly below actual values was also reduced from 25% to 15%;

- modifications increasing uniformity and improving administration of the "this old house" program for delaying valuation increases resulting from certain home improvements;

- increases in the income limits and the amount of tax that may be deferred under the senior deferral program;

- a restructuring of the agricultural homestead class eliminating acreage as a factor;

- a one time charity care aid program of \$10 million in pay 2000 to compensate certain hospitals that provide significant charity care to non-county residents; and

- minor changes to local government aids.

1-2 Homestead appeals. Allows owners who do not receive timely notice of their homestead denial to appeal the denial in the small claims division of tax court even if they have not appeared before the local board of review and the county board of equalization. Under prior law, all owners were required to first appear before the county board before they could appeal to the small claims division of tax court.

3 Property exemption; electric utility peaking facility and business incubator. Provides an exemption for an electric utility peaking facility (clause 32) and expands an existing exemption for a business incubator (clause 30).

Electric utility peaking facility. Exempts from property tax an electric utility peaking facility proposed to be constructed in Martin County provided it meets specific requirements. Attached machinery and other personal property that is part of a simple-cycle combustion-turbine electric generation facility that exceeds 250 megawatts of installed capacity is exempt from property taxation if it:

- (i) is not owned by a public utility as defined in section 216B.02, subdivision 4;

- (ii) utilizes natural gas as a primary fuel;

- (iii) is located within 20 miles of the intersection of an existing 42-inch natural gas pipeline and a

345-kilovolt high-voltage electric transmission line; and

(iv) is designed to provide peaking, emergency backup, or contingency services, and has received a certificate of need under section 216B.243 demonstrating demand for its capacity.

Construction of the facility must begin after July 1, 1999, and before July 1, 2003. The exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

Business incubator. The property tax exemption available to business incubators remains in effect even after the business incubator property is occupied. Prior law provided an exemption for property that was owned by a nonprofit charitable organization and that was intended to be used as a business incubator in a high unemployment county, but only so long as it was not occupied on the assessment date. The property that qualifies for the exemption is limited to no more than two contiguous parcels and structures that do not exceed 40,000 square feet in the aggregate. The exemption expires after taxes payable in 2005.

4 Personal property used to generate electricity. Provides exemptions for utility personal property.

Subd. 1. Electricity generated to produce goods and services. Contains a cross reference to subdivisions 2 and 3, which are added.

Subd. 2. Continued exemption for privately owned electric generation property sold to a utility. (a) Tools, implements, and machinery of an electric generating facility are exempt if the following requirements are met:

(1) the electric generating facilities were operational and met the requirements for exemption of personal property under subdivision 1 on January 2, 1999; and

(2) the generating facility is sold to a Minnesota electric utility.

(b) Tools, implements, and machinery that increase the generation capacity of a facility exempted under paragraph (a) are also exempt.

Exemption for electric power plant personal property; taconite and steel mill. Tools, implements, and machinery of an electric generating facility are exempt if the following requirements are met:

(1) the electric generating facility, when completed, will have a capacity of at least 450 megawatts;

(2) the electric generating facility is adjacent to a taconite mine direct-reduction steel mill; and

(3) the electric generating facility supplied over 60 percent of its electricity generated in the prior year to the adjacent direct-reduction plant and steel mill.

5 Parcel. Provides that properties that are owned by a utility and leased for residential or recreational uses for terms of 20 years or longer are to be treated as separate parcels for property tax purposes. (See also section 10.) Effective beginning for taxes payable in 2000.

6 Limited market value. Limits the increase in market value to 8.5 percent of the preceding year's assessment. The limit is 15 percent of the difference between the current assessment and the preceding assessment, when that computation yields a higher amount (properties where the current assessment is roughly 50% above the preceding assessment). Prior

law limited the increase to the greater of 10 percent of the preceding year's assessment or 25 percent of the difference. Limited market value continues to apply to the same classes as under Prior law - i.e. agricultural homestead and nonhomestead property, residential homestead and nonhomestead property, and seasonal recreational residential property (cabins).

7 Valuation exclusion for new improvements. Makes a number of changes in the "this old house" program:

| | Prior Law | Chapter 243 |
|--|---|--|
| Minimum age for eligibility | 35 years | 45 years |
| Age for 50% exclusion | 35 to 70 years | 45 to 70 years |
| Age for full exclusion | 70 years or more | 70 years or more |
| Maximum exclusion | \$50,000 if at least 70 years old | \$50,000 if at least 70 years old \$25,000 if 35 to 70 years old |
| Maximum estimated market value(EMV) eligible | \$150,000, with exceptions* | \$400,000, no exceptions |
| Minimum improvement threshold | \$1,000 per improvement, for up to 3 improvements | \$5,000 per improvement or per year, for an unlimited number of improvements |
| Phase-in schedule (after 10 years' exclusion) | 20 percent of each improvement per year for 5 years | If total exclusion is less than \$10,000, 50% per year for 2 years. If total exclusion is at least \$10,000, 20% per year for 5 years |

* Under Prior law, there are two exceptions to the \$150,000 maximum:

(1) the maximum is \$300,000 EMV, if the home is located in a city or town in which (a) 50 percent or more of the owner occupied housing units were constructed before 1960 and (b) the city or town's median family income is less than the statewide median family income, and

(2) no maximum EMV applies if the home is located in a city or town in which (a) 45 percent or more of the homes were constructed before 1940, (b) 45 percent or more of the housing units in the city or town were rental, and (c) the city or town's median value of owner occupied housing units is less than the statewide median value of owner occupied housing units.

8 Dissected parcels; continued green acres treatment. Allows certain property in Ramsey county which has been dissected by roadways to continue receiving green acres valuation and tax deferral, but increases the payback requirement to the last 10 years of deferred taxes. Effective retroactive to taxes payable in 1998.

9 Homestead classification. Paragraph (c) extends the relative homestead provision to nieces and nephews of the owner.

Paragraph (h) clarifies that property occupied by a child or children of a deceased property owner qualifies for relative homestead classification during the time the property is in probate.

10 Homestead on leased land. Provides for homestead classification of land and buildings leased from a utility, provided the following conditions are met:

the land is owned by a utility,

the land is leased for a term of 20 years or more,

the occupant is using the property as a permanent residence, and

the occupant is paying the property taxes and any special assessments levied on the property.

11 Family farm corporations or partnerships. Provides that agricultural property owned by a shareholder of a family farm corporation, or a partner of a partnership, and leased to the family farm corporation or the partnership by the shareholder or the partner, qualifies for agricultural

homestead treatment if the owner resides on the property and is engaged in farming the land on behalf of the corporation. This applies without regard to any legal

possession rights of the family farm corporation under the lease. Agricultural land owned by a partner of a partnership operating a farm is treated similarly.

Each shareholder who lives on and actively farms land that is owned by a family farm corporation is entitled to full homestead treatment on the land. Shareholders currently receive homestead treatment only on the house, garage, and one acre.

12 Property tax microdata. Allows county treasurers and auditors to view and access social security and federal identification numbers that taxpayers give to county assessors on their homestead applications. This authorization applies only to activities necessary for production of the microdata sample.

13 Agricultural homesteads. Modifies eligibility for agricultural homestead classification.

Paragraph (a) sunsets a provision allowing agricultural homestead classification for farm owners who live off the farm in a home bordered on two sides by agricultural or certain public land. Properties currently receiving homestead classification under this provision are allowed to continue to receive homestead treatment, but no new classifications under this provision are allowed.

Paragraph (b) allows agricultural homestead classification for farms where the farm owner does not live on the farm, but lives within four cities or townships from the farm, if the owner actively farms the land, is a Minnesota resident, and does not claim another agricultural homestead in Minnesota.

14 Additional requirements prohibited. Prohibits political subdivisions from imposing any additional requirements not contained in chapters 272 and 273 on granting homestead classifications to property. Effective day following final enactment.

15 Class 1; Residential homestead classification. (Note: class rate changes are summarized in a table at the end of the article 5 summary.) Clarifies that the definition of income for determining eligibility for the permanently and totally disabled homestead class is the same definition as that used for the property tax refund program.

16 Class 2; Agricultural classification. (Note: class rate changes are summarized in a table at the end of the article 5 summary.) Eliminates the 320 acreage threshold for determining value assigned to the highest ag homestead class rate, replacing it with a \$600,000 valuation threshold. Also expands the definition of agricultural products to include "insects primarily bred to be used as food for animals," and to include trees grown for sale as a crop, and not sold for timber, lumber, wood or wood products. This definition is used in determining if the property qualifies for the agricultural property classification.

17 Class 3; Commercial-industrial classification. (Note: class rate changes are summarized in a table at the end of the article 5 summary.) Makes several changes to the commercial-industrial classification:

Eliminates the special class rate for employment property, since the class rates provided for commercial-industrial properties are effectively lower than the class rates for employment property.

Eliminates the provision limiting the reduced (first tier) class rate to one property per owner per county in the case of utility property. This same treatment was given to all other commercial and industrial property in the 1997 omnibus tax law. Applies to real property only.

Includes all public utility personal property in the definition of class 3a property. These types of property are removed from class 5 in a later section. No class rate changes result

when moving the property from class 5 to class 3a. All personal property remains classified at the class rate for the higher tier.

Eliminates the transit zone classification for new structures, except for those currently under development or planned for development. Places additional restrictions on properties in order to continue to qualify for the transit zone classification. Freezes the transit zone class rate at 2.975 percent or the class rate of the second tier of commercial-industrial, whichever is less. Under Prior law, the rate was 85 percent of the commercial-industrial top tier class rate. Effective payable 2001 and thereafter.

- 18 Transit zone properties; personal property tax.** Imposes a personal property tax on the leaseholds of tenants of certain structures which qualify for the transit zone classification. The tax is equal to the market value of the property covered by the lease times the class rate differential between the regular upper-tier commercial-industrial rate and the transit zone rate, times the total local tax rate. The tax does not apply to a lease or binding agreement that was executed/entered into before May 1, 1999, or a lease under an expansion option contained in a binding written agreement. Effective payable 2001 and thereafter.
- 19 Class 4; miscellaneous property classification.** (Note: class rate changes are summarized in a table at the end of the article 5 summary.)
- Provides that non-commercial seasonal recreational property (cabins) are subject to the same class rates as class 4bb single-unit residential nonhomestead property
 - Eliminates the special class rate for certain warehouse property that is converted to apartments
 - Provides that manufactured home park land is subject to the same class rates as class 4b residential nonhomestead property (duplexes, triplexes and undeveloped land zoned residential)
- 20 Class 5 classification.** (Note: class rate changes are summarized in a table at the end of the article 5 summary.) Deletes certain types of public utility property from class 5 (these types of property are specifically included in class 3 in section 17).
- 21 Education homestead credit; education agricultural credit.**
- Subd. 1a. Education homestead credit.** Increases the education homestead credit from 66.2 percent in payable 1999 to 83 percent for payable 2000 and thereafter; increases the maximum credit from \$320 in payable 1999 to \$390 for payable 2000 and thereafter. Deletes language relating to an adjustment to the education homestead credit rate that is no longer necessary.
 - Subd. 1b. Education agricultural credit.** Creates a new education agricultural credit equal to 54 percent, for agricultural homestead property, or 50 percent, for agricultural nonhomestead property, of the general education tax on the property. The credit does not apply to the house, garage and one acre of agricultural homestead property. Effective for payable 2000 and thereafter.
- 22 Homestead and agricultural credit aid (HACA).** Provides additional state HACA to compensate local governments for the class rate reductions to agricultural homestead property and noncommercial seasonal recreational property. Authorizes the commissioner of revenue to base HACA amounts for CY 2000 on estimated data, and to correct the payment amounts in CY 2001 if better data becomes available for determining proper HACA amounts for the class rate changes affecting agricultural homesteads.
- 23 Appropriation; local fiscal notes.** Extends the \$100,000 per year limit on the amount that the commissioner of finance can recover from state aid payments for the preparation of local impact notes for one year, through FY 1999.
- 24 Access by assessor.** Allows property owners to refuse to allow an assessor to inspect their property. The refusal may be either verbally or expressly stated in a letter to the county assessor.

Authorizes assessors who are denied access to estimate a property's value by making assumptions believed appropriate concerning the property's finish and condition.

25 Board of review. Provides that the county board may not adjust the market value or the classification of a property in a way that would benefit the property in cases in which the assessor was not allowed to inspect the property and the interior of any buildings or structures..

26 Distribution of interest on property tax delinquencies. Modifies the distribution of interest on property tax delinquencies.

Under Prior law, 50 percent of all penalties and interest collected on real and personal property taxes were distributed to the county in which the property is located, and the other 50 percent are distributed to the school districts within the county.

This section maintains the 50 percent distribution to school districts for both penalties and interest, and continues the 50 percent distribution of penalties to the county in which the property is located. If the taxes have been delinquent for one year or less, the county maintains the 50 percent distribution of interest. If the taxes have been delinquent for more than one year, the 50 percent non-school share of interest from tax delinquencies will be distributed to the city/town and county which levied the taxes on the property, in the same proportion as each city/town's levy for taxes payable in the year the interest was collected is to the total city/town and county levy for taxes payable in the year the interest was collected. The balance is then distributed to the county.

27 Homestead definition. Modifies the definition of agricultural homestead for the purposes of the property tax refund to include the taxes on the first \$600,000 of market value, rather than the first 320 acres, to be consistent with classification changes made in section 16.

28 Senior deferral program qualifications; household income. Increases the total household income from \$30,000 to \$60,000 for homeowners to qualify for the senior citizen's property tax deferral program. The income measure used is household income, a broad measure also used in calculating the property tax refund (circuit breaker).

29 Senior deferral program; recording. Clarifies that the homeowner pays the recording and/or filing fees at the time a senior deferral lien is satisfied.

30-31 Senior deferral program qualifications; household income. Technical sections necessary for increase in household income limitation from \$30,000 to \$60,000.

32 Senior deferral program; maximum property tax amount. Decreases the annual maximum property tax amount which the taxpayer is required to pay from 5 percent of income to 3 percent. This will allow the taxpayer to defer more tax under the program.

33 Removes homestead restriction; Giants Ridge. Removes the restriction preventing residences developed adjacent to the Giants Ridge Recreation Area from receiving the homestead classification and the property tax refund.

34 Definition; Capital improvements. Includes "development rights in the form of conservation easements" in the definition of capital improvements for which county capital improvement bonds may be issued.

35 Conservation easements. Clarifies that a county board may acquire development rights to property in the form of a conservation easement.

36 Class 4d certification timing. Repeals the change in the certification date for class 4d property (low income housing) by the Minnesota Housing Finance Agency. This date was scheduled to become April 1st, beginning in 2000. This certification is now made in June.

37 Federal update. Updates the references to the federal housing act to 1998 for purposes of payments of in lieu taxes.

38 Low-rent public housing. Clarifies that the exemption for low-rent public housing applies to the

taxes imposed by all of the taxing districts, not just the local unit that created the housing and redevelopment authority. Exemption of low-rent public housing is required by federal law.

- 39 Conservation easements; Statutory Cities.** Includes the acquisition of conservation easements as an authorized purpose for which statutory cities may issue debt obligations.
- 40 Conservation easements; Counties.** Includes the acquisition of conservation easements as an authorized purpose for which counties may issue debt obligations.
- 41 Conservation easements; Towns.** Includes the acquisition of conservation easements as an authorized purpose for which town may issue debt obligations.
- 42 Local government aid.** Increases the local government aid of four cities in 2000 and subsequent years. Three cities receive permanent increases of the following amount:
 - Warroad: \$150,000
 - St. Francis: \$200,000
 - Pine Island: \$102,000

The city of Baxter receives an extra \$225,000 for three years only. The aid increases are paid out of an LGA appropriation increase scheduled under law.

- 43 Low income apartment aid.** Reduces the qualifying threshold from 2.5 percent of net tax capacity to 2 percent for existing class 4d aid. Under this aid program, a city that has its tax capacity reduced by more than the threshold percentage as result of conversion of apartments to class 4d status receives state aid equal to the reduction in tax capacity over and above the threshold percentage multiplied by the city's tax rate for taxes payable in 1998.
- 44 Elderly assisted living facilities.** Provides that the assessor may not change the 1999 assessment status (exempt vs. taxable) of an elderly assisted living facility except for the stated exceptions. This section expires December 31, 1999.
- 45 Taxpayer's personal identification; Washington County.** Extends for two additional years the time period for a trial program (enacted in 1997 for Washington and Ramsey) in which the county is allowed to sell the taxpayer's name, address, and other information for survey, marketing and solicitation. Taxpayers may request to have their names excluded from the list. This extension is for Washington county only. Requires local approval.
- 46 Abatement of taxes; Lake County.** Authorizes Lake county, the city of Two Harbors, and Lake Superior school district No. 381 to abate delinquent taxes, interest, and penalties from 1979-1990 on a certain parcel, then record and convey the property. Effective upon local approval by each of the local government units.
 - Subd. 1. Property defined.** Contains a legal description of the property located in Lake county to be abated.
 - Subd. 2. Authorization.** Authorizes the governing bodies of Lake county, the city of Two Harbors, and Lake Superior independent school district No. 381 to abate the taxes on the property in 1979 to 1990, as well as interest and penalties, for taxes payable in 1980 to 1991.
- 47 Recording of conveyance authorized; Lake County.** Authorizes the county auditor to record the conveyance of the property described in section 46, subdivision 1, if the governing bodies of Lake county, the city of Two Harbors, and Lake Superior independent school district No. 381 have all abated the taxes, interest, and penalties as provided in section 46, subdivision 2.
- 48 Local Performance Aid repeal.** Repeals local performance aid in 2000 and adds an amount equal to each local government's 1999 payment into a city's local government aid or into a county's HACA in 2000.
- 49 Utility personal property tax recommendations.** Directs the commissioner of revenue to assess policy issues related to the taxation of utility generation facilities, including taxation under

restructuring of the electric industry, the impacts on revenue to local government and debt issuance, and the sufficiency of Minnesota's future electric power supply. Directs the commissioner to convene meetings of representatives of the utility industry and any interested parties to study these issues, and specifically to examine utility tax policy and to make recommendations on the future of the personal property tax on generation facilities. The commissioner is to consult with the commissioner of public service and any other appropriate state agency, and to report, to the chairs of the Senate committees on taxes and on jobs, energy, and community development, the House committees on taxes and commerce, and to the governor, by January 15, 2000, with a final report due by December 1, 2000.

- 50 Collection of penalties (Protection of water resources; Dakota county).** Permits Dakota county to certify to the county auditor for collection through the property assessment and taxation process an unpaid, overdue penalty imposed for violation of an ordinance enacted under chapter 103F (protection of water resources).

Authorizes the Dakota county board to impose an administrative penalty for violation of an ordinance enacted under Minnesota Statutes, chapter 103F, relating to the protection of water resources. Requires notice to the alleged violator and an opportunity to be heard before imposing a penalty. Limits the penalty to the amount allowed for a single misdemeanor. Provides a right of appeal to the district court. Permits the county to collect the unpaid, overdue penalty through the property tax or assessment process. The authority under this section expires December 31, 2000.

- 51 Manufactured home parks.** States that it is legislative intent that one-half of the property tax savings accruing to a taxpayer as a result of the reduction in the class rate applicable to manufactured home parks in section 19 be used for capital improvements to the park or direct assistance to park residents for home improvements.

- 52 Charity care aid.** Provides a one-time payment to certain hospitals to reimburse them for providing medical care to indigents who do not reside in the county. To qualify for aid a hospital must have a medical assistance disproportionate population adjustment for medical assistance reimbursement purposes that is greater than 16 percent. The hospital reports to the county the amount spent on charity care for nonresidents in 1998 and the county reports the sum for all qualifying hospitals in the county to the commissioner of revenue.

The aid is distributed to the counties which must then give it to the hospitals based on their share of the county's charity care. The total amount of aid is limited to \$10 million. Payments to each county are reduced proportionally if the total amount of charity care exceeds the \$10 million. Requires that the counties file reports with the commissioner of revenue describing how this aid was spent.

An amount equal to the charity aid to the Hennepin County Medical Center is subtracted from the Hennepin County levy limit for taxes payable in 2000.

- 53 Property tax abatement; tornado-damaged property.** Provides for a property tax abatement for payable 1999 property taxes for nonhomestead properties that sustained losses of over 50% of market value in the tornado on March 29, 1998. For the most part, these properties already received abatements for their 1998 taxes. Homestead properties are excluded because they are already covered under the state's disaster credit program. The state will compensate local jurisdictions for the abated taxes. Appropriates the amount necessary to make the payments.

- 54 Repealer.** (a) Repeals the requirement that the commissioner of revenue annually prepare a land valuation schedule. Effective day following final enactment.

(b) Repeals local performance aid. Effective for aids paid in 2000 and thereafter.

(c) Repeals the transit zone tax enacted in 1998, which is a discretionary tax that the cities of Minneapolis and St. Paul may levy on properties located in the downtown area that qualify for the

transit zone class rate and that were not specifically exempted. Minneapolis has imposed the tax; St. Paul has not imposed it. Effective for payable 2001 and thereafter.

55 Effective date.

Class Rate Schedule

| <u>Property Type</u> | <u>Payable 1997</u> | <u>Payable 1998</u> | <u>Payable 1999</u> | <u>Proposed Pay 2000</u> |
|--|----------------------------|----------------------------|----------------------------|---------------------------------|
| Residential Homestead: | | | | |
| < \$76,000 ¹ | 1.00% | 1.00% | 1.00% | 1.00% |
| > \$76,000 | 2.00% | 1.85% | 1.70% | 1.65% |
| Residential Non-homestead: | | | | |
| Single unit: | | | | |
| <\$76,000 ¹ | 2.30 | 1.90 | 1.25 | 1.20 |
| >\$76,000 | 2.30 | 2.10 | 1.70 | 1.65 |
| 2-3 unit and undeveloped land | 2.30 | 2.10 | 1.70 | 1.65 |
| Market-rate Apartments: | | | | |
| Regular | 3.40 | 2.90 | 2.50 | 2.40 |
| Small city | 2.30 | 2.30 | 2.15 | 2.15 |
| Low-income Apartments: | | | | |
| Title II | 2.30 | 2.00 | - | - |
| Farmer's Home Administration | 2.00 | 1.90 | - | - |
| New Class 4d | - | - | 1.00 | 1.00 |
| Commercial/Industrial/Public Utility: | | | | |
| <\$150,000 ² | 3.00 | 2.70 | 2.45 | 2.40 |
| >\$150,000 | 4.60 | 4.00 | 3.50 | 3.40 |
| Seasonal Recreational Commercial: | | | | |
| Homestead resorts (1c) | 1.00 | 1.00 | 1.00 | 1.00 |
| Seasonal resorts (4c) | 2.30 | 2.10 | 1.80 | 1.65 |
| Seasonal Recreational Residential: | | | | |
| <\$76,000 ¹ | 1.75 | 1.40 | 1.25 | 1.20 |
| >\$76,000 | 2.50 | 2.50 | 2.20 | 1.65 |
| Disabled Homestead (<\$32,000) | 0.45 | 0.45 | 0.45 | 0.45 |
| Agricultural Land & Buildings: | | | | |
| Homestead: | | | | |
| <\$115,000 | 0.45 | 0.40 | 0.35 | 0.35 |
| \$115,000-\$600,000: | | | | |
| <320 acres | 1.00 | 0.90 | 0.80 | 0.80 |
| >320 acres | 1.50 | 1.40 | 1.25 | 0.80 |
| > \$600,000: | | | | |
| <320 acres | 1.00 | 0.90 | 0.80 | 1.20 |
| >320 acres | 1.50 | 1.40 | 1.25 | 1.20 |
| Non-homestead | 1.50 | 1.40 | 1.25 | 1.20 |

Education Homestead Credit:

| | | | | |
|---------|---|-------|-------|-------|
| Rate | - | 32.0% | 66.2% | 83.0% |
| Maximum | - | \$225 | \$320 | \$390 |

Education Agricultural Credit:

| | | | | |
|--------------|---|---|---|-----|
| Homestead | - | - | - | 54% |
| Nonhomestead | - | - | - | 50% |

¹ First tier limit was \$72,000 for payable 1997, \$75,000 for payable 1998 and 1999.

² First tier limit was \$100,000 for payable 1997.

**Article 6: Levy Authorization and Levy Limits
Overview**

This article makes various changes in levy limits. It:

Extends levy limits on counties and larger cities for one more year, through taxes payable in 2000. Reduces county levy limits to reflect the state assumption of certain court costs. Allows counties a special levy for certain jail operating expenses;

Allows counties to impose a levy up to \$1 per capita in 2000 to pay for redistricting;

Requires all cities and counties to adopt a resolution at a public meeting in order to increase their tax rate (levy) over the previous year;

Eliminates the metropolitan council's levy authority for the tax base revitalization account;

Increases Goodhue county's levy limit authority for pay 2000 and appropriates additional aid to the county in calendar year 1999 and requires the county to repay the additional aid through reduced HACA payments over the following two years;

Allows tax rate differentials for consolidations under a cooperation and consolidation plan, similar to differentials allowed under an annexation plan and grants the city of Stillwater some additional tax rate differential authority for a specific annexation;

Gives additional levy authority to the following local governmental units: (1) the Cook hospital district; (2) the city of Grant; and (3) the North Fork Crow River and the Sauk River watershed districts.

- 1 Redistricting expenses.** Allows a county to levy up to \$1 per capita in 2000 to pay reasonable costs related to redistricting, establishing precinct boundaries, designating polling places and updating voter records. Requires the county to share 25 percent of the levy with the municipalities located in the county on a per capita basis. Exempts this levy from statutory levy limits.
- 2 Authorization, tax rate increase.** Requires a city with a population over 500 or a county to pass a resolution in order to extend its current tax rate on a higher tax base in the following year. The county auditor must provide information to cities and the county board to allow the local government to calculate what its tax rate would be in the coming year if it held its levy constant. This data must be supplied by October 1 beginning in 1999. The city or county must hold a public hearing and adopt a resolution if it wants to impose a tax rate that would be higher than the calculated rate. The resolution must be filed with the county auditor by October 20 of each year. If a city or county does not file this resolution by October 20, the county auditor may not spread a levy that would result in a tax rate higher than the calculated rate unless the increase is due to either 1) a change in the general obligation debt levy, or 2) a lower tax capacity

than the data provided by the county auditor in October. The levy and tax rate referenced in this section are adjusted to exclude levy for general obligation bonds and fiscal disparities.

- 3 Special levies.** Establishes a new special levy for counties for operation and maintenance costs of county jails if the county shows that the expense is due to a requirement or directive from the department of corrections. If a county uses this special levy authority, its general levy limit is reduced by the amount it included in its limited levy for this purpose in the previous year.
- 4 Levy limit base.** Defines the levy limit base for taxes levied in 1999, payable in 2000. Reduces the levy limit bases for counties to reflect the state takeover of additional court costs. The levy limit base for taxes payable in 2000 is reduced for one-half of the court adjustment. This allows counties to levy for court costs for the first six months of calendar year 2000.
- 5 Adjusted levy limit base.** Extends calculation of the adjusted levy limit base to taxes levied in 1999, payable in 2000. Maintains the same three growth factors - inflation, household growth, and new commercial/industrial construction, that are allowed in prior law.
- 6 Property tax levy limit.** Extends the property tax levy limits for one more year, through taxes payable in 2000.
- 7 Differential taxation.** Allows the cooperation and combination plan to phase-in a higher tax rate for the local government unit that has a lower tax rate before combination. Provides the phase-in is in equal proportions over a period of up to six years. Provides the phase-in is to be based on the time it takes to provide equal municipal services to the residents of the area with the lower tax rate. This section is substantially the same as the law for annexation, see Minn. Stat. § 414.035. Effective for taxes payable in 2000 and thereafter.
- 8 Source of funds, metropolitan council tax base revitalization account.** Removes the metropolitan council's authorization to levy for the tax base revitalization account of the livable communities fund. Effective for taxes payable in 2000 and thereafter.
- 9 Taxes, payment of expenses; Cook hospital district and ambulance service.** Increases the levy authority for the Cook hospital district by .0015 percent. The additional levy is to be used to pay for ambulance acquisition for the Cook and Orr ambulance service. Converts an existing mill rate authority to a percent of market value. Effective for taxes payable in 2000.
- 10 Effective date.** Extends the effective date for the general levy limit law, including previous adjustments, through taxes payable in 2000.
- 11 Cemetery levy for Sawyer in Carlton County.** Allows Carlton county to levy a property tax of up to \$1,000 annually in the unorganized township of Sawyer for cemetery purposes. Effective beginning with taxes payable in 2000 and ending with taxes payable in 2009.
- 12 County of Goodhue; levy limit and aid adjustments.** Permanently increases Goodhue county's levy limit base by \$422,324 beginning with taxes levied in 1999, payable in 2000. Appropriates an extra \$422,324 in HACA to the county for calendar year 1999, which is paid back to the state through reduced HACA payments in 2000 and 2001. Requires local approval.
- 13 City of Grant; levy limits.** Increases the levy limit for the city of Grant up to an amount equal to what would have been raised if the city had levied at a rate equal to one-third of the statewide average city tax rate for taxes payable in 1999. This increases the city's levy limit by about \$124,000. Its current pay 1999 levy is \$391,857. Effective upon local approval, beginning with taxes levied in 1999, payable in 2000.
- 14 North Fork Crow River watershed district.** Authorizes this district to annually levy up to the lesser of \$140,000 or .04836 percent of taxable market value for its administrative fund. Effective beginning with taxes levied in 1999, payable in 2000.
- 15 Sauk River watershed district.** Authorizes this district to levy up to \$200,000 annually for taxes payable in 2001 through 2004 for its administrative fund.

16 Splitting existing debt levy; city of Stillwater. Allows the city of Stillwater, in order to carry out an orderly annexation agreement of part or all of Stillwater township, to divide its area into urban and rural service districts to establish separate taxing districts. Permits Stillwater to include debt levy when calculating the differential tax rate. Under general law, differential tax rates are allowed only for non-debt purposes. Effective beginning for taxes levied in 1999 payable in 2000.

17 Repealer. Repeals the metropolitan council's levy for the tax base revitalization account.

18 Effective dates.

Article 7: Special Taxes

Overview

Makes changes to lawful gambling tax rates, the motor fuels tax, and definitions in the solid waste management tax, and the cigarette tax.

Reduces taxes on lawful gambling by 5.25 percent;

Authorizes payment of refunds of the motor fuels tax on undyed kerosene used for nonhighway purposes and on racing gasoline sold for use in unregistered vehicles;

Makes various clarifying changes to the solid waste management taxes recommended by the Department of Revenue.

- 1 Retaliatory Provisions.** Provides that all assessments, including the insurance guarantee association assessment, are not to be included in the retaliatory tax calculation for purposes of the insurance premiums tax. Effective for tax years beginning after December 31, 1999.
- 2 Refund of tax on undyed kerosene.** Requires the commissioner of revenue to pay refunds of the tax on undyed kerosene used exclusively for non-highway purposes. The refund is paid to the seller. The federal requirements for sale from a blocked pump must be met.
Under the proposed federal regulations, a blocked pump means a fuel pump that is at a fixed location and cannot be used to fuel any diesel-powered highway vehicle or train. Effective retroactively to July 1, 1998.
- 3 Racing gasoline refunds.** Allows a refund of motor fuels tax paid on racing gasoline (leaded gasoline of 110 octane or more) for use in unregistered vehicles. The refund is paid to the licensed distributor. Effective retroactively to January 1, 1999.
- 4 Definition; business day.** Adds a definition of "business day" for purposes of payment timing of pull-tab and tipboard tax.
- 5 Lawful gambling tax.** Reduces the tax on paddlewheels, raffles, and bingo from 9.5 percent of gross profit (gross receipts minus prizes) to 9 percent. Clarifies language on exclusions for pull-tabs and tipboards. Effective July 1, 1999.
- 6 Payment dates; gambling tax.** Delays until the day before the last business day of the month, the due date for the tax on pull-tabs and tipboards. This tax was due under prior law on the 20th of the month.
- 7 Pull-tab and tipboard tax.** Reduces the tax on pull-tabs and tipboards from 1.9 percent of ideal gross (gross receipts if all pull-tabs or tipboards in a package are sold) to 1.8 percent. Makes corresponding changes in the refunds for unsold pull-tabs and tipboards. Effective July 1, 1999.
- 8 Combined receipts tax.** Reduces the tax on combined receipts (gross receipts from pull-tabs and tipboards received by an organization with more than \$500,000 in gross receipts from these sources in a year) as shown in the following table. Effective July 1, 1999.

Proposed changes to Lawful Gambling Taxes

| Tax | Current rate | Proposed rate |
|------------|---------------------|----------------------|
|------------|---------------------|----------------------|

| | | |
|-----------------------------|---|-----------------|
| Paddlewheel, raffles, bingo | 9.5% of gross profit | 9.0% |
| Pulltabs, tipboards | 1.9% of ideal gross | 1.8% |
| Combined receipts tax: | | |
| \$500-700,000 | 1.9% of amount over \$500,000 | 1.8% |
| \$700-900,000 | \$3,800 plus 3.8% of amount over \$700,000 | \$3,600 + 3.6% |
| Over \$900,000 | \$11,400 plus 5.7% of amount over \$900,000 | \$10,800 + 5.4% |

- 9 Wholesale price.** Clarifies that "wholesale" price for the tobacco products tax includes established prices (excluding discounts) set by sellers other than manufacturers. Prior law only referred to purchases from a manufacturer.
- 10 Bad debt.** Makes the bad debt provisions for cigarette and tobacco products taxes consistent with the bad debt provisions for the sales tax. Effective for refund claims filed on or after July 1, 1999.
- 11 Self-hauler.** Clarifies that the solid waste management tax on mixed municipal solid waste is imposed on the difference between the market price and the tip fee if the tip fee is less than the market price and the political subdivision subsidizes the cost of service at the facility. This is intended to make the tax treatment of self-haulers the same as that for services received by residential and commercial generators. Effective for services provided on or after July 1, 1999.
- 12 Daily cover.** Clarifies that daily cover for landfills is not subject to the solid waste management tax, if the cover is approved by the Minnesota pollution control agency. Effective following final enactment.
- 13 Effective date.**

Article 8: MinnesotaCare Taxes Overview

This article makes changes in the MinnesotaCare taxes including:

The health care provider tax rates are held at 1.5% for two additional years, 2000 and 2001. These taxes are now imposed at a 1.5% rate, but are scheduled to increase to 2% on January 1, 2000. To hold the health care access fund constant, general fund moneys are appropriated in fiscal years 2000 through 2002. These appropriations were vetoed by the Governor. Thus, the rate reductions will reduce the health care access fund surplus.

Examinations for insurance, litigation, and employment purposes are exempted from the MinnesotaCare taxes.

The Department of Revenue is permitted to using sampling in conducting audits.

1 Definition of health care provider. Excludes the following from the definition of health care provider:

providers of home health care services. Under current law, these providers are required to file a MinnesotaCare tax return although all their receipts are excluded from tax under the home health care services exemption.

employers that provide patient services solely to their employees.

schools and other educational institutions that employ a health care provider to provide services to their students. Educational institutions that receive fee for service payments and payments for extended coverage remain subject to tax.

This section also eliminates the portion of the definition of health care providers that specifies independent medical examinations for insurance or other purposes are patient services. Section 3

exempts these examinations from tax.

2 Freeze of provider tax rate. Maintains the provider tax rate of 1.5% through calendar year 2001. Under prior law, the 1.5% tax rate was scheduled to increase to 2% in 2000.

3 Exemptions. Exempts from tax the following:

payments received from a health care provider who is paid by the government. Under prior law, the exemptions for medical assistance, Medicare, general assistance medical care, MinnesotaCare and the chemical dependency fund all flow through from one provider to the next. This change includes government payments in this list of exemptions.

payments for services received outside of Minnesota, regardless of the patient's domicile.

payments for services provided to nursing homes. This change eliminates the tax on providers who contract to provide services to nursing homes. Services provided to individual nursing home residents remain subject to tax.

payments for utilization reviews, insurance claims, litigation or eligibility, and employment purposes.

4 Underpayment of estimated taxes by hospitals and surgical centers. Modifies the safe harbor rule for underpayment of estimated taxes by hospitals and surgical centers. Under prior law, estimated payments were not required if total liability for the current year is less than \$500. The revision extends this exemption to tax paid in the previous year, if the hospital or surgical center was doing business for the entire year.

The section also substitutes the use of the one-twelfth of the previous year's tax as the base for calculating underpayment of estimated tax for a month. Under prior law the definition of an underpayment was based on the actual tax for the month. The underpayment amount is the tax base on which the additional tax charge (ATC) is imposed. Use of the tax based on the current month's receipts prevents accurate calculation of the ATC by the department, since the department does not know the taxpayer's receipts for the month.

5 Underpayment of estimated taxes by other taxpayers. Makes changes in the estimated tax payments rules for other taxpayers similar to those for hospitals under section 4.

6 Sampling techniques. Allows the commissioner of revenue to use sampling methods when examining a taxpayer's records.

7 Health care access fund transfers. [The Governor vetoed these transfers.] Directs the commissioner of finance to transfer \$27 million from the general fund to the health care access fund in FY2000 and FY2001 and \$30.9 million in FY2002. This transfer is intended to offset freezing the tax rate at 1.5% for 2000 and 2001.

8 Effective dates.

Article 9: Taconite Taxation

Overview

This article:

Freezes the taconite production tax rate at the 1998 level for one year;

Extends the current distribution of taconite producer credits for two years;

Appropriates \$20 million to the Minnesota Minerals 21st Century Fund for loans and investments in a direct reduced iron production facility.

1 Taconite production tax rate. Freezes the taconite production tax rate at the 1998 level of \$2.141 per gross ton through production year 1999. Under prior law, the tax rate annually increased by the percentage increase in the implicit price deflator.

- 2- **Extension of taconite producer credits.** Extends the current distributions to the Northeast
- 3 Minnesota Economic Protection Trust Fund and the Environmental Protection Trust Fund for two more years, through production year 2001.
- 4 **Extend Loan and Grant Authority.** Removes the expiration of the authority of the IRRRB to make loans and grants from the corpus and earnings of the Northeast Minnesota Economic Protection Trust for direct reduced iron processing facilities or new mines or other mineral processing facilities. Removes the prior restriction on a portion of these monies which limits their use to loans only. Also, allows designated monies to be used for equity investments.
- 5 **Minnesota Minerals 21st Century Fund.** Appropriates \$20 million to the Minnesota Minerals 21st Century Fund created in the Jobs and Economic Development Finance bill. The IRRRB must match any funds appropriated under this section to the extent used for loans or equity investments in a direct reduced iron production facility.

Article 10: Tax Increment Financing Overview

This article:

- Reduces the required local contribution for housing districts from 10 percent to 5 percent;
- Prohibits the use of increments for social and recreational facilities;
- Permits pooling to make up deficits that resulted from property tax rate compression enacted in 1997, 1998, and 1999;
- Appropriates \$4 million in additional money to the grant pool for deficits caused by the property tax rate compression;
- Provides a new enforcement mechanism authorizing the attorney general to petition the tax court to suspend the TIF authority of a municipality or development authority for violations referred by the state auditor;
- Ratifies pre-1982 pooling, if it was done before receiving a non-compliance notice from the State Auditor or the end of 1999.

The article provides special law authority for several cities:

- Onamia
- St. Cloud
- Dawson
- Brooklyn Center
- St. Paul
- Jackson
- Minneota
- Fridley

- 1 **Local contributions, housing districts.** Reduces the required local contribution for housing districts from 10 percent to 5 percent. Effective for districts for which the request for certification is made after June 30, 1999.
- 2 **TIF for social and recreational facilities.** Prohibits spending tax increments to construct or renovate facilities for social, recreational, or conference facilities or a public park used as a commons area. This will prohibit use of TIF to build ice rinks, community centers, and other facilities that cities have typically financed with TIF. The prohibition does not apply to privately owned conference facilities. This section also prohibits the use of tax increments outside of the TIF district on improvements, equipment, and other items whose primary purpose is decorative or aesthetic or if the materials used cost twice that of more commonly used equipment and improvements. This prohibition does not

apply to improvements related to rehabilitating historic structures on the national register or in a historic district listed on the national register.

The prohibitions under this section is effective for expenditures made or binding contracts entered after January 1, 2000.

- 3 TIF pooling authority.** Authorizes municipalities with a deficit in a tax increment financing district that was caused by the 1997 and 1998 reductions in property tax class rates to transfer increments from other TIF districts to eliminate the deficit. This authority is subject to a number of limitations and conditions.

Scope. The authority applies only to TIF districts for which the request for certification was made before enactment of the 1997 tax bill (i.e., the first round of class rate reductions).

Qualifying deficits. Deficits are defined as the lesser of (1) increments from the district and any available increments from other districts permitted by existing pooling restrictions less the district's obligations to pay pre-June 2, 1997 bonds or bonds issued to refund contracts entered before June 2, 1997 or (2) the reduction in the district's increments that result from the 1997, 1998, and 1999 property tax class rate changes.

Transfers from districts created by separate development authorities. The municipality may transfer increments between districts even if they were created by different types of development authorities (e.g., an economic development authority and a port authority). This authority is limited to development authorities

under the control of the municipality (defined by reference to appointment powers). Thus, a city could not transfer increments from a county HRA project, even if the TIF district was located in the city. Increments could not be transferred by the city of Duluth from the Seaway Port Authority.

Other pooling authority. The pooling authority under the bill applies notwithstanding the pooling limits under other laws -- i.e., the percentage restrictions and the lack of authority for pre-1982 districts. Pooled increments under the bill's authority are to be deducted before calculating the percentage pooling limits for post-1990 districts. Thus, pooling will proportionately reduce both increments available for in-district spending and pooling.

- 4 Pre-1982 TIF District Pooling Rules.** Sets out "pooling rules" (i.e., the authority to spend increments from a district on activities outside of the geographic area of the district) for districts established after July 31, 1979 and before July 1, 1982. Applies only to TIF districts where the request for certification was made after July 31, 1979 and before July 1, 1982.

Background information. The 1979 TIF Act explicitly required increment to be spent in accordance with a TIF plan for the improvement and development of the district. This limited spending to development or redevelopment of the district. Pooling or spending of increments for development or redevelopment of other areas (i.e., outside the district) was not explicitly authorized. The 1982 legislature allowed unlimited pooling of increments, but

these changes were effective only for districts for which the request for certification was made after June 30, 1982. Thus, these pre-1982 districts have no specific statutory authority to spend increments on developments outside of the district. In 1990, the legislature imposed percentage limits on the amount of increments that could be spent outside of the district. These limits apply to newly certified districts and areas of existing districts.

Exemptions. Increments are not subject to this section, if they were used for debt service pooling by municipal development districts. (This was a limited pooling authority available between 1984 and 1990.) Also, the section does not ratify past pooling violations, if the city voluntarily repaid the increments and decertified the district before the legislation was enacted.

Notification by state auditor. The bill requires the State Auditor to notify each development

authority (e.g., a economic development authority or housing and redevelopment authority) of the provisions of this law.

Ratification of past spending. The bill provides that expenditures on activities outside of the TIF district are legal if they meet **either** of two requirements:

The expenditures were made before the city or authority was notified by the State Auditor that spending for the district was not in compliance with the law or December 31, 1999, whichever occurs first. This notification by the Auditor does not refer to notice required by this section, but rather is the final notice made in a compliance audit by the Auditor or similar circumstances that resulted from a review of the district's activities.

The expenditures were made to pay "**pre-existing outside district obligations.**" These are obligations that are secured by increments from the district. To qualify bonds must have been issued before the earlier of (1) final notice of noncompliance from the Auditor or (2) April 1, 1999. To qualify contracts must have been entered before the earlier of (1) the notice from the Auditor or (2) May 1, 1999.

Early decertification required. If the authority spent increments on activities outside of the district, after December 31, 1999 it may only spend increments to pay pre-existing obligations. These are bonds issued or contracts entered before the dates listed in the previous paragraph, except contracts for activities in the district may be entered into up to June 30, 1999 (rather than the May 1, 1999 date). When these obligations are paid, the district must be decertified.

- 5 Enforcement notices.** Requires a county attorney who receives a TIF violation notice to notify the State Auditor, if the county attorney decides not bring an action or if 12 months pass and no action has been brought. The State Auditor is then required to notify the attorney general.
- 6 Suspension of TIF authority.** Requires the attorney general to review materials on violations submitted by the State Auditor, the municipality, and the development authority. If the attorney general finds the violation was substantial, the attorney general is to petition the tax court to suspend the municipality and development authority's power to use TIF for up to five years. Before petitioning the tax court, the attorney general is to attempt to resolve the matter using alternative dispute resolution.

If the tax court finds a substantial violation, it may suspend the authority to use tax increment financing for up to 5 years. In determining the length of the suspension, the court may consider a variety of enumerated factors, such as the dollar amount involved, the sophistication of the local unit, the extent which it was a clear violation of law, or whether there was a pattern of violations.

A suspension would prohibit requesting certification of new districts, adding area to existing districts, issuing bonds, or amending a TIF plan to authorize new activities or expenditures. This suspension procedure and authority is limited to violations that are identified by the State Auditor beginning in the year 2000.

- 7 Conforming changes.** Repeals the special pooling authority to eliminate deficits enacted in 1998 as part of the special taxing district authority. Section 3 provides general pooling rules for this purpose.
- 8 Permitted purposes for abatements.** Allows abatements to be used to defer paying taxes without interest or penalties. This section also clarifies that property tax abatements may be used to pay for public infrastructure.
- 9 Definition.** Defines abatement to include deferral of taxes with abatement of interest and penalties. This is intended to permit use of abatements to defer the payment of taxes without interest.
- 10 Amount of abatement.** Authorizes political subdivisions to abate fiscal disparities tax. Each of the three units (city/town, school district, and county) would be permitted to abate an amount of the total taxes equal to its tax rate multiplied by the tax capacity of the parcel. Thus, the total amount of the abatement would effectively include tax equal to the fiscal disparity tax on a commercial or industrial

parcel. The abatement would be fully funded by the approving local unit of government. It would not reduce the contributions to the fiscal disparities pool.

This section authorizes abating interest and penalties on property taxes.

This section clarifies that use of an abatement for public infrastructure is not limited to improvements located on the parcel whose taxes are abated. It also allows the town board of supervisors to grant an abatement. Under prior law, this required action at the town meeting.

- 11 Deferred payment schedule.** Requires establishing a repayment schedule, when abatement is used to defer payment of taxes. The deferred taxes will be levied as with a regular abatement.
- 12 Amount of school district abatements.** Allows school districts to abate the full amount of their tax. Under prior law, school districts could abate only one-half of the tax attributable to the general education tax rate.
- 13 Annual approval of abatements of school taxes.** Eliminates the requirement that schools annually re-approve abatements. This requirement prevents issuing bonds financed with the amount of the school tax abatements.
- 14 Consent of property owner.** Clarifies that a property owner need not consent to an abatement.
- 15 Public infrastructure.** Clarifies that abatements may be retained to reimburse the political subdivision for infrastructure costs for which bonds were not issued.
- 16 TIF grants.** Provides that the TIF grant programs may pay for deficits caused by the 1998 property tax class rate compression, as well as any enacted in 1999. Prior law limited the availability of grants to the 1997 compression.
- 17 TIF grants, extension.** Extends the duration of the TIF grant program by one additional year through 2002.
- 18 Onamia TIF.** Allows the city of Onamia to increase the 5 year rule to 10 years. The 5 year rule requires increment to be spent or binding contracts to be entered within five years after the district is certified. These increments may only be spent on three parcels fronting on U.S. highway 169.
- 19 St. Cloud TIF, pooling permitted.** Authorizes the St. Cloud housing and redevelopment authority (HRA) to spend increments from a pre-1982 TIF district outside of the district to redevelop properties destroyed by a natural gas explosion on December 11, 1998. Effective upon local approval.
- 20 St. Paul, TIF.** Extends the duration of the Williams Hill TIF district in St. Paul by ignoring the first \$2,000 of increment for purposes of the duration limit. The maximum permitted duration extension is 2 years. The duration limits for TIF districts generally begin upon receipt of the first increment. Effective upon local approval by the city, county, and school district. The state aid offset will apply during the extension period.
- 21 City of Jackson, TIF.** Allows the city of Jackson to extend the duration of a pre-1979 TIF district to collect increments through 2002. The maximum amount of increments allowed to be collected is \$170,000. Under general law, these districts may not spend increment after April 1, 2001, except to pay obligations issued before April 1, 1990. Thus, the bill will allow the city to collect increments in 2001 and 2002. Effective upon local approval by the city, county, and school district. The state aid offset applies during the extension period.
- 22 City of Minneota, TIF.** Ratifies expenditures of increment made by the city of Minneota for its tax increment financing district. This ratifies approximately \$28,000 that the city spent in excess of the total estimated expenditures in the TIF plan. The provision is effective upon local approval by the city.
- 23 Fridley TIF.** Allows the city of Fridley to extend the duration of TIF district No. 6 to 2025. This district is a redevelopment district; absent the legislation it would be required to be decertified in 2012. Thus, this section provides for a 13 year extension. The extension is subject to the state aid

offset during the extension period under special rules. The amount of the aid offset is limited to the least of (1) \$200,000, plus one-half of the excess; (2) 2.5 percent of the city's net tax capacity; or (3) 5 percent of the district's increment for the previous year.

Pooling of increments from the districts is permitted only for sewer and highway costs directly related to the development in the district. Tax capacity attributable to 200,000 square feet of building value (other than parking ramps) must be decertified in the year the district would have been decertified under general law.

The extension is effective upon approval by the city, county, and school district.

- 24 Brooklyn Center.** Authorizes Brooklyn Center to change the fiscal disparities election for TIF district No. 4 to permit the fiscal disparities contribution to be paid by the city, rather than the district.
- 25 Dawson.** Extends the duration of an economic development district in the city of Dawson to 18 years after receipt of the first increment. This would extend the decertification date from January, 2010 to July, 2019.
- 26 Minneapolis.** Exempts three Minneapolis tax increment financing districts from the prohibition on the use of social and recreational facilities: Mill Ruin Park, the Milwaukee Road Depot, and Federal Reserve.
- 27 Appropriation, TIF grants.** Appropriates an additional \$4 million for the TIF grant program. This will increase the total funding for grants to \$6 million.
- 28 Repealer.** Repeals the special pooling authority under the TIF grant program. This is replaced by the authority in section 3.
- 29 Effective date.**

Article 11: State Funding of District Courts

Overview

Under this article, the state assumes all court administration employees and costs in the 5th, 7th, and 9th judicial districts, effective July 1, 2000. As a pilot project, the state assumed all court costs in the 8th judicial district in 1990. The article provides for permanent state funding of the 8th district effective January 1, 2000.

The state also assumes supplemental jury and mandated transcript costs in the 1st, 2nd, 3rd, 4th, 5th, 6th and 10th districts, effective July 1, 2000. Fines in the 5th, 7th, and 9th districts are transferred from counties to the state, in accordance with the changes in financial responsibility.

The cost to the state for the court costs assumed, net of fine transfers, will be deducted from state aid payments to the counties. The state will fund one-half of the 6-month transition costs; the counties the other half.

- 1 Fines and forfeited bail.** Provides that in counties where the state has full responsibility for court administration costs, certain natural resources fines and forfeited bail that would otherwise go to the county are deposited in the state's general fund.
- 2 Homestead and Agricultural Credit Aid (HACA).** Cancels the transfer of \$10 million of HACA to family preservation aid for payable 2000 (see also section 6).
- 3 Aid offset for counties.** Requires the Supreme Court to certify to the commissioner of revenue by July 15, 1999, the county's share of the costs assumed under this article for the fiscal year beginning July 1, 2000, minus the county's share of transferred fines collected by the district court in the county during calendar year 1998. Deducts from homestead and agricultural aid (HACA) payments to counties, an amount representing the net cost to the state for assumption of district court costs. The HACA subtraction is about \$3 million less in the first year than the cost of the state takeover to provide counties with half of the funding for the 6-month transition problem

(calendar/fiscal year).

- 4 Fines and forfeited bail.** Provides that in counties where the state has full responsibility for court administration costs, fines and forfeited bail collected by the state patrol that would otherwise go to the county are deposited in the state's general fund.
- 5 Screener-collector.** Provides that in counties where the state has full responsibility for court administration costs, screener-collector fees are deposited in the state's general fund.
- 6 Family preservation aid.** Reduces the increase in family preservation aid from \$30 million to \$20 million in calendar year 2000, as a result of the \$10 million HACA transfer cancellation in section 2.
- 7 Court fees.** Allows for certain court administration and forfeited bail fees to be deposited in the state's general fund.
- 8 Property tax levy.** Prohibits the counties in the fifth, seventh, and ninth judicial districts from levying property taxes for the court functions that have been transferred to the state, except for the amount necessary to pay for one-half of the costs of the first six months of calendar year 2000. (Levy limits are adjusted for one year. See Article 6, section 4.)
- 9 County court; forfeitures.** Provides for sums forfeited to be paid to the general fund in the law dealing with county courts.
- 10 County court; fines and penalties.** Provides that in counties where the state has full responsibility for court administration costs, fines and fees that under prior law went to counties, instead go to the state and are credited to the state's general fund.
- 11 Bonds; fines and forfeitures.** Provides that in counties where the state has full responsibility for court administration costs, bond fines and fees that now go to counties, will instead be credited to the state's general fund.
- 12 Appropriation.** Appropriates \$18,731,000 to the district courts for the state assumption of funding district courts under this article for fiscal year 2001. (This includes both the HACA offset and the fees and fines.)
- 13 Effective dates.** (a) Provides that sections 2 and 6 are effective for aid payable in 2000. Other provisions are effective January 1, 2000 with respect to counties in the 8th judicial district, and July 1, 2000 with respect to counties in the 5th, 7th, and 9th judicial districts.
(b) Provides that this article does not take effect unless the state assumes the district court costs under S.F. 2221.

Article 12: Business Subsidies

Overview

This article establishes new regulations on business subsidies awarded by state and local governmental units. In general, these rules apply only to awards of \$25,000 or more that are provided to individual businesses. The rules, however, do not apply to a large number of types of business subsidies given to individual businesses, such as redevelopment, pollution control and clean up, housing, industrial revenue bonds, and so forth.

The article requires governmental agencies to establish public purpose goals for the subsidies and to enter subsidy agreements that meet statutory requirements. The subsidies must include an obligation to repay part or all of the subsidy if the recipient does not meet its obligations.

Reporting requirements are imposed on certain governmental units. The commissioner of trade and economic development is to compile and prepare a summary report of this information.

1 Definitions. Defines terms:

"Benefit date" is the date a business receives a subsidy. This is generally when the business

occupies a property.

"Business subsidy" includes a state or local government grant, contribution, subsidized loans, tax or fee reductions or deferrals, any loan or lease guarantee or any preferential use of government facilities. "Business subsidies" do not include assistance generally available to all businesses, assistance for cleaning up polluted land, assistance to businesses providing job readiness and training, assistance for housing, pollution control, energy conservation, industrial revenue bonds, assistance resulting from a collaboration with a Minnesota higher education institution, business subsidies under \$25,000 and assistance relating to redevelopment where the recipient's investment in the purchase of the site and site preparation is 70 percent or more of the market value of the property.

Other defined terms include "grantor," "local government agency," "recipient," and "state government agency."

2 Business subsidy regulation. Business subsidies must meet a public purpose other than increasing tax base. Business subsidies may not be granted until after the grantor has adopted criteria for awarding business subsidies at a public hearing. The policy must include the wages to be paid for the jobs created. Business subsidy recipients must enter into a subsidy agreement that:

- describes the amount and type of the levy;
- describes its public purpose;
- establishes the subsidy's goal;
- describes the recipient's financial obligations if the goals are not met;
- states why the subsidy is needed;
- commits to continue operation at the site for at least five years after the benefit date;
- lists the name and address of the parent corporation, if any; and
- lists all the financial assistance provided by all grantors.

Generally grant subsidies must be structured as forgivable loans. If a subsidy is not structured as a forgivable loan, the fair market value of the subsidy must be stated. If multiple recipients receive the subsidy, the agreement must allocate the subsidy between the recipients. The agreement must be signed by both the grantor and grantees.

The subsidy agreement must contain goals for the number of jobs created or retained and the amount of wages to be paid. The public must be notified and a public hearing held if the subsidy exceeds \$500,000 if awarded by the state, or \$100,000 if awarded by local government. The agreement must state the recipient's financial obligation if the recipient fails to meet stated goals. At a minimum the obligation is to pay back the subsidy in proportion to the goals not met. A recipient that fails to meet goals may not receive a business subsidy for five years (or until the meets the repayment obligation).

All local governments with a population of 2,500 or more must file a report. Also each grantor must report wage and job attainment to the Department of Trade and Economic Development (DTED) and the local government agency granting a business subsidy so that the commissioner can coordinate and produce reports from all reporting entities.

3 Appropriation Riders. Provides that grants to a business or industry by a appropriation rider to an appropriation to DTED must include a statement of the expected benefits for the grant including, at a minimum, goals for jobs created, wages paid and anticipated tax revenue increases.

4 Repealer. Repeals the existing statute requiring reporting of wage and job goals.

5 Effective date. Effective for business subsidies entered into or state appropriations authorized on or after August 1, 1999.

Article 13: Tax-Forfeiture and Delinquency Procedures

Overview

This article makes numerous changes to the tax forfeiture procedures, many of which are technical. It repeals obsolete provisions and updates archaic language. The substantive provisions:

Shorten from one year to six months the time that a parcel must be withheld sale and requiring the local government to pay the maintenance costs during the six month period, if the property is not offered for sale after the six month period;

Allow the county to impose conditions on the repurchase of tax-forfeited land limiting the use;

Eliminate the ability of the city and school to object to certain abatements.

- 1 Tax certificates.** Repeals archaic references to tax lien certificates.
- 2 Confession of judgment; certain class 4b property.** Eliminates the confession of judgment option for residential rental property in Minneapolis and St. Paul that is not in compliance with housing license and codes, that has been reclassified from 4bb to 4b, and that has delinquent property taxes on it.
- 3 Confession of judgment; class 3A.** Changes the threshold from "less than \$200,000" to "\$200,000 or less" to allow properties that have a market value of \$200,000 to be eligible for a confession of judgment. Requires that current year taxes and penalty due at the time the confession of judgment is entered must be paid.
- 4 Installment payments.** Requires the current year taxes and penalty due at time of setting up the confession of judgment installment plan, to be paid when the first installment payment is made.
- 5 Notice of expiration of redemption.** Makes the notice of expiration of redemption form easier to understand. Makes it optional to include the current address of affected persons on the notice.
- 6 Proof of publication.** Removes detailed descriptions and separate headings for each tax judgment year in the notice of expiration of redemption publication, by allowing the publication to include parcels of land bid in at different tax judgement sales if the parcels have a common year for expiration.
- 7 Service of notice.** Provides that the notice requirement is met by posting a copy of the notice on a conspicuous location on the parcel, if two attempts to serve the notice in person have failed. Under prior law, the sheriff was required to continue to try to serve the notice on the person in possession of each tax-forfeited parcel.
- 8 Time period before sale.** Shortens from one year to six months the time period that the county board must withhold a parcel from sale. It also requires the municipality or governmental subdivision to pay the maintenance costs during the six-month period, if the property is not offered for public sale after the six-month period. Under prior law the county board must withhold a tax-forfeited parcel from public sale for one year if the municipality requests that it do so; and there is no requirement to reimburse the county for maintenance costs during that time period.

The time a city or town has to apply to withhold a parcel from public sale is shortened from 90 days to 60 days.
- 9 Payment requirements.** Allows more flexibility for counties to provide monthly payments. Prior law allowed the purchase of tax forfeited land to be paid in full or in ten annual installments. The act allows the county to permit the annual payments to be made in up to 12 installments.
- 10 County sales.** Clarifies that the former owner must pay the greater of either the bid price at the auction or the total amount of the taxes, assessments, penalties, interests and costs due at time of forfeiture.
- 11 Maintenance of the forfeited land.** Clarifies that the county, with the approval of the county board,

provide for not only repair and improvement, but also maintenance (e.g. snow shoveling) of tax-forfeited lands.

12 Use of proceeds. Strikes the language that requires a municipality to first use the proceeds of the sale of tax forfeited land to retire debt, and clarifies that the proceeds be used as provided in section 282.08.

13 Apportionment of proceeds. Allows the expenditures to be charged to the forfeited tax sale fund.

14 Forfeited tax sale fund. Requires that the disbursements must be charged to the forfeited tax sale fund. Under prior law, expenditures for tax forfeited land must be charged to the account of the taxing districts interested in the parcels.

15 Repurchases after forfeiture. Requires the person seeking to repurchase the property to pay all maintenance costs incurred by the county auditor during the time the property was tax-forfeited.

16 Service fee. Requires the service fee to be paid on application, rather than at the time the contract is entered.

17 Conditions of repurchase. Allows the county auditor, upon county board approval, to impose conditions on repurchase of tax-forfeited lands limiting the use of the parcel subject to the repurchase. This includes environmental remediation action plan restrictions or covenants; easements for lines or equipment for utilities.

18 Tax certificates. Deletes a reference to tax certificate.

19 Procedure; conditions. Eliminates the provision that allows the school or municipality to object to the abatement and to have it referred to the commissioner of revenue. This only applies if the refund of taxes, penalties, interest and costs exceeds \$10,000. The refund would be mailed to the taxpayer immediately.

Under prior law, the counties withheld the refund to the taxpayer for 20 days while waiting to see if the city or school district objects. If the city or school district objected to the abatement, then the county referred the reduction to the commissioner of revenue for consideration.

20 Record search; St. Louis county. Eliminates the requirement that the St. Louis county auditor lists the name of the purchaser at a tax sale. The St. Louis county auditor must search the records, upon the written application of any person, in order to find the amount of tax, tax liens, tax years covered, and tax sales, but would not be required to list the name of the purchaser.

21 Repealers. Repeals obsolete sections that refer to tax certificates.

92.22 - refunds of tax certificates on reform school lands;

280.27 - applications for state tax deeds;

281.13 - notice of expiration of redemption;

281.38 - redemption money to purchaser; lost certificate;

284.01 - tax judgment or sale set aside; purchaser's lien; sale to satisfy;

284.02 - who may purchase;

284.03 - redemption from sale;

284.04 - action to quiet title;

284.05 - when defendant a minor, ward, or mentally ill;

284.06 - plaintiff to pay taxes in action to set aside.

22 Effective date. Provides that the article is effective September 1, 1999, except sections 11 and 13 to 15 are effective beginning January 1, 2000 and section 12 is effective for net proceeds received after the date of final enactment of this act.

Article 14: Water and Sanitary Sewer Districts

Overview

This article establishes two water and sanitary sewer districts: Cedar Lake Area (located in Scott County) and Banning Junction Area (located in Pine County).

Sections 1-19: Cedar Lake Area Water and Sanitary Sewer District

- 1 Definitions.** Defines the following terms: Cedar Lake area water and sanitary sewer district, board, person, local governmental units (Scott county, New Prague, and Helena and Cedar Lake townships), acquisition and betterment, agency (MPCA), sewage, pollution of water, sewer system, treatment works, disposal system, interceptor, district disposal system, municipality (town or statutory or home rule charter city), total costs of acquisition and betterment, current costs, and resident.
- 2 Water and sanitary sewer board.** Provides for a seven-member board to control and manage the district, which includes Helena and Cedar Lake townships, and the city of New Prague. Establishes the board as a political subdivision and public corporation. Provides for the appointment and qualifications of the board members. Provides for filling vacancies, removing members, oath of office, and compensation.
- 3 General provisions for organization and operation of board.** Specifies how meetings may be called and what constitutes a quorum. Provides for selection of officers, regular meetings, special meetings, and the vote required to act. Requires meetings to be open to the public. Provides for the members to select a chair from among themselves. Specifies the term and duties of the chair. Provides for the secretary and treasurer of the board, specifies the duties. Provides that the executive director and other district employees are public employees. Requires the board to adopt resolutions or bylaws governing board actions, personnel administration, finances, etc. Permits the board to obtain surety bonds for its officers and employees, and to procure property and liability insurance.
- 4 General powers of the board.** Provides the board with all powers necessary or convenient to discharge its duties, including but not limited to those listed in this section relating to: lawsuits; contracts; accepting gifts, grants or loans; entering into joint powers agreements; study and investigation; procurement of professional services; acquiring and disposing property; use of rights of way; and agreements with other local governments, the state or federal government.
- 5 Comprehensive plan.** Requires the board to adopt a comprehensive plan for the collection, treatment, and disposal of sewage in the district. Specifies the contents of the plan. Requires the plan to be subject to Scott county planning and zoning. Requires a public hearing on the proposed plan prior to adoption of the plan.
- 6 Powers to issue obligations and impose special assessments.** Permits the board to issue obligations and impose special assessments against benefitted property in the district.
- 7 System expansion; application to cities.** Permits the board to establish sewer and water systems in an area in the district that is organized as a city if requested by the city or ordered by the pollution control agency (PCA).
- 8 Sewage collection and disposal; powers.** Permits the discharge of treated water into the waters of the state. Permits the board to require persons in the district to connect to and discharge into the system. Permits the board to regulate connections to and discharges into the system. Requires charges to comply with applicable state and federal law.
- 9 Budget.** Requires the board to prepare and adopt an annual budget and specifies the contents of the budget.
- 10 Allocation of costs.** Defines current costs to include the costs of administration, operation, maintenance, debt service, and costs of acquisition and betterment of the system to be paid during the year. Provides for current costs to be allocated equitably and by resolution of the board.

- 11 Tax levies.** Gives the board the powers of a statutory city, and the powers of a municipality with regard to eminent domain, special assessments for local improvements, public indebtedness, taxation for a disposal system, municipal waterworks, sewers, drains, and storm sewers, and joint powers. Permits the board to levy taxes in the district for payment of current costs under section 10, free from any limit on the rate or the amount.
- 12 Public hearing and special assessments.** Requires a public hearing on proposed projects that may incur costs that will be allocated. Requires notice to benefitted properties of assessments proposed. Requires a report on the feasibility of the proposed project before calling for a hearing on it. Permits the board to take action in an emergency. Permits the board to specially assess part or all of a proposed project.
- 13 Bonds, certificates, and other obligations.** Permits the board to issue short-term debt, not to exceed 50 percent of the total amount of tax collections and other revenues expected for the year. Permits the board to issue debt to meet an emergency. Permits the board to issue general obligation debt and exempts it from election.
- 14 Depositories.** Requires the board to designate one or more banks or trusts as the official depository of money for the board.
- 15 Money, accounts, and investments.** Directs how money must be handled and accounted for. Requires an independent audit of the district's books and records.
- 16 Service contracts with governmental entities outside the jurisdiction of the board.** Permits the board to furnish services to other governmental entities under contract.
- 17 Contracts for construction, materials, supplies, and equipment.** Requires acquisition and betterment projects to be approved by the MPCA if required. Provides for contracts to be awarded as provided in the Uniform Municipal Contracting law.
- 18 Property exempt from taxation.** Exempts the district's property from state or local taxes, but requires the district to pay special assessments.
- 19 Relation to existing laws.** Provides for the law to be given full effect notwithstanding any other law, but preserves the powers of the pollution control agency.

NOTE: Effective date for Cedar Lake Area District is in section 39.

Sections 20-38: Banning Junction Area Water and Sanitary Sewer District

- 20 Definitions.** Defines the following terms: Banning Junction area water and sanitary sewer district; water and sanitary sewer board; person; local governmental unit; acquisition and betterment; agency (MPCA); sewage; pollution of water and sewer system; treatment works and disposal system; interceptor; district disposal system; municipality (town or home rule charter or statutory city); total costs of acquisition and betterment; current costs of acquisition, betterment, and debt service; and resident.
- 21 Water and sanitary sewer board.** Establishes the board for the Banning Junction area water and sanitary sewer district. Includes the town of Finlayson, Banning state park, and the city of Finlayson in Pine county in the district. Establishes the board for the district as a public corporation and political subdivision.
- Provides for a five-member board, including three appointed by the township, one appointed by the city, and one appointed by the department of natural resources. Provides for staggered terms of three years. Requires the initial board to be selected within 60 days.
- Provides for vacancies to be filled in the same manner as the original appointment. Allows a board member to be removed by unanimous vote of the appointing authority, with or without cause, or for malfeasance or nonfeasance. Provides for certificates of selection and requires members to qualify by taking the oath of office. Provides for per diem for members (but not to exceed \$1,000/year) and per

diem for the chair (but not to exceed \$1,500/year). Provides for expense reimbursement.

22 General provisions for organization and operation of board. Specifies how meetings may be called, what constitutes a quorum. Provides for selection of officers, regular meetings, special meetings, vote required to act. Requires meetings to be open to the public.

Provides for the members to select a chair from among themselves. Specifies the term and duties of the chair. Provides for the secretary and treasurer of the board, specifies the duties. Permits the board to appoint an executive director to implement the decisions of the board, hire and remove all subordinate employees of the district, prepare and present the budget, plans, studies and reports, and to recommend rules and regulations for operation of the system. Provides that the executive director and other district employees are public employees.

Requires the board to adopt resolutions or bylaws governing board actions, personnel administration, finances, etc. Permits the board to obtain surety bonds for its officers and employees, and to procure property and liability insurance.

23 General powers of the board. Provides the board with all powers necessary or convenient to discharge its duties, including but not limited to those listed in this section relating to: lawsuits; contracts; accepting gifts, grants or loans; entering into joint powers agreements; study and investigation; employees; acquiring and disposing property; use of rights of way; and agreements with other local governments, the state or federal government.

24 Comprehensive plan. Requires the board to adopt a comprehensive plan for the collection, treatment, and disposal of sewage in the district. Specifies the contents of the plan. Requires a public hearing on the proposed plan prior to adoption of the plan. Prohibits local governments from constructing new sewers or disposal facilities unless they find the projects are in accordance with the adopted district plan.

25 Powers to issue obligations and impose special assessments. Permits the board to issue obligations and impose special assessments against benefitted property in the district.

26 System expansion; application to cities. Permits the board to establish sewer and water systems in an area in the district that is organized as a city if requested by the city or ordered by the pollution control agency.

27 Sewage collection and disposal; powers. Permits the discharge of treated water into the waters of the state. Permits the board to require persons in the district to connect to and discharge into the system. Permits the board to regulate connections to and discharges into the system. Requires charges to comply with applicable state and federal law.

28 Budget. Requires the board to prepare and adopt an annual budget and specifies the contents of the budget.

29 Allocation of costs. Defines current costs to include the costs of administration, operation, maintenance, debt service, and costs of acquisition and betterment of the system to be paid during the year. Provides for current costs to be allocated equitably and by resolution of the board.

30 Tax levies. To accomplish duties imposed on it, gives the board the powers of a municipality with regard to eminent domain, the powers of a statutory city, special assessments for local improvements, public indebtedness, taxation for a disposal system, municipal waterworks, sewers, drains, and storm sewers, and joint powers. Permits the board to levy taxes in the district for payment of current costs under section 29, free from any limitation of rate or amount.

31 Public hearing and special assessments. Requires a public hearing on proposed projects that may incur costs that will be allocated. Requires notice to benefitted properties of assessments proposed. Requires a report on the feasibility of the proposed project before calling for a hearing on it. Permits the board to take action in an emergency. Permits the board to specially assess part or all of a proposed project.

- 32 Bonds, certificates, and other obligations.** Permits the board to issue short-term debt, not to exceed 50 percent of the total amount of tax collections and other revenues expected for the year. Permits the board to issue debt to meet an emergency. Permits the board to issue general obligation debt and exempts it from election.
- 33 Depositories.** Requires the board to designate one or more banks or trusts as the official depository of money for the board.
- 34 Money, accounts, and investments.** Directs how money must be handled and accounted for. Requires an independent audit of the district's books and records.
- 35 Service contracts with governmental entities outside the jurisdiction of the board.** Permits the board to furnish services to other governmental entities under contract.
- 36 Contracts for construction, materials, supplies, and equipment.** Requires acquisition and betterment projects to be approved by the MPCA if required. Provides for contracts to be awarded as provided in the Uniform Municipal Contracting law.
- 37 Property exempt from taxation.** Exempts the district's property from state or local taxes, but requires the district to pay special assessments.
- 38 Relation to existing laws.** Provides for the law to be given full effect notwithstanding any other law, but preserves the powers of the pollution control agency.
- 39 Effective date.** Effective upon local approval for each of the local governing bodies of each of the water and sanitary sewer districts.

Article 15: Automatic Rebate in Enacted Budget

Overview

The article provides that future surpluses at the end of the biennium (November of even numbered years and February of odd numbered years) will be used for a tax rebate to be enacted by the legislature in odd numbered years.

- 1 Rebate requirements.** Requires the Commissioner of Finance to designate a surplus that exceeds 0.5 percent of general fund biennial revenues as available for a tax rebate. The nonrecurring tobacco settlement payments received between July 1, 1998 and July 1, 2001, are excluded from the surplus calculation. The Commissioner must make this designation for the last two forecasts before the end of each biennium (i.e., those done in November of an even-numbered year and February of an odd-numbered year). The governor is to present a plan to the legislature to rebate the surplus beginning no later than August 15 of the odd-numbered year. The Legislature is directed to enact, modify or reject the governor's plan for the rebate by April 15 of each odd-numbered year. If the available balance is less than 0.5 percent of biennial revenues, the money is deposited in a tax relief account.
- 2 Tax reform and reduction account.** Abolishes the tax reform and reduction account created in the 1998 tax bill. The balance (\$200 million) in the account reverts to an unrestricted general fund balance. Effective the day following final enactment.
- 3 Effective date.** Provides the rebate mechanism is effective September 1, 1999.

Article 16: Miscellaneous

Overview

Makes miscellaneous tax law changes. The article:

Contains several administrative changes requested by the Department of Revenue as part of its policy and technical bills.

Requires the Department of Revenue to establish an offers-in-compromise program modeled on the Internal Revenue Service program.

Provides \$1.5 million for additional border city enterprise zone credits.

Includes technical changes proposed by the Department of Revenue, including technical corrections to the farm assistance program and mortgage deed and registry tax changes enacted in the 1999 session

Accelerates the sunset of the Municipal Board and transfers existing appropriations to the Office of Strategic and Long-Range Planning.

Requires the Metropolitan Airport Commission (MAC) to issue \$30 million of bonds for redevelopment in the area impacted by airport noise in the city of Richfield.

- 1-2 Local fiscal notes; administrative rules.** Delays by one year the requirement that the Department of Finance prepare local fiscal notes on administrative rules, from 1999 to 2000. This law requires preparation of local fiscal notes for proposed legislation and administrative rules that would impose new requirements or costs on local units of government.
- 3 Tobacco settlement fund.** Creates a tobacco settlement fund within the state treasury. Requires the commissioner of finance to credit one-time payments received between July 1, 1998 and June 30, 2001 under the tobacco settlement to the fund. Directs the governor to recommend to the legislature uses of the fund's proceeds. All recurring payments under the settlement are credited to the general fund. [This provision was superseded by a similar settlement fund created in chapter 245, article 11, section 1, the omnibus health and human services act.]
- 4 Abatement of penalties.** Authorizes the commissioner of revenue to abate penalties and interest on state taxes for taxpayers located in a presidentially-declared disaster area, and eliminates the requirement that the Attorney General approve abatements over \$5,000.
- 5 Erroneous refunds.** Provides that if an erroneous refund results from a taxpayer's bad check, remittance of the check is an assessment for the erroneous refund made on the date the check is received by the commissioner. This situation occurs when a taxpayer understates estimated payments or withholding on the return, and then makes a balance due payment that is greater than the actual balance due. The Department may issue a refund check before the taxpayer's check is returned for insufficient funds.
- 6 Offers-in-compromise.** (a) Requires the department of revenue to establish a program of offers-in-compromise of tax liabilities modeled on the offers-in-compromise program established by the Internal Revenue Service. Requires the commissioner of revenue to establish guidelines to be used by employees of the department to determine whether an offer-in-compromise or an offer to make installment payments is adequate and should be accepted to resolve a dispute over unpaid taxes. Requires the commissioner to develop and publish schedules of national and local allowances designed to provide that taxpayers, after they enter into a compromise or installment payment agreement, will have adequate means to provide for their basic living expenses. Specifies that a taxpayer's interest in a motor vehicle, to the extent of the value of a vehicle that is allowed to be exempt from attachment to pay debts, will not be considered an asset. Effective the day following final enactment, and applies to offers-in-compromise submitted after June 30, 1999.

The guidelines must provide:

The department will not reject an offer-in-compromise or installment payment offer from a low-income taxpayer solely on the basis of the amount of the offer.

For an offer-in-compromise that relates to the issue of liability rather than the ability of the taxpayer to make the tax payment, the offer cannot be rejected only

because the commissioner is unable to locate the taxpayer's return or information to verify the liability, and the taxpayer will not be required to provide an audited, reviewed, or compiled financial statement.

(b) The commissioner must establish procedures for an administrative review of a proposed rejection of an offer before the rejection is communicated to the taxpayer. Taxpayers must be allowed to request reconsideration of a written rejection to the commissioner, who must determine if the rejection is reasonable and appropriate under the circumstances. The procedures must also provide for notification of the taxpayer when an offer-in-compromise has been accepted, and issuance of certificates of release of any liens imposed related to the liability that is the subject of the compromise. Finally, the department's regulations must require presentation of a counteroffer or a written rejection of the offer by the commissioner if the amount offered by the taxpayer in an offer-in-compromise is not accepted by the commissioner.

- 7 Interest on EFT penalty.** Provides that interest on the penalty for failure to pay tax by means of electronic funds transfer begins to run from the date the payment was due, and eliminates an obsolete sunset provision.
- 8 Claimant agency.** Expands "claimant agency" for purposes of revenue recapture to a private nonprofit hospital that leases its building from the county. (This would apply to the Regions Hospital in St. Paul.)
- 9-10 Revenue recapture hearing requirement.** Provide that the hearing requirement that applies to revenue recapture proceedings is not required for issues relating to the validity of the claims that have been previously raised at a hearing conducted under rules of the Department of Housing and Urban Development or any public agency responsible for the administration of low income housing programs. Effective for setoff claims submitted after June 30, 1999.
- 11 Mortgage registry tax; definition of debt.** Makes a technical correction in the definition of "debt" for purposes of the mortgage registry tax. Legislation, enacted earlier in the 1999 session, recodified this provision. This change clarifies the definition of debt is limited to obligations to pay money.
- 12 Mortgage registry tax; multi-state mortgages.** Makes a technical correction in the definition of the portion of a multi-state mortgage that qualifies for exemption from the mortgage registry tax. Legislation, enacted earlier in the 1999 session, recodified this provision. This change clarifies that accrued interest and advances are exempt from tax on the non-Minnesota portions of a multi-state mortgage.
- 13 Mortgage registry tax; multi-state mortgages.** Makes a parallel change to that in section 12 when the debt is secured by Minnesota real property.
- 14 Divorced and innocent spouse relief.** Allows an ex-spouse seeking innocent spouse relief from joint income taxes to claim a refund of any payments made within 60 days of the claim for relief. Expands innocent spouse relief to include widowed and legally separated spouses, as does recent federal law.

A taxpayer who qualifies for expanded innocent spouse relief under the 1998 IRS Restructuring and Reform Act will also qualify for innocent spouse relief for Minnesota purposes. Effective at the same time as for federal purposes.
- 15 Time limit for refund claims.** Clarifies that an order determining an appeal starts the one-year period for paying the tax on the order and filing a claim for refund. Effective for orders issued on or after the day following final enactment.
- 16 Suspension of time to make a refund claim during period of disability.** Suspends the time period for filing a refund claim during a period disability, if the taxpayer qualifies for a suspension under federal tax law. Generally, disability exists when a taxpayer is physically or

mentally unable to manage financial affairs, and ends when the taxpayer recovers or a guardian is appointed. Eliminates the prior reasonable cause standard and the ten-year time period for filing a claim. Effective for disabilities existing on or after the date following final enactment for which claims for refund have not expired as of the date of enactment.

17 Refund claim form. Directs the commissioner of revenue to prepare a form for making claims for refunds of taxes by January 1, 2000.

18 Claims for Refunds. Strikes a requirement that the taxpayer must bring an action in the district court or the tax court within four years of the date that the claim was filed.

This codifies the rule in the *Klein Bancorporation* case.

19 Interest on penalties. Provides that interest on the penalty for failure to pay tax by means of electronic funds transfer begins to run from the date the payment was due. This is a parallel amendment to section 7.

20 Obsolete reference. Eliminates obsolete language referring to a repealed minimum penalty.

21 Penalty for failure to pay by electronic funds transfer. Strikes an obsolete provision that was in effect through December 31, 1997.

22 Capital equipment refunds. Clarifies that the general procedural requirements for claiming refunds apply to capital equipment refund claims.

23 Registration tax; agricultural aircraft. Provides for the registration and licensing of "agricultural aircraft," defined as one-passenger aircraft designed and use for agricultural operations and purposes. Requires an affidavit to the effect that the aircraft is owned and operated solely for agricultural purposes. The annual registration fee for agricultural aircraft is limited to a maximum \$500. Ordinarily the registration fee would be one percent of the aircraft's value. The aircraft is subject to ordinary taxation if it is operated for other than agricultural purposes. A new owner must re-list the aircraft if it is sold. Effective for aircraft registered after June 30, 1999.

24 Municipal board sunset. Moves up the date for termination of the municipal board from December 31, 1999 to June 1, 1999 and provides that money remaining is transferred to office of strategic and long-range planning.

25 Alternative dispute resolution (ADR). Authorizes the director of office of strategic and long-range planning to require ADR on annexation, consolidation and detachment matters.

26 Additional funding for border city development zones. Provides an exemption from the limits on state funding for border city development zones. Border city development zones were enacted by the 1998 Legislature to permit five cities along the western border (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville) to attract new businesses and revitalize their economies. The tax reductions that were permitted were subject to fixed dollar limitations for each of the five cities.

The city may exceed the maximum limits enacted in the 1998 session, only if the commissioner of revenue finds that three conditions are met by the business to which the tax reductions are provided:

Makes a capital investment in the city of at least \$1 million.

Employs 25 new or additional employees in the city.

Pays the employees more than the average wage in the county.

27 Additional enterprise zone allocations. Authorizes the commissioner of the Department of Trade and Economic Development (DTED) to allocate \$1.5 million for additional border city enterprise zone credits. These credits are to be allocated among the qualifying cities

(Breckenridge, Dilworth, East Grand Forks, and Moorhead) on a per capita basis. Based on 1997 population, the \$1.5 million would be allocated among the cities approximately as follows:

| | |
|------------------|-----------|
| Breckenridge | \$112,000 |
| Dilworth | 91,000 |
| East Grand Forks | 274,000 |
| Moorhead | 1,023,000 |

These enterprise zone credits can be used for a variety of tax reductions, as provided under prior law:

- exemption for the sales tax on building materials and equipment
- an income tax credit of up \$3,000 for each additional employee hired
- an income tax credit for a percentage of debt financing to construct new or expanded facilities
- a state paid property tax credit

The bill also authorizes the allocations to be used for any other taxes imposed on businesses located in the zone. The bill imposes a "but-for" type finding as a condition on the city awarding the tax reductions (i.e., the city must find that the reductions are needed to attract or retain the business).

- 28 Border cities; appropriation.** Provides an open appropriation to cover the cost of tax reductions in border cities provided under the waiver authority for large projects in border city development zones under section 26. Amounts used under the waiver will not reduce the limit available for border development zones.
- 29 Border city enterprise zone competitiveness grants; time extension.** Extends by 6 months to June 30, 1999 the \$1.2 million appropriation for border city enterprise zone competitiveness grants provided in the 1997 second special session flood relief act. Grants are available to communities with significant business losses that are at risk of losing business tax base due to non-competitiveness with North or South Dakota. Grants are for locally administered measures and may be used for tax reductions or offsets of taxes.

Sections 30 to 33 make technical changes to the farm assistance program in Laws 1999 Chapter 112 (HF1) enacted earlier in the 1999 legislative session.

- 30 Farm assistance rebate.** Clarifies the definition of the a term "acre" to the farm assistance program and allows a farmer to aggregate two or more farms to meet the 40 acre minimum requirement.
- 31 Farm rebate; livestock producers.** Allows relative homesteads of livestock production facilities to qualify for the farm rebate.
- 32 Refund for lease property.** Provides that rather than prorating the livestock production rebate for a portion of the property that is leased, \$4 per acre will be deducted from the refund.
- 33 Farm rebate.** Clarifies that a farmer may aggregate two or more parcels to satisfy the 40 acre minimum requirement.
- 34 Border city cost estimates.** Requires the commissioner of DTED to report to the commissioner of finance and the tax chairs any waivers of the limits on border city credits under section .
- 35 Airport impact zone.** Designates the geographic boundaries of an airport impact zone in Richfield. Makes legislative findings that the designated area will experience adverse environmental impacts from the expansion of the airport and that it is appropriate to mitigate those adverse impacts.

Directs the metropolitan airports commission (MAC) to issue \$30 million of bonds and to transfer

the proceeds to Richfield to pay for land acquisition, relocation, redevelopment, and public improvements in the airport impact zone.

The bonds must be secured by MAC revenues and are general obligation bonds. The bonds may be issued with a referendum and without being subject to net debt limits. Bonds may be issued to refund the bonds.

MAC is obligated to establish and revise landing fees that are sufficient to pay the bonds obligations.

Exemption for federal law. The requirements to issue the bonds under this section terminate, if the revenues would not (for example) be permitted to be used to pay for the bonds under the federal revenue diversion rules that apply to certain airport revenues.

- 36 Filing extension for Operation Allied Force service members.** Conforms state tax provisions to recently-enacted federal provisions that allow extensions of time to file and appeal for active-duty service members who are deployed away from their permanent duty stations as part of Operation Allied Force. Prior law allowed extensions for service members assigned to the federally-designated combat zone and to National Guard and reserve members called to active duty, but not for active-duty service members assigned to support stations away from their permanent duty station.
- 37 Conservation fund transfer.** Transfers \$2 million from the Minnesota conservation fund to the general fund. This fund receives money from the mortgage registration and deed taxes. It is used to reimburse local governments participating in the agricultural land preservation program.
- 38 Appropriation.** Appropriates \$143,000 to the commissioner of revenue to administer the act.
- 39 Repealer.** Repeals provisions dealing with combined late filing and late payment penalty for lawful gambling taxes, cigarette and tobacco products taxes, and liquor taxes. Changes to these penalty provisions in this article have made these sections obsolete.
- 40 Effective date.**