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Table of Contents

	<u>Summary</u>
Article 1: Job Opportunity Building Zones	2.....2
Article 2: Biotechnology and Health Science Zones	11.....40
Article 3: Federal Update.....	18.....63
Article 4: Property Taxes	19.....68
Article 5: City Aids	23.....91
Article 6: Other Intergovernmental Aids	27.....107
Article 7: Levy Limits.....	31.....121
Article 8: Sales and Use Tax.....	33.....130
Article 9: Special Taxes	37.....146
Article 10: Local Economic Development	39.....156
Article 11: Miscellaneous	42.....173

Section**Article 1: Job Opportunity Building Zones****Overview**

This article authorizes the commissioner of the department of trade and economic development (DTED) to designate up to 10 job opportunity building zones in economically distressed rural areas. These zones could be divided up into separate noncontiguous subzones, located in one or more local government units.

Qualifying businesses operating in the zones are exempt from sales, income, and property taxes and a refundable jobs credit is available for the portion of increased payroll that exceeds \$30,000 per FTE. Individuals who invested in zone businesses would be exempt on their business income attributable to activity in the zone, as well as capital gain taxes on zone investments. The zones would have a maximum duration of 12 years. Designations would occur in 2003 and the tax reductions would be effective in 2004. The commissioner may reserve some of the zones for designation in calendar year 2004.

In addition, the article authorizes designation of up to 5 agricultural processing facility zones. These zones would be limited to the sites of the agricultural processing facilities themselves.

1 Job opportunity building zone property. Provides that commercial and industrial property (both real and personal) in a job opportunity building zone or an agricultural processing zone is exempt from property taxation. This exemption does not apply, however, to the following:

- Land
- Commercial-industrial property where neither the owner nor the lessee is a qualified business (See the summary of section 0 for the definition of a qualified business.)
- Debt service levies for general obligation bonds
- School operating referenda, if the voters approved the levy before designation of the zone.

The exemption applies to the first assessment year after designation of the zone by the commissioner of trade and economic development.

2 Wind energy production tax exemption. Provides that electricity generated in a job opportunity building zone is not subject to the wind energy production tax. This tax is imposed in lieu of the property tax.

3 Individual income tax exemption. Provides that income derived from investing in or operating a qualified business in a job opportunity building zone is exempt from individual income taxation. The qualifying rules for these exemptions are described in section 0.

4 Corporation franchise tax exemption. Provides income from operating a qualified business in a job opportunity building zone is deductible in calculating taxable income under the corporate franchise tax. The details of this exemption are described in the summary of section 0.

5 Individual income tax exemption, nonresidents. Provides that in calculating the Minnesota tax for a non-resident, job opportunity building zone income is excluded from

Section

both the numerator and denominator of the ratio. Nonresidents calculate their Minnesota tax by determining the Minnesota tax on their total income (both Minnesota and non-Minnesota). The Minnesota liability is, then, determined by multiplying this amount by a fraction, the numerator of which is Minnesota source income and the denominator of which is total income.

- 6 **Jobs credit.** Provides that the jobs credit applies against chapter 290 taxes (regular and alternative minimum tax under both the individual income and corporate franchise taxes). A summary of the rules for this credit is found in section 0.
- 7 **Dependent care credit.** Clarifies that tax-exempt job opportunity building zone income reduces the amount of the dependent care credit that is allowed. For example, if one-quarter of the taxpayer's income were tax-exempt job opportunity building income, the otherwise applicable dependent care credit would be reduced by 25 percent. This is the same treatment that applies to tax-exempt reservation income of American Indians and to part year residents.
- 8 **Working family credit.** Clarifies that tax-exempt job opportunity building zone income reduces the amount of the working family credit that is allowed. This is the same treatment described in section 0 for the dependent care credit and is consistent with the treatment of other forms of tax-exempt income.
- 9 **Individual AMT exemption.** Extends the individual income tax exemption to the alternative minimum tax or AMT under the individual income tax.
- 10 **Corporate AMT exemption.** Exempts income from operating a business in a job opportunity building zone from the corporate AMT.
- 11 **Minimum fee, complete exemption.** Exempts a business from the minimum fee if all of its property and payroll is located in a job opportunity building zone.
- 12 **Corporate minimum fee.** Excludes property and payroll located in a job opportunity building zone from use in calculation of the minimum fee under the corporate franchise tax. This exemption applies to a business that has property and payroll outside of the zone.
- 13 **Sales tax exemption.** Provides a sales tax exemption for businesses located in a job opportunity building zone. To qualify for this exemption, the goods or taxable services must be primarily used in the zone and purchased during the duration of the zone. The exemption extends to contractor purchases (if the final use of the property is in the zone) and to local sales taxes.
- 14 **Motor vehicle sales tax exemption.** Provides an exemption from the motor vehicle sales tax for vehicles used by a business in a job opportunity building zone. The vehicle must be both garaged in the zone and primarily used in support of zone operations of the business (e.g., delivering products produced in the zone or delivering supplies used in the zone). The exemption also applies to local sales taxes.
- 15 **Definitions.** Defines terms for purposes of the job opportunity building zone statute.
- **Agricultural processing facility** means a facility that transforms, packages, sorts, or grades agricultural, livestock, or plant products into goods for intermediate or final consumption.
 - **Applicant** is a local government or governments applying for designation of a job opportunity building zone. A joint powers board, acting on behalf of two or more local government units, may be an applicant.
 - **Commissioner** is the commissioner of trade and economic development.

Section

- **Development plan** is a development plan adopted by the local government as part of its application for designation of a job opportunity building zone.
- **Job opportunity building zone** is a zone designated under the statute's procedure and includes an agricultural processing zone.
- **Job opportunity building zone percentage** is a fraction used to apportion income to the zone for business operating both within and outside of the zone. The percentage is the average of the zone payrolls and property over total Minnesota payrolls and property.
- **Job opportunity building zone payroll factor** is the wages and salaries paid to employees for services performed in the zone or to employees working from offices in a zone, if the work outside the zone is incidental to that in the zone.
- **Local government unit** is a city (either home rule charter or statutory), county, town, iron range resources and rehabilitation agency, regional development commission, or federally designated economic development district.
- **Person** means an individual or any type of legal entity (corporation, partnership, etc.).
- **Qualified business** means a trade or business operating within a job opportunity building zone. If a business relocates operations into a zone, to be a qualified business it must both:
 - **Meet an expansion test by either:**
 - Increasing employment by 20% in its first full year of zone operations and maintaining that level of employment during the duration of the zone; or
 - Making a capital investment in the zone equal to 10% of its gross revenues in the prior year from the portion of the business it relocated to the zone; and
 - **Agree in writing to repay the tax benefits, if it does not meet the expansion test.**
- **Relocates** means moving a Minnesota business operation from outside a zone into a zone or by locating an operation in a zone that supplants employment at an existing Minnesota business operation outside the zone. It does not include an expansion that does not replace or supplant another Minnesota operation.

16 Development plan. Requires applicants for zone designation to adopt a written development plan containing at least:

- A map of the zone with details on present uses and conditions in the area

Section

- Evidence of community support and commitments to the zone
- Description of the plans and methods that will be used to stimulate development of the zone
- Description of the characteristics of the zone (e.g., social, economic, and demographic conditions)
- Description of the anticipated activity in the zone
- Any other information the commissioner requires.

17 **Limitations.** Establishes various rules governing job opportunity building zones:

- **Maximum size** is limited to 5,000 acres. For an agricultural processing facility zone, the maximum size is limited to the site of the facility, including space for ancillary facilities and expansion in the “reasonably foreseeable future.”
- A zone may be divided into noncontiguous subzones.
- Zones must be located **outside of the Twin Cities (7 county) metropolitan area.**
- A zone cannot overlap with a **border city development zone.** A border city can, however, choose to seek designation of the area of a border city development zone as a job opportunity building zone by removing property from the border city zone. If property owners in the existing zone are receiving incentives under it, they must consent to the removal. The removal can be contingent upon designation of the zone as a job opportunity building zone. Border city development zone incentives cannot be provided to businesses for operations in a job opportunity building zone.
- The **maximum duration** of a zone is 12 years. A shorter duration can be requested by the applicant or specified by DTED in its designation of the zone.

18 **Application for designation of zones.** Provides rules governing applications for zone designations.

Who may apply. One or more local governments (city or town, county, and school district) may apply for designation of a zone. The zone must be located, at least partially, in each of the applicant governmental units. A local government can apply for only one zone designation.

Contents of application. The application must include:

- A development plan for the zone
- The proposed duration of the zone

Section

- Resolutions approving the application by all of the cities, towns, and counties that include the zone (This is essentially an agreement to provide the local tax reductions—i.e., property tax and local sales tax exemptions.)
- Consents to removals, if the proposed zone includes a border city development zone
- Supporting evidence to help the commissioner of DTED evaluate the merits of the application
- An agreement by the local government to follow the business subsidy law for tax incentives that are provided to businesses in the zones.

19 Designation of job opportunity building zones. Directs the commissioner of DTED to designate no more than 10 job opportunity building zones. These designations are to be made based on need and likelihood of success in revitalizing economically distressed rural areas in Minnesota. The commissioner may also designate up to 5 agricultural processing facility zones. In designating the zones, the commissioner may modify the development plans, including the boundaries of the zones. Notice and a statement of reasons must be provided to the applicant for any modifications.

Need indicators. The commissioner must consider the following measures of need (generally measured relative to the averages for the state as a whole):

- Percentage of the population below 200% of the poverty rate
- Average weekly wage
- Deteriorating or underutilized property
- Median sale price of housing units
- Median household income
- Population loss in the last two decades
- Closing of businesses or major employers
- Physical characteristics of property that it make it difficult to develop
- Presence of existing public and private infrastructure to support expanded development
- Low business startup and expansion rates

In applying these indicators, the best available data is to be used. If data that is specific to the zone is not available, the commissioner may use data for the next smallest area that is

Section

available.

Success indicators. The commissioner may use the following as measures of likely success of a proposed zone:

- Viability of the development plan
- How creative and innovative the plan is
- Local public and private commitment to the effort
- Existing resources available in the zone
- Relationship of the designation to other projects and programs
- How regulatory burdens will be eased in the zone
- Job training efforts that will be linked to the designation
- The extent to which the plan is directed at and the designation of the zone will result in high paying jobs

Schedule. The designations are to be made during calendar year 2003 and will take effect beginning January 1, 2004. The bill sets out the following schedule related to the designations:

- DTED must specify the rules for applications by August 1, 2003.
- The application deadline is October 15, 2003.
- DTED must designate the zones by December 31, 2003.

DTED can reserve designation of some of the zones for a second round of designations in calendar year 2004. DTED will set the schedule for these designations, except that it must allow at least 90 days for local governments to apply for designations.

Geographic distribution. Sets a goal of distributing zones around the state.

Ruling making exemption. The commissioner's actions in administering the program (e.g., setting application requirements and so forth) are not subject to rule making procedures under the Administrative Procedures Act.

20

Available tax incentives. The following tax incentives are available in job opportunity building zones:

- Business owners are exempt from the individual income tax on income from business operations and investments in a job opportunity building zone
- The corporate franchise tax does not apply to corporate income generated by zone

Section

operations

- State and local sales taxes (both general and on motor vehicles) do not apply to purchases used by businesses in a job opportunity building zone
- Property taxes do not apply to improvements in the zone
- The wind energy production tax does not apply to wind energy conversion systems in a zone
- A refundable jobs credit is available for higher paying jobs.

21 Individual income tax exemption. Provides income tax exemptions for individuals operating businesses in zones or investing in zones. These exemptions only apply if the income would otherwise be taxable.

Rents. Rents received for both real and tangible personal property located in the zone are exempt. Rents from personal property that is used both within and outside of the zone must be apportioned based on the number of days the property was used in the zone.

Business income. Income from operating a business in a job opportunity building zone is exempt. If the business operates both within and outside of the zone, the income must be apportioned using the share of property and payroll located in the zone to the total property and payroll of the taxpayer. The exemption is limited so that the exempt income (determined by using the apportionment mechanism) cannot exceed 20 percent of the sum of the zone payroll and original adjusted basis of the investment in the zone.

Capital gains. Capital gains on real and tangible personal property located in a job opportunity building zone or sale of a business operated in the zone are exempt from taxation. Different rules apply to determine the amount of the exemption:

- **Real property.** Capital gains on real property located in a job opportunity building zone are exempt from taxation based on the share of the holding period that took place while the area was designated a job opportunity building zone. To illustrate, assume A purchased a piece of real property for \$1,000 and held the property for 10 years. A, then, sold the property for \$5,000. For 6 years of the 10-year holding period, the property was located in a job opportunity building zone. Of A's \$4,000 capital gain (\$5,000 sale price - \$1,000 purchase price = \$4,000), 60 percent or \$2,400 would be exempt from taxation ($\$4,000 * 60\% = \$2,400$), since 6 years out of the 10-year holding period occurred while the zone was designated a job opportunity building zone.
- **Tangible personal property.** Capital gains on tangible personal property located in a job opportunity building zone are exempt from taxation based on the share of the holding period that took place while the zone was designated a job opportunity building zone and the usage of the property in the zone. This calculation is essentially the same as that for real property. However, if the personal property was used both within and without the zone, the exemption amount must also be multiplied

Section

by a fraction. The numerator of the fraction is the number of days the property was used in the zone while it was designated as a job opportunity building zone and the denominator is the total number of days the taxpayer held the property.

- **Ownership in qualified business.** Capital gain on an ownership interest (e.g., stock or a partnership interest) in a qualified business is exempt from taxation. This exemption equals the job opportunity building zone percentage for the business multiplied by the capital gain. The zone percentage is calculated using as its denominator the total property and payroll (not just the Minnesota payroll and property). This exemption does not apply if the zone percentage is less than 25 percent. The business entity is responsible for notifying the owner of its qualification for the capital gain exemption.

22 Corporate franchise tax exemption. Provides that a corporation operating in the zone is exempt from the corporate franchise tax, if it is a qualified business. If the entire business operates in the zone, the corporation is fully exempt from taxation under the corporate franchise tax and would not be required to file a return. If the corporation does business both within and outside of the zone, the following rules apply:

- **Regular tax.** The corporation's taxable net income is multiplied by its zone percentage (average property and payroll in the zone divided by total Minnesota property and payroll) and subtracted from its taxable income.
- **AMT.** The corporation's alternative minimum taxable income is multiplied by the zone percentage and this amount is subtracted from alternative minimum taxable income.
- **Minimum fee.** Its zone property and payroll are excluded from calculating the minimum fee. If a business is located only in the zone, it is fully exempt from the fee (i.e., the fee based on the Minnesota sales factor also does not apply).

23 Jobs Credit. Provides a job credit to a qualified business operating in a zone equal to 7 percent of:

- The lesser of either:
- The increase in the business payroll in the zone since the year of designation or
- The increases in total Minnesota payroll since the year of designation; minus
- The increase in the number of FTEs in the zone since designation multiplied by \$30,000

Inflation adjustment. Starting for tax year 2005, the \$30,000 amount will adjusted for inflation.

Refundable. The credit is refundable.

24 Repayment of tax benefits. Requires a business to repay tax benefits or any non-tax amounts provided by the local governments, if the business:

- Did not meet the goals specified in a business subsidy agreement. The commissioner

Section

can extend by a year the time to meet the agreed goals.

- Ceased to operate in the zone or was not a qualified business.

The provision requires repayment of the last two years of benefits received before the business ceased its zone operations or failed to meet its agreed goals. Repayment could be required after termination of the zone.

Disposition or repayments. Repayments of state tax reductions are paid to the state and deposited in the general fund. Repayments of property taxes are distributed to local governments in the same manner as delinquent property taxes. Repayments of local sales taxes are made to the unit imposing the tax.

Authority to collect. The commissioner of revenue is given authority to collect repayments in the same manner as unpaid taxes and the same interest and penalty rules apply. For individual income and corporate franchise taxes, the taxpayer files an amended return and must repay within 30 days after the triggering event. For property taxes, the county auditor is to prepare a tax statement using the otherwise applicable tax rates. If the amounts are not paid, they become liens against the property in the same way as any other unpaid property tax. Motor vehicle sales taxes are repaid to the motor vehicle registrar.

Waiver authority. The commissioner of revenue, after consulting with the commissioner of DTED and the affected local units of government, may waive all or part of a repayment if it is deemed to be in the best interest of the state and the business ceased operations for reasons beyond its control, such as a natural disaster, unforeseen industry trends, or loss of a major supplier or customer.

25 Zone performance; remedies. Successful applicants for zone designation must annually report to the commissioner on zone performance and compliance with the business subsidy law. Based on these reports and other information, the commissioner may take action the commissioner considers appropriate, such as removing property from the zone or terminating the zone or a subzone. Before doing so, the commissioner must consult with the local governments and provide notice of the proposed action. The commissioner's action may be appealed as a contested case under the administrative procedures act. Income and property tax incentives provided in area removed from a zone or terminated zone continue for existing businesses. Sales tax exemptions continue for purchases made before the beginning the first calendar month beginning 30 days after termination of the zone or removal of the property.

26 Job opportunity building zone aid. Provides for the payment of state aid to partially reimburse cities and counties with job opportunity building zones for a proportionately large loss of tax base as a result of the zones. To qualify for this aid, a city or county must experience at least a 3% drop in tax capacity (as compared with a base year of 2003) as a result of the property tax exemption provided through the job opportunity building zone. The amount of aid is calculated using the following formula:

$$0.5 * \text{local unit's rate in 2003} * [\text{job opportunity building zone exempt tax capacity} - (0.03 * \text{2003 tax capacity})]$$

Certification by assessor. The county assessor is to certify entitlements to this aid to the commissioner of revenue. The commissioner notifies each city and county of its entitlement to aid by August 20 of the assessment year. The aid is paid by July 20 of the payable year.

Section

- 27 An appropriation is made to the commissioner of revenue for the aid.
Appropriations. Appropriates the following amounts to DTED and DOR for the costs of administering the zone program:

Agency	FY 2004	FY 2005
DTED	\$100,000	\$30,000
DOR	53,000	29,000
Total	\$153,000	\$59,000

Article 2: Biotechnology and Health Science Zones**Overview**

This article authorizes the commissioner of the department of trade and economic development (DTED) to designate one biotechnology and health science industry zone. In designating the zone, priority is given to locations close to and connected with a higher education or research institution, such as the Mayo Clinic or University of Minnesota. This zone could be divided up into separate noncontiguous subzones, located in one or more local government units. Qualifying businesses engaged in biotechnology or health sciences and operating in the zone may qualify for sales tax exemptions, corporate franchise tax exemptions, job credits, research credits, and property tax exemptions. The commissioner of DTED awards these incentives upon application by the businesses. The total amount of the state tax incentives is limited to \$1 million. The zone would have a maximum duration of 12 years. Designations would occur in 2003 and the tax reductions would be effective in 2004.

- 1 **Legislative findings.** Makes legislative findings on the desirability of providing incentives to biotechnology and health science industries to locate close to the University of Minnesota and the Mayo Clinic. The findings require that encouraging expansion of the industry include attention to the ethical, legal, and societal impacts of the industry.
- 2 **Biotechnology and health science industry zone property.** Provides that commercial and industrial property (both real and personal) in a biotechnology and health science industry zone is exempt from property taxation. This exemption does not apply, however, to the following:
- Land
 - Commercial-industrial property where neither the owner nor the lessee is a qualified business (See the summary below of section 0 for the definition of a qualified business.)
 - Debt service levies for general obligation bonds
 - School operating referenda, if the voters approved the levy before designation of the zone.

The exemption applies to the first assessment year after designation of the zone by the commissioner of trade and economic development. The city and county can opt to not

Section

provide an exemption from their taxes. The exemption would apply in all cases to school and other special district property taxes (other than debt and referendum operating levies as noted above).

- 3 Corporation franchise tax exemption.** Provides income from operating a qualified business in a biotechnology and health science industry zone is deductible in calculating taxable income under the corporate franchise tax. The details of this exemption are described in the summary of section 0.
- 4 Jobs credit.** Allows the jobs credit under section 0 to reduce corporate franchise tax liability.
- 5 Research credit.** Allows the research credit under section 0 to reduce corporate franchise tax liability.
- 6 Corporate AMT exemption.** Exempts income from operating a business in a biotechnology and health science industry zone from the corporate AMT.
- 7 Corporate minimum fee.** Excludes property and payroll located in a biotechnology and health science industry zone from use in calculation of the minimum fee under the corporate franchise tax. This fee applies to partnerships and S corporations, as well as traditional C corporations, that are subject to the franchise tax.
- 8 Sales tax exemption.** Provides a sales tax exemption for businesses located in a biotechnology and health science industry zone. To qualify for this exemption, the goods or taxable services must be primarily used in the zone and purchased during the duration of the zone. The exemption extends to contractor purchases (if the final use of the property is in the zone) and to local sales taxes. The tax will be paid by the purchaser and application made to the commissioner of revenue for a refund under the capital equipment refund provisions. The refund of state tax cannot exceed the amount of the credit certificates allocated to the qualified business.
- 9 Definitions.** Defines terms for purposes of the biotechnology and health science industry zone statute.
- **Applicant** is a local government or governments applying for designation of a biotechnology and health science industry zone. A joint powers board, acting on behalf of two or more local government units, may be an applicant.
 - **Biotechnology and health science industry facility** means a facility involved in either (1) researching, developing or manufacturing a biotechnology product or service, (2) researching, developing, or manufacturing (or any combination of them) a biotechnology medical device product or service, or (3) promoting, supplying or servicing a facility engaged in activities under (1) or (2), if it derives more than 50 percent of its gross receipts from those types of businesses.
 - **Commissioner** is the commissioner of trade and economic development.
 - **Development plan** is a development plan adopted by the local government as part of its application for designation of a biotechnology and health science industry zone.
 - **Biotechnology and health science industry zone** is a zone designated under the statute's procedure.
 - **Biotechnology and health science industry zone percentage** is a fraction used to

Section

apportion income to the zone for qualified businesses operating both within and outside of the zone. The percentage is the average of the zone payrolls and property over total Minnesota payrolls and property.

- **Biotechnology and health science industry zone payroll factor** is the wages and salaries paid to employees for services performed for a qualified business in the zone or to employees working from offices of a qualified business in a zone, if the work outside the zone is incidental to that in the zone.
- **Local government unit** is a city (either home rule charter or statutory), county, town, or school district.
- **Person** means an individual or any type of legal entity (corporation, partnership, etc.).
- **Qualified business** means a trade or business operating at a biotechnology and health science industry facility within a biotechnology and health science industry zone. If a business relocates operations into a zone, to be a qualified business it must both:
 - **Meet an expansion test by either:**
 - Increasing employment by 20% in its first full year of zone operations and maintaining that level of employment for each year the zone designation applies; or
 - Making a capital investment in the zone equal to 10% of its gross revenues in the prior year from the portion of the business it relocated to the zone; and
- **Agree in writing to repay the tax benefits, if it does not satisfy the test.**
- **Relocates** means moving a Minnesota business operation from outside a zone into a zone or by locating an operation in a zone that supplants employment at an existing Minnesota business operation outside the zone. It does not include an expansion that does not replace or supplant another Minnesota operation.

10 Development plan. Requires applicants for zone designation to adopt a written development plan containing at least:

- A map of the zone with details on present uses and conditions in the area
- Evidence of community support and commitments to the zone
- Description of the plans and methods that will be used to stimulate development of the zone
- Description of the characteristics of the zone (e.g., social, economic, and demographic conditions)

Section

- Description of the anticipated activity in the zone
- Any other information the commissioner requires.

11 **Limitations.** Establishes various rules governing biotechnology and health science industry zones:

- **Maximum size** is limited to 5,000 acres.
- A zone may be divided into **noncontiguous subzones**.
- The **maximum duration** of a zone is 12 years. A shorter duration can be requested by the applicant or specified by DTED in its designation of the zone.

12 **Application for designation of zones.** Provides rules governing applications for zone designations.

Who may apply. One or more local governments (city or town, county, and school district) may apply for designation of a zone. The zone must be located, at least partially, in each of the applicant governmental units. A local government can apply for only one zone designation.

Contents of application. The application must include:

- A development plan for the zone
- The proposed duration of the zone
- Resolutions approving the application by all of the cities, towns, and counties that include the zone (This is essentially an agreement to provide either the local sales tax exemption or the property tax exemption.)
- Supporting evidence to help the commissioner of DTED evaluate the merits of the application
- An agreement by the local government to follow the business subsidy law for tax incentives that are provided to businesses in the zones.

13 **Designation of biotechnology and health science industry zones.** Directs the commissioner of DTED to designate no more than one biotechnology and health science industry zone. Priority is to be given to applicants that link a higher education or research institution to the industry facilities in the zone. In designating the zone, the commissioner may modify the development plan, including the boundaries of the zone. Notice and a statement of reasons must be provided to the applicant for any modifications.

Need indicators. The commissioner must consider the following measures of need:

Section

- The extent to which land near a scientific research institution could be better used for biotechnology industry facilities
- The amount of deteriorating or underutilized property in or near the potential zone
- The extent to which property in the area would remain undeveloped due to physical characteristics of the property

The commissioner may require applicants to provide data demonstrating how the area meets these criteria.

Success indicators. The commissioner may use the following as measures of likely success of a proposed zone:

- Showing of a viable link between the higher education/research institution and the businesses
- The extent to which the area has property and infrastructure to support the development
- Strength and viability of the development plan
- Whether the development is creative and innovative
- Local public and private commitment to the effort
- Existing resources available in the zone
- Relationship of the designation to other projects and regional initiatives and programs
- How regulatory burdens will be eased for biotechnology and health science businesses in the zone
- Job training efforts that will be linked to the designation
- Linking of job creation and training to the higher education institutions
- The extent to which the plan is directed at and the designation of the zone will result in high paying jobs

Schedule. The designations are to be made during calendar year 2003 and will take effect beginning January 1, 2004. The bill sets out the following schedule related to the designations:

- DTED must specify the rules for applications by August 1, 2003.

Section

- The application deadline is October 15, 2003.
- DTED must designate the zones by December 31, 2003.

14 **Application for tax benefits; limit on amount.** Requires businesses seeking tax incentives listed in section 0 to apply to DTED for tax credit certificates. The business must agree to provide information sufficient to verify its eligibility for the tax benefits. DTED must provide verification to the Department of Revenue of the eligibility of the business. The business can only qualify for tax incentives equal to the credit certificates given. The certificates will indicate the amount and type of tax incentives available to the business. The authority to award these certificates is limited to \$1 million for the current biennium. No allocation is provided for award of tax reductions in future biennia. This limit does not apply to local taxes (i.e., property and local sales taxes).

15 **Available tax incentives.** The following tax incentives are available in biotechnology and health science industry zones:

- The property tax exemption under section 0
- The corporate franchise tax exemption under section 0
- The state and local sales tax exemption under section 0
- The research credit under section 0
- The jobs credit under section 0

16 **Corporate franchise tax exemption.** Provides that a corporation operating in the zone is exempt from the corporate franchise tax, if it is a qualified business. If the entire business operates in the zone, the corporation is fully exempt from taxation under the corporate franchise tax and would not be required to file a return. If the corporation does business both within and outside of the zone, the following rules apply:

- **Regular tax.** The corporation's taxable net income is multiplied by its zone percentage (average property and payroll in the zone divided by total Minnesota property and payroll) and subtracted from its taxable income.
- **AMT.** The corporation's alternative minimum taxable income is multiplied by the zone percentage and this amount is subtracted from alternative minimum taxable income.
- **Minimum fee.** Its zone property and payroll are excluded from calculating the minimum fee.

Limits. The exemption under this section cannot exceed the lesser of the (1) credit certificates that DTED awarded to the business or (2) 20 percent of the business' zone payroll and the basis of its property in the zone.

17 **Jobs credit.** Provides a job credit to a qualified business operating in a zone equal to 7

Section

percent of:

- The lesser of either:
- The increase in the business payroll in the zone since the year of designation or
 - The increases in total Minnesota payroll since the year of designation; minus
 - The increase in the number of FTEs in the zone since designation multiplied by \$30,000

Inflation adjustment. Starting for tax year 2005, the \$30,000 amount will adjusted for inflation.

Refundable. The credit is refundable.

Under section 0, the credit cannot exceed the amount of credit certificates that have been allocated to the qualified business.

- 18 Research credit.** Allows a credit for increases in expenditures by qualifying businesses on research. This credit essentially is the same as the research credit generally allowed under the corporate franchise tax with three exceptions:

- The research must be done in the fields of biotechnology or health sciences.
- The research must be done in the zone.
- The credit is refundable.

Under section 0, the credit cannot exceed the amount of credit certificates that have been allocated to the qualified business.

- 19 Repayment of tax benefits.** Requires a business to repay tax benefits or any non-tax amounts provided by the local governments, if the business:

- Did not meet the goals specified in a business subsidy agreement. The commissioner can extend by a year the time to meet the agreed goals.
- Ceased to operate in the zone or was not a qualified business.

The provision requires repayment of the last two years of benefits received before the business ceased its zone operations. Repayment could be required after termination of the zone.

Disposition or repayments. Repayments of state tax reductions are paid to the state and deposited in the general fund. Repayments of property taxes are distributed to local governments in the same manner as delinquent property taxes. Repayments of local sales taxes are made to the unit imposing the tax.

Authority to collect. The commissioner of revenue is given authority to collect repayments in the same manner as unpaid taxes and the same interest and penalty rules apply. For individual income and corporate franchise taxes, the taxpayer files an amended return and must repay within 30 days after the triggering event. For property taxes, the county auditor

Section

is to prepare a tax statement using the otherwise applicable tax rates. If the amounts are not paid, they become liens against the property in the same way as any other unpaid property tax.

Waiver authority. The commissioner of revenue, after consulting with the commissioner of DTED and the affected local units of government, may waive all or part of a repayment if it is deemed to be in the best interest of the state and the business ceased operations for reasons beyond its control, such as a natural disaster, unforeseen industry trends, or loss of a major supplier or customer.

- 20** **Zone performance; remedies.** A successful applicant for a zone designation must annually report to the commissioner on zone performance and its compliance with the business subsidy law. Based on these reports and other information, the commissioner may take action the commissioner considers appropriate, such as removing property from the zone or terminating the zone or a subzone. Before doing so, the commissioner must consult with the local governments and provide notice of the proposed action. The commissioner's action may be appealed as a contested case under the administrative procedures act. Income and property tax incentives provided in area removed from a zone or terminated zone continue for existing businesses. Sales tax exemptions continue for purchases made before the beginning the first calendar month beginning 30 days after termination of the zone or removal of the property.

Article 3: Federal Update

Overview

This article updates the references to Internal Revenue Code for purposes of the income and franchise taxes, property tax refund, and general tax administration to adopt federal changes made in the Job Growth and Tax Relief Reconciliation Act of 2003 (JGTRRA). These changes were enacted since the last update to December 31, 2002, which occurred in chapter 127 of the 2003 regular session.

Changes to the Internal Revenue Code in JGTRRA that affect Minnesota are:

- ▶ Increase the standard deduction for married joint filers to be twice as large as for single filers, effective for tax years 2003 and 2004;
- ▶ Increase the allowance for expensing of capital assets from \$25,000 to \$100,000, with the starting point of the phaseout increased from \$200,000 to \$400,000;
- ▶ Increase the allowance for bonus depreciation from 30% to 50%, effective for property acquired between May 5, 2003, and January 1, 2005.

Under this article Minnesota will extend current law treatment of bonus depreciation to the additional 20 percent allowed under JGTRRA.

The article is effective on the commissioner of finance's certification that the Secretary of Treasury has approved Minnesota's plan for using revenue sharing payments provided under JGTRRA

- 1** **Federal update; administrative.** Updates the administrative chapter Internal Revenue Code reference to federal changes through June 15, 2003.

Section

- 2 Net income.** Conforms to federal changes to the definition of net income. Changes include:
- providing standard deductions for married joint filers equal to 200 percent of the standard deduction amount for single filers;
 - increasing the allowance for expensing of capital assets from \$25,000 to \$100,000, with the starting point of the phaseout increased from \$200,000 to \$400,000;
 - recognizing the additional 20% bonus depreciation as a reduction in adjusted gross income for purposes of calculating eligibility for and phaseout of various deductions and credits.
- 3 Income tax definitions.** Updates the income tax chapter Internal Revenue Code reference to changes made through June 15, 2003. This conforms to changes enacted since December 31, 2002, specifically JGTRRA 2003.
- 4 Federal update; property tax refund.** Updates the property tax refund chapter Internal Revenue Code reference to federal changes through June 15, 2003. This conforms the property tax refund to changes in the definition of net income.
- 5 Effective date.** Makes the article effective after the commissioner of finance certifies that the state has submitted a plan for revenue sharing payments provided under JGTRRA 2003 to the Secretary of Treasury.

Article 4: Property Taxes**Overview**

This article eliminates two columns in the truth-in-taxation notice that show the proposed tax change due to spending factors and changes due to other factors.

Sets the metropolitan council's levy amounts for its general levy, highway right of way, and livable communities levy for payable 2004 and 2005. In subsequent years, indexes those levy amounts by the implicit price deflator, rather than by market value growth.

Exempts amateur baseball parks owned and operated by nonprofit organizations from property tax

Eliminates the education reserve account in the general fund which would have received the growth in the statewide general property tax levy.

Strikes the authority given to the commissioner of public safety in the 2003 1st special session chapter 1 (state government finance omnibus law) to certify a property tax levy if local governments do not reimburse the department for certain public safety radio system costs.

Establishes a special taxing district in St. Louis county for the Chris Jensen nursing home.

- 1 Exemption; baseball parks.** Exempts baseball parks from property tax if they are owned and operated by a private, nonprofit 501(c)(3) charitable organization and are primarily used as a baseball park by amateur baseball players. This is the same property tax exemption provided under current law for ice arenas owned and operated by a private, nonprofit charitable organization and used primarily for youth and high school programs.
- 2 Elderly Living Facility.** Provides that an elderly living facility is exempt from property

Section

taxation if the facility meets all of the following requirements:

- located in a city of the first class with a population over 350,000;
- owned and operated by a nonprofit corporation organized under chapter 317A;
- construction commenced after January 1, 2002, and before June 1, 2003;
- consists of two buildings, connected to a church;
- land for the facility was donated by the church to which it is connected;
- residents of the facility are (1) at least 62 years of age or (2) handicapped;
- operates on-site congregate dining which residents must use and provides other support services; and
- at least 30 percent of the units are occupied by persons whose annual income does not exceed 50 percent of the area's median family income

Exempts the qualifying property for the term of the initial permanent financing or 25 years, whichever is later. Effective the day following final enactment.

- 3 Valuation of income-producing property.** Repeals the reference to class 4d property, since this class is repealed (under existing law) beginning with taxes payable in 2004.
- 4 Class 4.** Repeals the references and class rates for class 4d, since this class is repealed under existing law. (Beginning with taxes payable in 2004, the class rates for 4d and regular apartments are the same.) This also eliminates the directive that class 4d properties must be valued using "normal unrestricted rents." This will allow owners of class 4d properties that are subject to rent restrictions to seek reduced values based on the effects that the rent restriction agreements have on the market value of these properties.
- 5 State property tax levy.** Eliminates the education reserve account in the general fund. Under present law, beginning in fiscal year 2004 growth in the statewide property tax would be deposited in this account.

Directs the commissioner of revenue to increase or decrease the state general tax rate to account for errors and tax base changes that affected the rate in either of the two prior years. Adjustments are limited to the extent that necessary information is available at the time the rates must be certified and may only be made for:

- (i) an erroneous report of taxable value by a local official;
- (ii) an erroneous calculation by the commissioner; or
- (iii) increases or decreases in taxable value for commercial-industrial or seasonal residential recreational property determined by comparing the information reported on the abstracts of assessment with the information reported on the abstracts of tax lists for the same year.

The commissioner may, but need not, make adjustments if the total difference in the tax

Section

levied for the year would be less than \$100,000. Effective beginning June 30, 2003.

- 6 Truth in taxation notice.** This section makes two changes
- eliminates the two middle columns currently on the TnT notice that show the tax change due to spending factors and the tax changes due to other factors. Effective for notices prepared in 2003, for payable 2004, and thereafter;
 - allows the tax impacts of increases in a taxing district's levy limit approved by voters at a referendum held in September through the general election in November, to be excluded from the proposed tax amounts shown on the TnT notice. (See article 7, section 1)
- 7 Southern St. Louis county special taxing district.** Includes the southern St. Louis county special taxing district (Chris Jensen nursing home) in the list of special taxing districts. (See section 0)
- 8 Metropolitan council levy; highway right of way.** Sets the levy limit for the metropolitan council's highway right-of-way levy at \$2,828,379 for taxes payable in 2004 and 2005. Thereafter, the levy limit increases by the implicit price deflator (IPD) for government expenditures and gross investment for state and local governments calculated by the U.S. Department of Commerce. The pay 2003 levy is \$3.14 million.
- 9 Metropolitan council; general levy.** Sets the levy limit for the metropolitan council's general purpose levy at \$10,522,329 for taxes payable in 2004 and in 2005. \$1 million of this amount must be transferred to the livable communities housing account, as under current law. In subsequent years, the levy limit increases by the implicit price deflator. The total pay 2003 levy (including the \$1 million) is \$11.2 million.
- 10 Metropolitan council; livable communities levy.** Sets the levy limit for the livable communities demonstration account levy at \$8,259,070 for taxes payable in 2004 and 2005 (in addition to the \$5 million levy against the fiscal disparities pool for livable communities – tax base revitalization under current law). Thereafter, the levy limit increases by the implicit price deflator. This levy is the same amount as the pay 2003 levy.
- 11 Statewide public safety radio levy.** Strikes the authority given to the commissioner of public safety in the 2003 1st special session chapter 1 (state government finance omnibus law) to certify a property tax levy if local governments do not reimburse the department for certain public safety radio system costs. Effective day following enactment.
- 12 Southern St. Louis County Special Taxing District; Chris Jensen Nursing Home.**
- Establishes the Southern St. Louis County Special Taxing District. This district comprises the cities of Duluth, Proctor, Hermantown, Brookston, Floodwood, and Meadowlands and a number of towns and unorganized townships in the southern part of the county. The district is established to operate, maintain, and improve the Chris Jensen Nursing Home.
- The district is a public corporation and a political subdivision (special taxing district under Minnesota Statutes, section 275.066). Its maximum annual levy is 1.90 percent of taxable tax capacity for the first year (about \$1 million) and 1.33 percent of taxable tax capacity in subsequent years (about \$700,000 per year).
- The board has nine members. The Duluth mayor appoints three, subject to city council approval, including at least two city council members, who serve at the mayor's pleasure. The St. Louis county board appoints three county members from Duluth and the district,

Section

who service at the county board's pleasure. The mayors of Hermantown and Proctor appoint a city council member from either city to serve at the mayors' pleasure. The town board chairs of Rice Lake, Grand Lake, Canosia, or Lakewood townships appoint a resident of one of those townships to serve a three-year term. The town board chairs and mayors of the remaining cities and towns in the district appoint a resident from one of those cities or towns. The section also provides for determining vacancies and filling them.

All meetings of the nursing home board are subject to the open meeting law.

All of the assets and liabilities of the Chris Jensen Nursing Home are transferred from St. Louis county to the district on the first day of the year it is created, but no later than January 1, 2005.

Local approval by the St. Louis county board. Specifies what year the levy authority takes effect (based on the timing of the district's approval).

13 Repealer.

Paragraph (a) repeals an obsolete low income housing exemption enacted for certain property which no longer qualifies for the exemption (Minn. Stat. § 272.02, subd. 26). Effective beginning for taxes payable in 2004.

Paragraph (b) repeals the definition of "constant spending" levy amount, which is no longer needed due to the changes in section 0 (Minn. Stat. § 275.065, subd. 3a). Effective for proposed notices prepared in 2003, for taxes payable in 2004 and thereafter.

Section**Article 5: City Aids****Overview**

This article provides for city aid and credit reductions totaling \$142 million in 2003 and \$170 million in 2004 (compared to 2003 certified amounts). City reductions apply first to LGA and second to market value credits. **City aid reductions in 2003** are based on a percentage of levy plus aid. City reductions are limited to:

- ▶ 3.7 percent of a city's CY 2000 adjusted general fund revenues for cities with a population of 1,000 or less or a three-year average growth rate in levy plus aid of less than 2 percent annually; or
- ▶ 5.25 percent of CY 2000 adjusted general fund revenues for other cities.

The new city aid formula is implemented in 2004. The new city formula is based on a calculation of need minus ability to pay.

- ▶ Need for a large city is based on population decline, pre-1940 housing, road accidents per capita, whether the city is located in the metro area, and household size.
- ▶ Need for a small city is based on the current formula factors, with updated coefficients.
- ▶ Ability to pay is measured using the city's tax capacity, average tax rate, and taconite aids (phased-in over a five year period).
- ▶ Eliminates most of the city aid base (grandfathered aid) except for increases granted since 1995 for specific purposes. The cities of Red Wing and Comfrey are given additional city aid base beginning with aid payable in 2004.

A city's aid reduction in 2004 must be at least equal to its 2003 reduction and is based on the difference between what the city gets in aid in 2003 and what it would get under the new formula, subject to the following maximums:

- ▶ its reduction cannot exceed 14 percent of levy plus aids for cities with high per capita tax capacity, and 13 percent of levy plus aids for cities with low per capita tax capacity; and
- ▶ for cities with a population under 2,500 the cities maximum 2004 aid cut is equal the greater of (1) its aid cut in 2003, or (2) five percent of its 2003 certified LGA amount.

In 2005 and future years, each city receives LGA under the formula subject to the following mechanisms to phase cities up or down from the amount that the city receives in 2004 LGA:

- ▶ the LGA increase in any year to any city is limited to 10% of the city's levy in the previous year;
- ▶ the LGA decrease in any year to a city with a population of 2,500 or more is limited to 10% of its levy in the previous year; and
- ▶ the LGA decrease in any year to a city with a population of less than 2,500 is limited to 5% of its certified 2003 LGA, before reductions.

Section

1 State demographer. Directs the state demographer to estimate the average household size for cities with population over 2,500 by May 1 of each year.

2 City Revenue need. Defines the city revenue need measure for the LGA formula. The need measure for cities with a population of 2,500 or more is the governor's new need measure in which need per capita is equal to:

- 5.0734908 times the pre 1940 housing percentage; plus
- 19.141678 times the population decline; plus
- 2540.06334 times the road accident factor (*new*); minus
- the metropolitan area factor (*new*); minus
- 49.10638 times the household size (*new*); plus
- 355.0547 (includes the control variable effect).

The need measure for cities with a population less than 2,500 uses the same factors used in current law but with the governor's updated coefficients based on 2000 data. The need per capita for these cities is now:

- 2.387 times the pre-1940 housing percentage; plus
- 2.67591 times the commercial-industrial percentage, plus
- 3.16042 times the population decline; plus
- 1.206 times the transformed population; minus
- 62.772.

The need measure for all cities is adjusted for inflation beginning with aids payable in 2005.

3 City aid base. Eliminates the portions of city aid base consisting of

- grandfathered 1993 local government aid, equalization aid, and disparity reduction aid; and
- grandfathered amounts relating to transfers from city general funds to water and sewer funds in 1992 or 1993.

Adds \$200,000 of city aid base in 2004 only to a city with a nuclear dry cask storage facility (city of Red Wing only) and permanently adds \$10,000 of city aid base to a city in a federal disaster area declared on April 1, 1998, which lost at least 40% of its pre-1940 housing stock (city of Comfrey only). Also strikes obsolete language related to a special payment to the city of Baxter for aids payable in 2000 to 2003.

4 Household size. Defines household size, which is a new factor in the large city need measure. This will be determined annually by the state demographer.

5 Road accidents factor. Defines the "road accidents factor" as the average annual per capita number of motor vehicle accidents occurring in the city over the most recent three-year period. This is a new factor in the large city need measure.

6 Metropolitan area factor. This is a new factor in the large city need measure and is equal to 35.20915 for cities in the seven-county metropolitan area. It is a "dummy variable" that reflects that a city outside the metro area has a higher spending "need" than

Section

a similar city in the metropolitan area.

7 City formula aid. The formula is similar to current law – need minus ability to raise revenue, except it expands the measure of revenue raising ability over a five-year period to include taconite aids. The measure of revenue raising ability includes 25 percent of taconite aids for aid payable in 2005, 50 percent for aid payable in 2006, 75 percent for aid payable in 2007, and 100 percent for aid payable in 2008 and following years.

8 City aid distribution. States that the city aid is equal to the city’s formula aid plus any remaining city aid base (grandfathered aid). The only remaining grandfathered aid is special aids granted to specific cities for specific purposes. It includes the regional center aid that was part of the 2001 reform.

Provides that no city’s aid increase in 2004 may exceed its 2003 aid amount after reductions. Provides that in 2005 and thereafter no city’s aid amount can increase in any year by more than 10% of its levy in the previous year.

Provides that for 2005 and later years cities with populations over 2,500 may not receive aid reductions from one year to the next greater than 10 percent of the previous year’s levy.

Provides that for 2004, aid reductions to cities with populations under 2,500 can not exceed the greater of (1) five percent of certified 2003 aid or (2) the amount of the 2003 aid cut. Provides that for 2005 and later years cities with populations under 2,500 may not receive aid reductions from one year to the next greater than 5 percent of the certified aid amount for 2003.

9 Aid appropriations. Retains the open and standing appropriation for LGA and county aids but strikes obsolete language related to limits on what could be paid under each program. The new limit on the amount paid under LGA is contained in section 10 and the appropriation limit for county aid programs are in article 6.

10 Aid appropriations; cities. The appropriation for city LGA in calendar year 2004 is equal to \$429 million (an additional \$8 million of transition aid is distributed under the 2004 city aid cuts). The appropriation for city LGA in 2005 and thereafter is equal to \$437.052 million. The automatic inflation factor for aid appropriations under current law is repealed.

Provides that the state costs currently subtracted from each city’s LGA before payment are made, are now subtracted from the LGA appropriation before it is spread.

11 Definitions. Paragraph (b) defines the 2003 “levy plus aid revenue base” for a city as the sum of the city’s property tax levy for taxes payable in 2003, plus the sum of the amounts the city was certified to receive in 2003 as:

- local government aid under section 477A.013;
- existing low-income housing aid under section 477A.06;
- new construction low-income housing aid under section 477A.065; and
- taconite aids under sections 298.28 and 298.282 including any aid which was

Section

required to be placed in a special fund for expenditure in the next succeeding year.

Paragraph (c) defines total revenues for a city as total nondebt revenues as reported by the state auditor for the most recent year available, excluding grants between political subdivisions but including net transfers from an enterprise fund.

- 12** **2003 city aid reductions.** Provides aid reductions for cities in 2003 equal to 9.3 percent of the city's levy plus aid revenue base for 2003. The aid reduction is limited to 3.7 percent of the city's total revenues for 2003 if the city has a population under 1,000 or if the city has a three-year levy plus aid revenue base increase average of less than 2 percent. For all other cities, the reduction is limited to 5.25 percent of the city's total revenues for 2003.

The reduction is further limited to the sum of the city's payable 2003 local government aid distribution and the city's payable 2003 market value credits reimbursement. The reduction is applied first to local government aid distributions, and then, if necessary, to market value credit reimbursements.

- 13** **2004 city aid reductions.** Provides for city aid reductions in 2004. Defines an initial aid reduction amount for each city equal to the amount that the city's local government aid decreased from 2003 to 2004. Provides for a minimum aid reduction equal to the city's reduction in 2003, except that the minimum reduction is reduced by the amount of any special city aid base increases.

Provides for a maximum aid reduction of 14 percent of the city's levy plus aid base if the city's ANTC per capita exceeds \$700, or 13 percent of the levy plus aid base if the city's ANTC per capita is less than \$700.

Provides that if a city's initial aid reduction is less than its minimum reduction, the difference is taken as a reduction in its market value credits reimbursements. If a city's initial aid reduction is greater than its maximum aid reduction, it receives an additional transitional aid distribution equal to the difference.

Provides that the city's initial aid reduction is applied first to local government aid, and then to the market value credits reimbursements.

- 14** **Repealer.** Repeals
- Local government aid base reduction percentage (§ 477A.011, subd. 37)
 - Inflation adjustment for various aid appropriations including city local government aid (§ 477A.03, subd. 3)
 - Additional appropriation for city local government aid of \$450,000 for 1999 through 2008 (§ 477A.03, subd. 4)
 - Low-income housing aid. (§ 477A.06)
 - Rental housing tax base replacement aid (§ 477A.07)

Section

- Outdated aid reductions that occurred in 1996 and 1997 (§ 477A.0132)

Article 6: Other Intergovernmental Aids**Overview**

This article provides for county, town, and special district aid reductions totaling \$69 million in 2003 and \$122 million in 2004. Implements a new need-based aid formula for counties in 2005.

County aid reductions in 2003 are based on a percentage of levy plus aid. County reductions are limited to 3.21 percent of levy plus aid. County aid reductions apply to HACA, attached machinery aid, criminal justice aid, and family preservation aid.

County aid reductions in 2004 equal 5.689 percent of 2004 levy plus aids.

The new county program aid formula is implemented in 2005, and replaces the current HACA, manufactured home HACA, attached machinery aid, criminal justice aid, and family preservation aid. It consists of two parts: need-based aid and equalization aid. In addition, certain counties will also receive transition aid for three years to phase-in aid losses to some counties under the new formula.

- Need-based aid is determined 40 percent by the relative proportion of a county's age-adjusted population, 40 percent by the relative proportion of a county's population receiving food stamps, and 20 percent by the relative proportion of part I crimes per capita in the county.
- Equalization aid is intended to compensate counties with low relative tax base. Transition aid is provided for counties with large reductions in aid relative to current law.

Town aid reductions in 2003 equal two percent of certified levy in 2003. Aid reductions in 2004 equal three percent of 2003 certified levy. In both years the aid reduction cannot exceed the amount of the town's market value credit reimbursements.

Special district aid reductions in 2003 equal 1.5 percent of certified levy in 2003. Aid reductions in 2004 equal two percent of 2003 certified levy. In both years the aid reduction cannot exceed the amount of the district's market value credit reimbursements.

Eliminates attached machinery aid to school districts beginning in CY 2003.

- 1 Temporary aid for court costs.** Locks in the estimate of the costs to be assumed by the state as part of the court takeover. Establishes a temporary aid payment for counties in which the court costs have not yet been assumed by the state based on these costs. Under old law these costs were deducted from county HACA payments when the state assumption occurred. The amount of HACA converted to the new county program aid is reduced by the total estimated costs.
- 2 Temporary aid; court administration costs.** Converts the temporary HACA increase to fund the increase in court administration costs after 2003, into an independent temporary aid program since HACA is converted to the new county program aid. The temporary aid is reduced by 50 percent in the year the state assumes control of court administration

Section

costs. Under current law, temporary aid for court administration costs is included as “additional” HACA. Effective for aid payable in 2004 and 2005.

3 County HACA. Eliminates HACA payments for counties beginning in calendar year 2004 but provides for payments for the temporary court aids in the two previous sections. Effective for aid payable in 2004 and thereafter.

4 HACA appropriation. Deletes obsolete language providing appropriations to pay for local impact notes from HACA funding. These appropriations are directed to the new county aid program in section 0.

5 County program aid.

Subd. 1. Calendar year 2004. Defines “county program aid” for aids payable in 2004 to be equal to the amount each county was originally certified to receive in 2003 from attached machinery aid, homestead and agricultural aid (HACA), manufactured home HACA, criminal justice aid and family preservation aid. The HACA set-aside for future court takeovers is excluded from county program aid.

Subd. 2. Definitions. Defines terms used in calculating the two major components of the new county program aid - county need aid and county tax-base equalization aid.

Subd. 3. County need aid. County need aid has three subcomponents; for each subcomponent each county receives an allocation equal to its share of the state total for the relevant factor. The allocation percentages and factors are:

- Forty percent is allocated based on population (with extra weighting for the percentage of the population over age 65),
- forty percent based on monthly average of households receiving food stamps for the previous three years, and
- twenty percent based on the average number of part I crimes for the last three years.

Subd. 4. County tax-base equalization aid. The total appropriation for county tax base equalization aid is allocated based on each county’s tax-base equalization factor relative to the sum of factors for all counties in the state. The tax-base equalization factor is defined as \$185 times the county’s population minus 9.45% of the county’s net tax capacity, multiplied by the following weights:

- For counties with a population less than 10,000, the factor is multiplied by a factor of 3.
- For counties with a population from 10,000 to 12,500, the factor is multiplied by a factor of 2.
- For counties with a population greater than 500,000, the factor is multiplied by a factor of 0.25.

Subd. 5. County transition aid. Provides transition aid to counties with an aid loss under the new formula that is greater than three percent of tax capacity relative

Section

to a pro-rated aid amount based on current law. Transition aid is phased out over three years.

- 6 Aid appropriations; counties.** The appropriations for the new county program aids are \$100.5 million beginning in 2005 for the county need aid and \$105 million beginning in 2005 for the county tax-base equalization aid. The automatic inflation factor for aid appropriations under current law is repealed.

Provides that \$500,000 of the total county need aid appropriation shall be used to fund public defender programs that are currently funded under county criminal justice aid (CCJA).

Also provides for up to \$214,000 of the total county tax base equalization aid appropriation to fund local fiscal impact notes prepared by the commissioners of finance and of children, families, and learning, that are currently funded through HACA.

- 7 Public defense services; correctional facility inmates.** Allows funding for these public defender programs to come from the portion of the new county program aid that is a substitute for the current county criminal justice aid (CCJA). These programs are currently funded from CCJA.

- 8 Cost of transcripts.** Allows funding for certain costs of transcripts needed for public defender cases to come from the portion of the new county program aid that is a substitute for the current county criminal justice aid (CCJA). These programs are currently funded from CCJA.

- 9 Definitions.** Paragraph (b) defines the 2003 and 2004 “levy plus aid revenue base” for a county as the sum of the county’s property tax levy for taxes payable in 2003, plus the sum of the amounts the county was certified to receive in the designated year as:

- homestead and agricultural credit aid (HACA), excluding any amounts set-aside for future court takeovers plus any aid to correct for errors in the HACA effort amounts for 2001 mandated court services takeover;
- manufactured home HACA;
- criminal justice aid under section 477A.0121;
- family preservation aid under section 477A.0122;
- taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year; and,
- county program aid under section 477A.0124.

- 10 2003 county aid reductions.** Provides aid reductions for counties in 2003 equal to 3.21 percent of the county’s levy plus aid revenue base for 2003. The reduction is limited to the sum of the county’s payable 2003 distributions for attached machinery aid, HACA, manufactured home HACA, criminal justice aid, family preservation aid, and market value credit reimbursements. These aids are reduced as necessary in the order listed.

Section

- 11 2003 township aid reductions.** Provides aid reductions for townships in 2003 equal to two percent of the town's certified levy for taxes payable in 2003, limited to the amount of the town's payable 2003 market value credit reimbursements.
- 12 2003 special taxing district aid reductions.** Provides aid reductions for special taxing districts in 2003 equal to 1.5 percent of the district's certified levy for taxes payable in 2003, limited to the amount of the district's payable 2003 market value credit reimbursements.
- 13 2004 county aid reductions.** Provides for county aid reductions in 2004 equal to 5.689 percent of the county's levy plus aid revenue base for 2004. The reduction is limited to the sum of the payable 2004 county program aid amount and the county's market value credit reimbursements. The aid reduction is applied first to the county's program aid amount, and then if necessary to the county's market value credit reimbursements.
- 14 2004 township aid reductions.** Provides for aid reductions for townships in 2004 equal to three percent of the town's certified levy for taxes payable in 2003, limited to the amount of the town's 2004 market value credit reimbursements.
- 15 2004 special taxing district aid reductions.** Provides for aid reductions for special taxing districts in 2004 equal to two percent of the district's certified levy for taxes payable in 2003, limited to the amount of the district's 2004 market value credit reimbursements.
- 16 HACA adjustment; court takeover.** Provides for a corrective aid increase for counties whose 2002 aid reduction was mistakenly calculated based on court costs not assumed by the state.
- 17 Repealer.** Repeals

- County and school district attached machinery aid (§ 273.138)
- County HACA (§ 273.1398, subds. 2, 2c, and 4d)
- Manufactured home county HACA (§ 273.166)
- County criminal justice aid (§ 477A.0121)
- County family preservation aid (§ 477A.0122)
- County out-of-home placement aid (enacted in 2001 and scheduled for implementation for aid payable in 2004 under current law) (§ 477A.0123)
- } Inflation adjustment for various aid appropriations including county criminal justice aid and county family preservation aid (§ 477A.03, subd. 3)
- } Outdated aid reductions that occurred in 1996 and 1997 (§ 477A.0132)
- } Rental housing tax base replacement aid (§ 477A.07)

Section**Article 7: Levy Limits
Overview**

This article imposes levy limits on cities with populations over 2,500 and counties for taxes levied in 2003 payable in 2004. The starting point for calculating levy limits in pay 2004 is the local government's payable 2003 levy limit, less any unused levy authority, plus 2003 certified aids, before reductions.

The adjustments for household growth, commercial/industrial growth, and inflation are eliminated. The purposes and amounts for which local governments may special levy outside of levy limits remain unchanged.

Cities and counties are allowed to levy back 60% of their 2004 aid and market value credit cuts. The size of the 2004 cut is measured from the 2003 certified amount before reductions. For example, a city whose CY 2004 LGA is \$15,000 less than the amount it was certified to receive in LGA in CY 2003 would be allowed to levy back \$9,000 (60 percent of the \$15,000 reduction that occurs in 2004).

Extends the date by which local governments may seek an increase in their levy limit authority via referendum from September 1 to the first Tuesday in November and have it be effective for that levy year. Referendum levies passed after proposed truth-in-taxation levies are set are in addition to the authorized truth-in-taxation levies. (See article 4, section 6)

- 1** **Special levies.** Eliminates an obsolete special levy for redistricting costs. Adjusts the special levy for state assumption of court costs to reflect changes in how the aids related to the takeover are calculated. Allows a county to use the jail operating special levy for a new regional jail without adjusting its levy limit base for existing jail operating costs, provided that the new jail is an addition to, rather than a substitution for, existing facilities.
- 2** **Levy limit base.** Defines the pay 2004 levy limit base as the 2003 adjusted levy limit base plus attached machinery aid and mobile home HACA, and minus any "unused" levy authority in pay 2003 and any property tax replacement aid (for greater Minnesota transit programs) received in 2003. Deletes obsolete language for calculating the payable 2002 levy limit base.
- 3** **Adjusted levy limit base.** Eliminates the growth factors for inflation, number of households, and growth in new commercial/industrial property.

The base is decreased by 40 percent of the difference between 2003 certified aids, before reductions and 2004 certified aids after reductions. This allows local governments to "levy back" 60 percent of 2003 aid losses. The aids subject to this levy back provision include:

- } attached machinery aid;
- } HACA (except for the portion of the reduction related to the state court takeover);
- } Manufactured home HACA;

Section

- } LGA;
- } County criminal justice aid; and
- } family preservation aid.

The base is also increased by 60 percent of the Pay 2004 market value credit reductions. This is necessary to allow “levy back “ of market value credit losses since market value credits are a deduction from the certified levy amount.

- 4 Property tax levy limit.** Removes the charter exception language that was passed separately in Laws 2003, chapter 127. Corrects some cross-references. Eliminates the offset for aids that are repealed in article 6. Reduces the levy limit by the estimated amount of wind production taxes to be received in lieu of property tax from these properties.
- 5 Levies in excess of levy limits.** Deletes a provision related to over-levy of jail special levies in Pay 2003.
- 6 Adjustments for changes in service levels.** Provides for levy limit adjustments when there are different tax rates and service levels due to an annexation. Currently this is only allowed for agreements entered into prior to January 1, 1999.
- 7 Levy effective date.** Allows a referendum to exceed levy limits to be effective in the current levy year provided that the referendum is held before or at the general election in November. (Previously the referendum had to be held before September 1.)
- 8 Information necessary to calculate the levy limit base.** Requires a city to provide the commissioner of revenue with the information needed to calculate its levy limit base. Failure to provide the information will result in its total pay 2004 levy authority, including special levies, being limited to its pay 2003 levy amount. The only time a city needs to provide information to the commissioner is when it is subject to levy limits for the first time.

Section**Article 8: Sales and Use Tax**
Overview

This article makes a number of changes in the sales tax. It:

Repeals the state fair retention of sales tax receipts on tickets and admissions.

Eliminates the scheduled repeal of the June accelerated payment and increases the percentage from 75 to 85 percent.

Extends the temporary exemption for the metropolitan public safety radio system equipment for two more years.

Expands the camp fees exemption for youth camps to include camp fees for adults accompanying children, persons with disabilities, or camps providing religious or educational activities.

Provides an exemption for construction materials for the Walker Arts Center.

Extends the time allowed for the construction material exemptions for certain biomass and hydroelectric generation projects.

Authorizes Duluth to use the proceeds of its local food and beverage tax and lodging tax for debt service on the bonds for the Great Lakes Aquarium.

Authorizes Itasca County to impose a local lodging tax.

- 1 **Sales to other dealers.** Removes the requirement that limited use vehicle dealers may sell vehicles to customers only by way of vehicle auctioneers, and allows them to sell to other motor vehicle dealers. Requires nonprofit charitable organizations with a limited use vehicle license that accept donations of vehicles to provide a receipt to a donor within 90 days. The receipt must include information on the age and condition of the vehicle. Allows the nonprofit organization to donate the vehicle to an individual.
- 2 **Sales and use tax; time for payment.** Removes the sunset for the June accelerated sales tax payment, and increases the amount required to be paid on an accelerated basis from 75 to 85 percent of estimated June liability. Under current law, the June accelerated sales tax payments were scheduled to sunset for liabilities due after fiscal year 2003.

Also states that the tax for sellers who voluntarily register in Minnesota under the Streamlined Agreement must be remitted by the 20th of the month following the end of the reporting period.

- 3 **State Fair ticket sales.** Eliminates language allowing the state agricultural society to retain the sales tax proceeds collected on sales of tickets to the premises or events sponsored by the society on events conducted on the fairgrounds during the state fair, provided that proceeds were matched by the society and used for capital improvements to the state fairgrounds. These sales tax proceeds will be remitted to the state and used for general fund purposes.
- 4 **June accelerated underpayment penalty; safe harbor.** Provides that the penalty for underpayment of the June accelerated sales tax would not be imposed if 85 percent of the preceding May's liability or 85 percent of the average monthly liability for the previous calendar year is remitted. Effective for payments made after December 31, 2003.
- 5 **Public safety radio systems.** Extends by two years the period in which the sales tax exemption applies to public safety radio system purchases to August 1, 2005. This exemption applies to purchases in connection with constructing, operating, maintaining, and

Section

improving the backbone system of a region-wide public safety radio system. To qualify for this exemption, the system must consist of a shared infrastructure network, which is identified in a region-wide plan.

Effective date: Day following final enactment

- 6 Nonprofit ticket sales.** Clarifies that a nonprofit organization only qualifies for the exemption for tickets and admissions to arts events if the organization's primary mission is to provide an opportunity for citizens to participate in the arts. This requirement is in addition to the current law requirements that the following conditions are met:
- } The ticket sales are recorded on the nonprofit organization's books;
 - } At least a percentage of the organization's annual revenue is from charitable contributions (four percent in 2003, and five percent in 2004 and following years)
 - } All revenues from the event, less expenses, must be used to fund other arts events.
- 7 Nonprofit ticket sales.** Clarifies that a nonprofit organization only qualifies for the exemption for admission charges if the following conditions are met:
- } the gross receipts from the event are recorded on the nonprofit organization's books; and
 - } the nonprofit organizations bears the risk of the event and the benefit to the nonprofit group exceeds the state and local sales tax revenues foregone by the exemption.
- 8 Sales tax exemption, camp fees.** Expands the sales tax exemption for camps to eliminate the age restrictions on campers. Under present law, camp fees are exempt from the sales tax, if the camp:
- } Is owned and operated by a charitable, 501(c)(3) organization.
 - } Provides educational and social activities primarily for people age 18 and under.
- This section modifies the exemption so that it applies to camp fees for (1) services primarily for children, adults accompanying children or people with disabilities and (2) educational or religious activities.
- Effective date:** Sales after June 30, 2003
- 9 Sales tax exemption, Walker Art Center.** Provides an exemption from sales tax for materials, equipment, and supplies used or consumed in construction of the Walker Art Center if more that \$70,000,000 is raised from private sources to help pay for the project.
- 10 Sales tax exemption.** Expands the motor vehicle sales tax exemption for gifts between individuals, to include donation of a vehicle to an individual by a limited used vehicle dealer.
- 11 Duluth.** Authorizes the city of Duluth to use the proceeds from the food and beverage tax for debt service on bonds for the Great Lakes Aquarium. Locks in the definition of prepared food subject to the local food and beverage tax based on the definition in state law before modifications for the Streamlined Sales Tax.
- 12 Duluth.** Authorizes Duluth to expand the use of the proceeds from its lodging tax to include debt service on bonds issued to improve the Great Lakes Aquarium.
- 13 St. Paul.** Requires that 10 percent of the amount of St. Paul's local sales tax revenues that is not spent on the Civic Center Complex must be spent on the capital and operating costs of

Section

city's cultural organizations. Under current law, up to 60 percent of the total sales tax revenues may go to other projects if the remainder is sufficient to pay debt service for the St. Paul Civic Center Complex. Of the portion not going to the Civic Center Complex, the law allowed up to 10 percent to fund operating costs of cultural organizations. This would change the permissive language to a requirement, and allow use of local sales tax revenues for capital costs.

- 14 Sales tax exemption; biomass electrical generation facility.** Extends the exemption from sales tax from July 1, 2003, to July 1, 2005, for purchases of materials, supplies, and equipment used, consumed, or incorporated into construction of a biomass electrical generating facility.
- 15 Repealer; sunset of June accelerated.** Strikes the repeal of the June accelerated sales tax payment, which is retained under this article.
- 16 Sales tax exemption; hydropower facility.** Advances the termination date for the sales tax exemption applicable to construction materials for a hydroelectric generating facility (Crown Hydro) from December 31, 2003, to December 31, 2004.
- 17 State convention center.** Retroactively amends the sales tax exemption for the Duluth convention center. This exemption was enacted in 1995, extended in 1998, and repealed in 2001. The amended exemption differs from the original exemption primarily in two respects:
- } The restated exemption extends to “equipment” and to “equipping” the facility, while the original exemption was limited to building materials and supplies for constructing improvements. This will expand the exemption to various items of personal property for the facility that did not become improvements to real property.
 - } The restated exemption includes contractor purchases, while the original exemption was limited to purchases by the governmental unit.

Background information: The restatements make the Duluth Convention Center exemption consistent with the exemptions provided for Minneapolis Convention Center and the River Centre Arena.

Legislative intent. States that this section is intended to clarify the original intent of the sales tax exemption.

- 18 Lodging tax; Itasca county.** Authorizes Itasca County to impose the lodging tax that is authorized for towns and cities under Minnesota Statutes, section 469.190. The county lodging tax would apply to all towns and unorganized territory in the county and supersede any existing lodging tax imposed within these areas. It also prohibits any town from imposing a tax in the future. A referendum is not required prior to imposition of a county tax, but it is subject to reverse referendum.
- 19 Study of local sales taxes.** Directs the commissioner of revenue to prepare a study of local sales taxes. The study must report on:
- } authorized uses of local sales taxes;
 - } local approval requirements;
 - } duration and adequacy of duration for funding authorized projects;

Section

- } if authorized uses are regional in nature;
- } portion of revenue raised from residents of the jurisdiction, other Minnesota residents, and non-Minnesota residents;
- } fiscal capacity of jurisdictions with local sales taxes;
- } sources of funding for similar projects in jurisdictions without local sales taxes; and
- } compatibility of local sales taxes with the Streamlined Sales Tax Project.

The commissioner must make recommendations on

- } the appropriate role of local sales taxes in the state and local revenue system;
- } if local sales taxes should be limited to jurisdictions with below average fiscal capacity;
- } criteria to be used in evaluating local sales tax proposals; and
- } the feasibility of authorizing the commissioner of revenue to approve or deny applications from local jurisdictions seeking to impose a local sales tax.

The study is due by February 1, 2004.

20**Repealer.** Repeals

- } Minn. Stat. § 37.13, subd. 2 which required that the state fair board use matching funds and the retained sales taxes to make capital improvements to the fairgrounds. Effective for sales occurring after June 30, 2003
- } Minn. Stat. § 325E.112, subd. 2a, which requires the commissioner of revenue to pay \$250 per year to as many as 200 operators of facilities that accept used motor oil and oil filters from the public.

Section**Article 9: Special Taxes
Overview**

This article:

Provides tribal casino aid to Goodhue county

Accelerates the payment of June liability for cigarette, tobacco, alcoholic beverage, mortgage registry, and deed taxes

Dedicates 6.5 cents per pack of cigarette revenues to the academic health center special revenue fund

Dedicates 2.5 cents per pack of cigarette revenues to the medical education and research costs account in the special revenue fund

Provides a special tax rate for low-alcohol dairy cocktails

- 1** **Distribution of funds.** Directs the commissioner of health to annually distribute medical education funds in the amount received under the transfer in section 0 to the health professional programs at the academic health center.
- 2** **Transfers.** Transfers \$4.85 million from the academic health center fund to the commissioner of health. This amount is redirected to the academic health center fund in section 0 after qualifying for federal matching funds.
- 3** **County tribal casino aid.** Provides for payment of state aid to a county with a tribal casino, if the tribal government has not entered into a tribal tax agreement with the state. The aid equals 5 percent of the commissioner of revenue's estimate of the excise taxes (tobacco, alcoholic beverage, and motor fuels) collected from activities on the reservation. This will provide aid to Goodhue County.

Effective date: Taxes collected after June 30, 2003

Background information. Present state law provides for aid payments to all of the counties with reservations and casinos, except Goodhue County. (Goodhue county does not qualify, because the Prairie Island band of the Dakota does not have a tribal tax agreement, a pre-condition to the county receiving aid.) Minnesota's tribal tax agreements provide that all state taxes are collected and, then, the state pays a share of the taxes back to the tribal government under a formula. These formulas follow the same general pattern for all of the tribes and have two components. The state pays the tribe:

- (1) A per capita amount that is an estimate of the state taxes paid by tribal members; and
- (2) One-half of the taxes collected that are paid by non-tribal members.

Under the tribal casino aid program, the state pays to the county in which the casino is located ten percent of the state's share of taxes collected under the tribal tax agreement. Because the tribal government receives one-half of the taxes collected (under item (2) above), the county, in effect, gets 5 percent of these shared taxes.

This section would pay equivalent aid to Goodhue County. Because there is no tax agreement, tribal businesses (e.g., the casinos, the hotel, marinas, and so forth) do not collect the state sales tax. However, the state excise taxes apparently are being paid on the

Section

reservation. These taxes include the cigarette tax, the alcoholic beverage taxes (non-sales taxes), and motor fuels taxes. These taxes are collected from wholesalers (who are neither tribal businesses nor located on the reservation) and, in effect, are passed along as higher prices to customers of the reservation businesses.

- 4 June accelerated mortgage registry tax.** Requires counties to remit the state's portion of the mortgage registry tax collected by June 25th and the estimated amounts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30th.
- 5 June accelerated deed registry tax.** Requires counties to remit the state's portion of the deed tax collected by June 25th and the estimated amounts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30th.
- 6 Penalty for underpayment of June accelerated mortgage registry and deed taxes.** Provides for a 10 percent penalty on counties for failing to timely remit their June mortgage registry or deed taxes. The penalty will not be imposed if the amount remitted in June equals either:
- } 90 percent of the state's portion of the preceding May's receipts; or
 - } 90 percent of the average monthly amount of the state's portion for the previous calendar year.

Effective January 1, 2004.

- 7 June accelerated cigarette tax.** Requires a distributor to pay a June accelerated cigarette tax payment of 85 percent of the estimated June liability when they file their May return. Effective January 1, 2004.
- 8 Tobacco taxes; June accelerated payment and repeal of discount.** Makes two changes:
- } Requires a distributor to pay a June accelerated tobacco tax payment of 85 percent of the estimated June liability when they file their May return. Effective January 1, 2004;
 - } Repeals the discount for payors of the tobacco products tax. This discount equals 1.5 percent of the tax (Note: repeal of the discount was also included in Laws 2003, chapter 127)
- 9 June accelerated cigarette and tobacco taxes penalty.** Provides a penalty for underpayment of the June accelerated cigarette or tobacco products tax. The penalty would not be imposed if the amount received in June equals the lesser of:
- } 85 percent of the actual June liability; or
 - } 85 percent of the preceding May's liability.

Effective for taxpayers having a liability of \$120,000 or more during the fiscal year ending June 30, 2003, and each fiscal year thereafter, and for accelerated payments becoming due in the year 2004 and thereafter.

- 10 Cigarette tax; Minnesota Future Resources Fund.** Repeals the provision that requires a portion of cigarette tax revenue to be credited to the Minnesota future resources fund and obsolete language dedicating cigarette tax revenue to bonds that have been fully paid. Creates the academic health center special revenue fund for funding at the University of

Section

Minnesota and credits 6.5 cents of the tax per pack of 20 cigarettes to that fund. \$4.85 million of this amount is annually transferred to the commissioner of health under section 0 in order to qualify for federal matching funds, and then returned to the academic health center fund in the distribution under section 0.

Creates the medical education and research costs account in the special revenue fund for funding at the department of health and credits 2.5 cents of the tax per pack of 20 cigarettes to that fund. Effective for all revenues received after June 30, 2003.

- 11** **Definition, low-alcohol dairy cocktails.** Defines low-alcohol dairy cocktails as beverages or products that primarily consist of milk products and contain distilled spirits. The amount of alcohol may not exceed 3.2 percent by volume. This definition is intended to cover ice cream containing liquor. It would also include pre-mixed cocktails using milk or milk products as the mix.
- 12** **Tax rate; low-alcohol dairy cocktails.** Provides that a rate of 2 cents per liter applies to low-alcohol dairy cocktails. This has the effect of taxing these products at about the rate that applies to 3.2 beer. Under present law, the full rate that applies to distilled spirits would apply to these products (i.e., \$1.33 per liter).

Effective date: Sales made after June 30, 2003.

- 13** **June accelerated liquor tax.** Requires a liquor tax distributor to pay a June accelerated liquor tax of 85 percent of the estimated June liability when they file their May return. Provides a penalty for underpayment. The penalty would not be imposed if the amount received in June equals the lesser of:

- } 85 percent of the actual June liability; or
- } 85 percent of the preceding May's liability.

Effective for taxpayers having a liability of \$120,000 or more during the fiscal year ending June 30, 2003, and each fiscal year thereafter, and for accelerated payments becoming due in the year 2004 and thereafter.

- 14** **Agreement to pay taxes.** Provides that an organization which is recognized by federal law as a quasi-government organization that would otherwise be exempt from taxes under chapter 297E must agree to pay all taxes under chapter 297E on lawful gambling conducted by the organization as a condition of receiving or renewing a license or premises permit.

Article 10: Local Economic Development

Overview

This article allocates an additional \$1.5 million for border city enterprise and border city development zones. It also makes a variety of minor changes in the tax increment financing (TIF) law. It allows authorities to extend the duration of pre-2001 districts to offset deficits caused by the 2001 property tax changes. It provides special rules for establishing redevelopment districts in declared disaster areas. The article also provides the city of New Hope with special TIF authority in a redevelopment area.

- 1** **Border city allocations.** Allocates \$1.5 million for border city enterprise zone and border city development zone tax reductions. This allocation is divided equally between the two

Section

programs (\$750,000 to each), but the city can reallocate the amounts between the two programs. The allocation is divided among the qualifying border cities on a per capita basis. The five cities that qualify are Moorhead, Dilworth, East Grand Forks, Breckenridge, and Ortonville.

2 Definition of municipality. Clarifies that a county is the municipality when it acts under a special law.

3 Redevelopment district. Adds qualifying disaster areas to the areas that qualify for designation as redevelopment TIF districts.

Effective date: Requests for certification after the day following final enactment

4 Qualified disaster area. Defines a qualified disaster areas as an area meeting the following three tests:

- } 70 percent of area consisted of parcels occupied by buildings, streets, utilities and other similar structures before the disaster or emergency.
- } The area of the district was the subject of a disaster or emergency declaration, under federal or state law, 18 months or less before the request for certification of the district.
- } 50 percent or more of buildings suffered substantial damage as a result of the disaster or emergency.

Effective date: Requests for certification after the day following final enactment

5 Pooling for housing. Clarifies that the additional pooling authority for housing can be done by non-housing districts and that doing so does not violate the district-specific limitations on use of increments (e.g., that 95 percent of increments from redevelopment districts must be used for blight correction, that increments from economic development districts may only be used to assist certain types of businesses, and so forth). In addition, this section allows the authority to treat administrative expenses as in-district expenses, if the only expenditures for activities outside of the district are under the qualifying housing provisions. This will, in effect, increase the permitted pooling by up to 10 percent of increments.

Effective date: Retroactive to the original effective date for the pooling rules

6 Use for decertification. Clarifies that the required use of increment revenues, under the pooling rules, for defeasing of bonds and pre-paying contracts is calculated and applies on an annual basis.

Effective date: All districts subject to the pooling rules (post-1990 districts)

7 Original net tax capacity. Sets the original net capacity at the land value for a redevelopment district qualifying under the disaster area rules.

Effective date: Requests for certification after the day following final enactment

8 Duration extensions to offset deficits. Authorizes a development authority to extend the duration of a pre-2001 TIF district to offset deficits caused by 2001 property tax changes. Before an authority may use this authority, it must first exercise all of the other available deficit reduction powers:

- } Uncapping the original tax rate;

Section

- } Changing fiscal disparities options, if applicable; and
- } Transferring surplus increments from other districts in the municipality.

Formula extensions. The maximum duration extension is determined under a formula. This formula compares the tax paid by the district's original net tax capacity in 2001 with the average tax paid in 2002 and 2003. The percentage reduction is multiplied by the remaining duration of the district to determine the permitted extension (rounded up to the nearest whole number of years for fractional amounts greater than 1/3). For example, a district with 9 years remaining that experienced a 25 percent drop in taxes on its original net tax capacity would qualify for a 2-year extension (9 years * 25% = 2.25 years or rounded to 2 years). The maximum extension under this authority is limited to four years.

Additional DOR extensions. In addition, the commissioner of revenue may grant extensions of up to 2 more years upon a showing that the formula based extension would not be sufficient to offset the deficit and that it is unlikely that the district can "grow out of" the deficit.

Procedures. The authority must provide public notice and hold a hearing before approving an extension.

Qualifying obligations. These obligations are preexisting obligations that are also bonds or interfund loans (an advance or loan made by the authority or city). The city may elect to include developer or "pay-as-you-go" obligations as qualified obligations. However, if it does so, the maximum formula extension is one-half of the regular length and it cannot apply to the commissioner of revenue for an additional extension.

Limits on use of increments. The authority may use increments from a district that receives an extension only to pay preexisting obligations of the district (i.e., generally obligations issued before August 1, 2001). During the extension period, increments may only be used to pay qualifying obligations (i.e., bonds and interfund loans). If increments from multiple districts are pledged to pay the qualifying obligations, then all of these districts (even if their terms have not been extended) are subject to this limit on the use of increments.

Effective date: Day following final enactment for all pre-2001 districts.

- 9 Bond allocation; housing pool.** Makes a technical correction to language enacted in Laws 2003, chapter 127, clarifying that an entitlement issuer may apply to the housing pool if it has either issued or returned all of its bonding authority from prior years.
- 10 New Hope TIF.** Authorizes the city of New Hope or its Economic Development Authority to create one or more redevelopment or soils condition TIF districts within a specifically described area of the city. The district may not exceed an area of 130 acres and may not include more than 131 parcels. These districts are subject to variations from the rules that apply under general law:
- } **Five year rule.** The rule that limits spending within TIF districts to actions that occur within five years after certification of the district is extended to a period of nine years.
 - } **Pooling rules.** Special pooling rules are provided for TIF districts that are established in this area. Under general law, 25 percent of increments from a redevelopment district may be spent on activities located outside of the area of the district and administrative expenses count against this limit. For districts in this area,

Section

administrative expenses are treated as in-district expenses and the pooling percentage is increased by 15 percentage points (i.e., to 40 percent). Since administrative expenses typically are between 5 and 10 percent of increment revenues, this increases the amount available for pooling to between 45 and 50 percent of increments.

- } **Duration limit.** The duration limit for districts created under the special law is 20 years. Under general law, the duration limit is 25 years after the receipt of the first increment.
- } **Blight test.** Thirteen specifically identified parcels are deemed to be substandard for the purpose of qualifying the district as a redevelopment district.

The authority to establish tax increment financing districts subject to these provisions expires on December 31, 2013. The bill is subject to approval by the governing bodies of the city of New Hope and Hennepin county.

- 11 Effective date; Correction.** Provides that the public finance article (article 12) of Chapter 127 is effective the day following final enactment. This effective date was inadvertently dropped in preparing the amendment to the S.F. 1505.

Article 11: Miscellaneous

Overview

This article:

Funds the budget reserve at \$596 million.

Requires tax preparers who offer refund anticipation loans (RALs) to make disclosures to clients and to follow prescribed standards of conduct.

Allows counties to act as claimant agencies and submit revenue recapture claims on behalf of licensed ambulance services operating within the county's boundaries.

Decreases the floor on the charitable contribution deduction allowed under the alternative minimum tax from 1.3 to 1.0 percent of adjusted gross income.

Permits a city to collect on the property tax statement costs from repeated noncompliance of orders related to municipal housing code violations.

Appropriates \$100,000 per year (fiscal years 2004 and 2005) for grants to organizations providing taxpayer assistance services.

- 1 Local impact notes; jurisdictions.** Adds "school district" to the list of political subdivisions covered by the local impact note law. Under current law, local impact notes may only be requested for legislation affecting counties and cities.
- 2 Cash flow account.** Strikes language requiring the commissioner of finance to transfer unencumbered balances in the general fund to the cash flow account until the balance of the account reaches \$350 million.
- 3 Budget reserve account.** Directs the commissioner of finance to transfer \$300 million from the general fund to the budget reserve on July 1, 2003, and an additional \$296 million on July 1, 2004.
- 4 Additional revenues; priority.** Establishes priorities for unrestricted general fund balances

Section

at the close of a biennium:

- } first, to the cash flow account, until its balance reaches \$350 million;
- } second, to the budget reserve account, until its balance reaches \$653 million.

5 Notification; mosquito control district. Modifies requirements adopted in Laws 2003, chapter 127 to clarify that notification via a web site is only required if a web site exists.

6 Tax preparation services. Applies to tax preparers who also offer or provide refund anticipation loans (or RALs). The section does not apply to individuals who provide services to 5 or fewer clients, the provision of tax preparation services to family members, and an employee's providing of services to an employer.

Standards of conduct for tax preparers. These standards prohibit:

- } Delaying unreasonably to complete a client's return
- } Obtaining a client's signature on a blank return
- } Not signing a client's return when you have been paid
- } Not giving the client a copy of documents signed by the client
- } Not retaining a copy of returns for at least four years
- } Failing to maintaining a confidential relationship with the clients
- } Not taking commercially reasonable steps to safeguard client's nonpublic information
- } Making false, deceptive or misleading statements
- } Requiring a client to enter a loan arrangement in order to complete a return
- } Claiming credits or deductions for which the preparer knows or reasonably should know the client is not eligible
- } Charging fees that are a percentage of the client's tax refund
- } Failing to return to a client a document the client provided to prepare the return.

Disclosures for RALs. Requires a tax preparer who offers a RAL to provide a written disclosure that states:

- } That the RAL is a loan
- } The dollar cost of the fees and interest for the loan.
- } The estimated annual percentage interest rate on the loan.
 - } The fact that the IRS will provide refund within about two weeks, if the return is filed electronically and the refund deposited electronically.

Both the client and preparer are required to sign the disclosure.

Enforcement mechanisms. Three enforcement mechanisms are provided:

- } The commissioner of revenue may impose penalties of up to \$1,000/violation and terminate the preparer's authority to transmit returns to DOR, if the preparer

Section

engages in a pattern and practice of violations. Penalties can be appealed under the contested case procedure under the APA. The penalties are collected by DOR under the procedures used to collect unpaid income taxes.

- } The attorney general can bring an action under the unfair and deceptive trade practice statute.
- } A private right of action is provided to individuals for actual damages, reasonable attorney fees and costs.

Exemptions. The section exempts licensed professionals (lawyers, CPAs, other licensed accountants, and enrolled agents) and fiduciaries from the penalty and enforcement provisions.

- 7 Revenue recapture; claimant agency.** Allows counties to submit revenue recapture claims on behalf of licensed ambulance services.
- 8 Revenue recapture; administrative fee.** Allows counties to charge licensed ambulance services a fee to offset the cost of administering the services' revenue recapture claims.
- 9 Revenue recapture; setoff procedure.** Clarifies that the fee charged to licensed ambulance services by counties is not added to the debt subject to revenue recapture.
- 10 Taconite assistance area; Reference.** Corrects the definition of taconite assistance area enacted in Laws 2003, chapter 127, article 11, section 2, to geographically include the area that is currently included within those boundaries.
- 11 Taconite fiscal disparity area.** Makes a technical change to maintain the current law boundaries of the taconite fiscal disparity area due to the new taconite assistance area definition enacted in Laws 2003, chapter 127, article 11, section 2.
- 12 Return filing fee.** Clarifies that the \$5 fee for income tax returns filed in paper form does not apply to returns that the commissioner requires to be filed in paper form. The fee was enacted in 2003 First Special Session Chapter 1 (the state government finance bill), and applies to returns filed by preparers who prepare 100 or more returns per year.
- 13 Alternative minimum tax charitable contributions deduction.** Allows individuals to deduct charitable contributions in excess of 1.0 percent of adjusted gross income from alternative minimum taxable income. Current law limits the deduction to contributions in excess of 1.3 percent of the taxpayer's adjusted gross income.
- 14 to 28 IRRRA service area.** Makes the necessary reference changes to the Iron Range Resources and Rehabilitation Agency's (IRRRA) service area from the "Taconite Tax Relief Area" to the "Taconite Assistance Area." This is to maintain the current IRRRA service area boundaries as a result of the changes enacted in Laws 2003, chapter 127, article 11, sections 1 and 2.
- 29 Collection of costs for repeat housing code violations.** Permits a city to collect on the property tax statement the costs that the city incurs from repeated noncompliance with orders to correct municipal housing code violations.
- 30 Prohibited pesticide use; mosquito control district.** Modifies the entry to property provisions adopted in Laws 2003, chapter 127, article 13, to require that a reasonable attempt to contact an objecting property owner be made before the owner's property is entered and subjected to pesticide treatment.

Section

- 31** **BAT study.** Provides a time deadline for the business tax study of December 2004 and confirms that money required to pay obligations under the contracts for the study with the University of Minnesota may be spent anytime during the 2004-05 biennium.
- 32** **Transfer.** Strikes a \$30 million transfer to the budget reserve account enacted in Laws 2001, First Special Session, chapter 5.
- 33** **Transfers.** Transfers the amounts in the tobacco use and prevention and local public health endowment fund and in the medical education endowment fund to the general fund on July 1, 2003.
- 34** **Budget reserve adjustment.** Authorizes the commissioner of finance to reduce the July 1, 2004 appropriation to the budget reserve account as necessary to balance revenues and expenditures in the 2004-2005 biennium. Limits this authority to determinations made before July 1, 2003, based on the February 2003 forecast for 2004-2005, and changes enacted in the 2003 regular and special legislative sessions.
- 35** **State fiscal relief.** Provides that any general revenue sharing received by Minnesota under the Jobs Growth and Tax Relief Reconciliation Act of 2003 is deposited in the general fund. Revenue sharing would otherwise be deposited in the federal fund.
- 36** **Appropriation; taxpayer assistance services.** Provides a \$200,000 appropriation in fiscal years 2004-2005 (\$100,000 per year) from the general fund to one or more nonprofit organizations for the coordination and provision of taxpayer assistance services. Defines “taxpayer assistance services” to mean accounting and tax preparation services provided by volunteers to help low-income and disadvantaged taxpayers prepare and file federal and state income tax returns, and claims for the property tax refund. Authorizes taxpayer assistance services to represent their clients before the Department of Revenue and the Internal Revenue Service.
- 37** **Appropriation; administration of tax law changes.** Provides \$200,000 to the commissioner of revenue for the costs of administering tax law changes enacted in 2003. This applies to changes in this law as well as changes enacted in Laws 2003, chapter 127.