

# HOUSE RESEARCH

## Bill Summary

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**Section**

**Article 1: Property Tax Aids, Credits, and Refunds**

**Overview**

Increases various state aid, credit and refund programs, including:

- Provides for an increase in the agricultural homestead market value credit.
- Adds an annual adjustment provision to the city LGA appropriation and corrects a language error in the LGA calculation from last year.
- Increases homestead credit refunds based on taxes payable in 2014 by three percent and renter property tax refunds based on rent paid in 2013 by six percent.
- Provides for an increase in the border city disparity reduction credit.
- Provides for transition aid payments to cities and towns that undergo significant tax base losses due to changes in the definition of real property used in certain industrial processes.
- Provides supplemental county program aid in CY 2014 only.

- 1** **Agricultural homestead market value credit.** Increases the rate of the agricultural homestead market value credit so that it reaches a maximum of \$490 at a market value of \$270,000 and over. Under current law, it reaches a maximum of \$345 at \$115,000 of value, but then decreases to \$230 at a value of \$345,000 and over. Effective beginning with taxes payable in 2014 – the administrative procedure to issue the payments for taxes payable in 2014 is in section 8.
- 2** **Disparity reduction credit.** Increases the credit by providing that the credit will be the amount necessary to reduce the effective tax rate on commercial-industrial and apartment properties in the four border cities (Moorhead, Dilworth, East Grand Forks, and Breckenridge) to 1.7 percent, versus the current 1.9 percent. Effective beginning with taxes payable in 2015.
- 3** **City formula aid.** Corrects a drafting error in calculating formula aid in Minnesota Statutes, section 477A.013, subdivision 8, which impacts the LGA losses to cities that currently get more aid than their “unmet need” under the formula. Without the fix, a city that should have its LGA gradually decreased to its “unmet need” amount will see its aid decrease faster if the LGA appropriation is increased. Effective beginning with aids payable in 2015.
- 4** **Cities.** Increases the city LGA appropriation annually, beginning in CY 2015, by the growth rate in inflation and city population as provided in section 5. This replaces the appropriations in current law which are \$507.6 million in CY 2014, \$509.1 million in CY 2015, and \$511.6 million in CY 2016 and thereafter. Effective beginning with aids payable in 2015.
- 5** **Inflation adjustment.** Provides for an annual adjustment to the city LGA appropriation in section 4, beginning with CY 2015 aids. The annual increase is based on the growth in the implicit price deflator (IPD) for state and local government purchases, and the growth rate in city population. The adjustment may not exceed 5 percent growth in any year. Effective

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beginning with aids payable in CY 2015.

**6 Production property transition aid.** Provides for the payment of transition aid to cities and towns that lose 5% or more of their net tax capacity due to the change in the definition of “real property” in Article 2, section 1. For aid beginning in 2016, qualifying cities and towns will receive full compensation for the decrease in tax base. The transition aid then phases out over the next four years, with aid payments stepped down by 20% each year. No aids are payable in 2021 and thereafter.

**7 Supplemental county program aid for 2014.** Authorizes supplemental county program aid (CPA) payments for 2014 only for any county whose 2014 CPA was less than it received in 2013. The amount of supplemental aid is equal to the drop in aid between 2013 and 2014.

**8 Supplemental agricultural credit for taxes payable in 2014.**

**Subd 1. Certification of supplemental credit amount.** Provides that each county must determine the amount of additional agricultural market value credit due to each owner of an agricultural homestead for 2014 under section 1, and notify the taxpayer and the commissioner of revenue of the amount by September 15, 2014.

**Subd. 2. Payment of supplemental credit.** Requires the commissioner of revenue to pay the supplemental credit amounts to each property owner by October 15, 2014.

**Subd. 3. Property tax statements for taxes payable in 2015.** Provides that the proposed and final property tax statements for taxes payable in 2015 will reflect the supplemental credit amounts for taxes payable in 2014 under this section.

**Subd. 4. Costs of administration.** Appropriates \$40,000 to the commissioner of revenue to make grants to counties to compensate for county administrative expenses incurred under this section.

**9 Homestead credit refund and renter property tax refund increase.** Directs the commissioner of revenue to increase all homestead credit refunds based on taxes payable in 2014 by three percent, and all renter property tax refunds based on rent paid in 2013 by six percent. These refunds are typically filed in calendar year 2014 and paid beginning in August 2014 for renters and in September 2014 for homeowners. Makes a general fund appropriation to pay for the increased refunds. Because the deadline for filing claims based on taxes payable in 2014 and rent paid in 2013 is August 15, 2015, some increases will be paid in fiscal year 2016, and the appropriation is for fiscal years 2015 and 2016.

## Section

### Article 2: Property Taxes

## Overview

Makes a number of changes in the property tax system, including:

- Eliminating a number of minor property tax classifications
- Excluding the first \$150,000 of each commercial-industrial property from the state general levy
- Modifying and clarifying the property tax treatment of certain structures used in the production of biofuels and related industrial processes
- Clarifying the property tax exemption for solar energy systems, and imposing a production tax on solar energy systems
- Extending the time period for the spouse of a disabled veteran to receive the veteran's property tax benefit from five years to eight years

**1 Solar energy-generating systems.** Amends the existing exemption of solar photovoltaic devices to instead exempt “solar energy-generating systems,” as defined in section 2. Also provides that the real property where the solar system is located will be valued in the same manner as if the solar energy-generating system was not present, and classified according to its most probable use if not improved with a solar system.

**2 Solar energy production tax.**

**Subd. 1. Production tax.** Imposes a tax on electricity production from a solar energy system.

**Subd. 2. Definitions.** Defines “solar energy-generating system” to mean a set of devices used to produce electricity by means of collecting, transferring, or converting solar-generated energy. Provides that the size of a solar energy-generating system for purposes of this section must be determined by adding the nameplate capacities of all systems constructed within the same 12-month period with characteristics of being a single development including but not limited to the same or similar ownership structure, shared interconnection, common financing, etc.

**Subd. 3. Rate of tax.** Exempts solar energy systems whose capacity is one megawatt alternating current or less; other systems are taxed at a rate of \$1.20 per megawatt-hour produced.

**Subd. 4. Reports.** Requires the owner of a solar energy system to report annually to the commissioner of revenue by January 15 the number of megawatt-hours produced by the system the previous year. In the absence of a report, the commissioner will base the tax on 30 percent of the system's nameplate capacity.

**Subd. 5. Notification of tax.** Requires the commissioner of revenue to notify an owner of a solar energy system by February 28 annually of the amount of tax due to each county. Provides for corrections of erroneous calculations.

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**Subd. 6. Payment of tax; collection.** Provides that the tax is to be paid at the same time and in the same manner as the property tax, and is subject to the same treatment if unpaid.

**Subd. 7. Distribution of revenues.** Provides that 80 percent of the tax will be distributed to counties, and 20 percent to cities and townships.

- 3 Real property.** Provides that the exterior shell of a structure used in the production of biofuels, wine, beer, distilled beverages, and dairy products, is not included in the definition of real property, even if the shell has structural, insulation, or temperature control functions. The exterior shell of the structure, however, is real property if it is used primarily for storage of ingredients or materials used in the production of biofuels, wine, beer, distilled beverages, and dairy products, or the storage of those finished products. Effective beginning with taxes payable in 2016.
- 4 Class 1.** Eliminates class 1d, a classification for residential property housing seasonal farm workers.
- 5 Class 2.** Eliminates the following classifications:
- ▶ Class 2d - runways and related areas of privately-owned airports that are open to the public; and
  - ▶ Class 2e - land containing a commercial aggregate deposit that is not actively being mined.
- 6 Class 4.** Eliminates the following classifications:
- ▶ Class 4c(1)(part) - Inns located in a municipality with population under 2,500 outside the metro area and containing a state trail
  - ▶ Class 4c(7 & 8) - Noncommercial aircraft storage hangars located on or adjacent to publicly-owned airports
  - ▶ Class 4c(9) - owner-occupied bed & breakfast facilities
  - ▶ Class 4c(10) - seasonal restaurants located on a lake; and
  - ▶ Class 4c(11) - marinas providing public access to a lake or river.
- 7 Homestead of disabled veteran or family caregiver.** Extends the time period for the surviving spouse of a totally disabled veteran to continue to receive the disabled veteran's property tax benefit from five years to eight years. Provides the same extension for surviving spouses of military personnel who are killed in action.
- 8 Commercial-industrial tax capacity.** Excludes the first tier of commercial-industrial (C/I) property value (up to \$150,000) from the state general levy, thereby shifting the tax to upper-tier C/I property.
- 9 Proposed levy.** Extends the deadline for counties and cities to certify their proposed levies from Sept. 15 to Sept. 30. Retains the existing deadlines of Sept. 15 for towns and special taxing districts, and Sept. 30 for school districts.

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- 10**      **Repealer.** Repeals the aggregate preservation property tax law, which goes along with the elimination of class 2e property in section 6.

### **Article 3: Minerals**

#### **Overview**

This article imposes a 5.5 percent royalty excise tax and creates a new Iron Range school construction and improvement trust account to help Iron Range school districts repay the debt service on bonds used to finance school buildings and other facilities. The revenues from the royalty tax are deposited in the trust fund. In addition, production tax revenues are reallocated from the other uses to the new trust account (i.e., for the Douglas J. Johnson economic protection trust fund and amounts now being used to pay other school bonds when those bonds are paid) and two years of increases in the production tax rate resulting from the inflation adjustment are deposited in the trust account.

- 1**      **Filing requirements; recipients of royalty payments.** Requires individuals, trust, and estates that receive mineral royalty payments of \$500 or more to file individual income tax returns to pay the royalty excise tax imposed by section 4.
- 2**      **Royalty.** Defines “royalty” for the purpose of the income and corporate franchise tax chapter as the money or value of property received by a person having mineral rights to a parcel of property, but excludes aggregate (sand and gravel). This definition is now used in the mineral royalty withholding section and is moved to the general definition section. Section 13 repeals the definition in the royalty withholding section.
- 3**      **Credit; royalty excise tax.** Authorizes an income and corporate franchise tax credit against the royalties excise tax.
- 4**      **Excise tax; minerals royalty.** Creates a minerals royalty excise tax equal to 5.5 percent of the gross amount of minerals royalties.
- 5**      **Expense, interest, and taxes.** Updates an obsolete cross reference to refer to the royalty excise tax in section 4.
- 6**      **Distribution of revenues.** Requires the revenue from the minerals royalty excise tax to be deposited in the Iron Range school construction and improvement trust account.
- 7**      **Royalty excise tax.** Requires withholding of royalty excise tax amounts.
- 8**      **School construction and improvement trust account.** Establishes a school construction and improvement trust account. Requires the following amounts to be deposited in the account: increases in the taconite production tax derived from the percentage change in the implicit price deflator for two years (both the adjustments made in 2014 and 2015); \$2.5 million from the production tax; and the amounts currently used to make payments to school districts as those bonds expire.

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- 9**        **Remainder.** Transfers \$2.5 million each year from the remainder to the Iron Range school construction and improvement trust account.
- 10**       **Use of money.** Allows amounts in the Douglas J. Johnson economic protection trust to be used to make payments to the iron range school construction and improvement trust account if other revenues are insufficient to do so.
- 11**       **Iron range school construction and improvement trust account.** Establishes the Iron Range school construction and improvement trust account. Sets distributions from the account, including \$600,000 per year for the Mesabi East school district (for up to 10 years), \$1.5 million per year for the St. Louis County school district (for up to 15 years), and \$5 million per year for the Virginia school district (for up to 20 years). Specifies that the amounts for Virginia may be reallocated to the other two districts if Virginia does not approve the cooperative high school. The commissioner of the Iron Range Resources and Rehabilitation Board (IRRRB) may adjust the payment schedules with board approval based on bond schedules. Authorizes additional projects to be funded from the account.
- 12**       **One-time 2013 production tax distribution.** Modifies a distribution of taconite funds made in the 2013 omnibus tax act to provide that all the distribution to the city of Cook be used for street improvements, business park infrastructure, and a maintenance garage. Under the 2013 legislation, three-quarters of the distribution to Cook is to be used for those purposes, with the other one-quarter dedicated for a water line project.
- 13**       **Repealer.** Repeals the definition of “royalty” in the withholding tax section; this is replaced by the definition for all of chapter 290 in section 3.

## **Article 4: Tax Increment Financing**

### **Overview**

This article changes the general tax increment financing (TIF) law to provide:

- The 2010 Jobs Bill’s extension of 5-year rule so that it extends through December 31, 2017, even if this is more than a ten year extension
- Allows economic development TIF district to make the same fiscal disparities election as any other type of TIF district.

It also provides special law authority for the cities of:

- Detroit Lakes
- St. Paul
- Eagan
- Shoreview

- 1**        **Five-year rule.** Extends the special 5-year rule provision enacted in the 2010 Jobs Bill so that the extension runs through at least June 30, 2017, even if that period is longer than 10 years. The latter change will benefit districts certified before December 31, 2007.

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**2**      **Economic development districts; fiscal disparities option.** Allows cities to elect to make the fiscal disparities contribution for economic development in the same ways that are available for other types of districts. This will allow the city to elect to make the contribution out of the city's tax base. Under present law, the contribution must be made from the TIF district's increment.

**3**      **Detroit Lakes.** Extends the time that the city has to create a TIF district under a 2006 special law from 2014 to 2016.

**Background information.** The 2006 special law authorized the city to establish a redevelopment TIF district in an area of the city under special rules for applying the blight test. This district would be established by:

- ▶ Buildings and structures removed under the Highway 10 Realignment Project are treated as structurally substandard under the blight test, despite not meeting the time limit or other rules for buildings removed before creation of the district.
- ▶ The three-year time limit for requesting certification after demolition does not apply (i.e., certification could be requested after the three-year limit and still treat the parcels as occupied by buildings purposes of the blight test.

Effective upon local approval.

**4**      **St. Paul.** Allows tax increment from a district established under the 2008 omnibus tax act to be used to pay principal and interest on bonds issued by St. Paul in 2009 for the RiverCentre Arena, instead of the St. Paul HRA's 1996 convention center bonds.

**Background information.** The 2008 omnibus tax act authorized the city of St. Paul to establish a new redevelopment TIF district with the same area and original tax capacity of its downtown pre-1979 TIF district. As a condition for establishing the district, the city had to enter an agreement with Ramsey County providing for transfer of the increment attributable to the county's tax rate to the county. The district terminates in 2023.

This district contributes to the fiscal disparities pool, unlike the pre-1979 HRA districts. To prevent the district from affecting local government aid, county program aid, or school aid, the captured net tax capacity of the district is included in adjusted net tax capacity for those programs.

Effective August 1, 2014, without local approval.

**5**      **Eagan.** Allows the city of Eagan to elect to compute increment for the Cedar Grove redevelopment TIF district using the current tax rate, not the original tax rate in effect when the district was certified. This will increase increment revenues, since the original tax rate cannot be higher than the current rate.

Allows the city to extend the 5-year rule for TIF District 2-5, a redevelopment district, to seven years.

Effective upon local approval.

**6**      **Shoreview.** Authorizes the city of Shoreview to establish economic development TIF districts for business retention and expansion. Increment from these districts may be used to assist qualified business, defined as businesses that:

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- Already are operating in Shoreview or that do not have any substantial operations in Minnesota
- Provide an increase in manufacturing, research, service, or professional jobs, at least 75 percent of which will pay wages 25 percent higher than the area median
- Are not in retail sales or the provision of legal, medical, accounting, financial, entertainment, or similar services from the location

These districts are subject to special rules:

- The duration limit is extended from 8 to 12 years
- The nonqualifying space (e.g., general office space for a manufacturing facility) can be increased to 25 percent from the 15 percent limit under general law
- Up to 20 percent of the increments can be deposited in a business retention or expansion fund the city establishes. The city also is permitted to deposit increments from the pre-1990 district into this fund. The fund can be used for the same types of projects, but is otherwise free of the restrictions that would apply to tax increments.

Effective upon local approval.

### Article 5: Local Sales and Use Taxes

## Overview

Authorizes or extends the following local sales taxes:

- An additional one-half of one percent food and beverage tax in the city of Duluth to fund \$18 million of tourism and recreation related capital improvements in West Duluth
- Extends the time period for imposition of the Albert Lea local sales tax from no more than 10 years to no more than 15 years, with no change in use of funds or maximum amount that may be raised; validates imposition of the existing tax.
- With voter approval, allows the city of Baxter to extend its existing local sales tax to raise up to an additional \$32 million plus associated bond costs to fund sanitary sewer and storm sewer projects, and transportation safety improvements.
- With voter approval, allows the city of Brainerd to extend its existing local sales tax to raise up to an additional \$15 million to fund sanitary sewer and storm sewer projects and trail improvements.

- 1 Food and beverage tax (Duluth).** Allows the Duluth city council to increase its food and beverage tax from the current rate of 1.75% percent to 2.25% with the additional revenue dedicated to fund up to \$18 million of capital projects related to tourism and recreation in the portion of the city west of 34<sup>th</sup> Avenue West. The temporary increase ends when the additional revenue raised is sufficient to fund the allowed projects. Also eliminates obsolete language related to a 1998 temporary increase of the Duluth food and beverage tax from

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1.75% to 2.25% to fund the Duluth Entertainment and Convention Center (DECC) and the Great Lakes Aquarium, which has expired. Effective upon the city filing approval with the secretary of state.

- 2 Termination of taxes (Albert Lea).** Changes the allowed time period for imposition of the local sales tax in Albert Lea from the lesser of 10 years or when \$15 million is raised, to the lesser of 15 years or when the \$15 million is raised. Effective upon the city filing approval with the secretary of state.
- 3 Use of revenues (Baxter).** Allows the city of Baxter, with approval of the voters, as provided in section 5, to extend its local sales tax to fund up to an additional \$32 million in sanitary sewer and storm sewer projects, as well as transportation safety improvements.
- 4 Bonds (Baxter).** Allows the city of Baxter to issue up to \$32 million in bonds for the new projects authorized in section 3, based on the vote on the tax extension in section 5.
- 5 Termination of taxes (Baxter)** Allows the city of Baxter to extend its local sales taxes if approved by the voters at the 2014 general election. If approved the tax would expire at the earlier of (1) December 31, 2031, or (2) when revenues are sufficient to pay for the authorized projects plus associated bond costs. Effective upon filing approval with the secretary of state.
- 6 Use of revenues (Brainerd).** Allows the city of Brainerd, with approval of the voters, as provided in section 8, to extend its local sales tax to fund up to an additional \$15 million for improvements in the joint waste treatment facility, other water infrastructure, and trail improvements.
- 7 Bonds. (Brainerd).** Clarifies that the existing bond authority only applies to the original projects authorized in 2006.
- 8 Termination of taxes (Brainerd).** Allows the city of Brainerd to extend its local sales taxes if approved by the voters at the 2014 general election. If approved the tax would expire at the earlier of (1) when an additional \$15 million is raised, or (2) twelve years after the original termination date for the tax. Effective upon filing approval with the secretary of state.
- 9 Validation of prior act; authorization (Albert Lea).** Allows the city to file its approval of its original 2005 and 2006 sales tax laws and retroactively validates the enactment of that tax by June 15, 2014. Normally a special law must be approved in the biennium in which it is enacted or it does not take effect. Effective the day after final enactment.

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**Article 6: Miscellaneous**

**Overview**

Modifies the allowed uses of a separate public safety levy in Anoka County.

Modifies the existing border city enterprise zone program by providing \$1.5 million in aid for 2015, and then \$3 million per year beginning in 2016 through 2019.

- 1 Authority to levy property taxes and incur debt (Anoka County).** Expands Anoka County's current authority to levy property taxes to pay for bonds to fund countywide public safety improvements and equipment to also allow them to fund pay-as-you-go improvements and equipment. Effective for taxes payable in 2013 through 2023.
- 2 Treatment of levy (Anoka County).** Allows the levy for both bond repayment and pay-as-you-go projects under section 1 to be a separate line item on the proposed property tax notice and the property tax statement. Strikes language allowing levies to repay bonds for certain public safety improvements to be excluded from Anoka's County's net debt limits. Effective for taxes payable in 2013 through 2023.
- 3 Zone allocation.** Allocates \$3 million per calendar year for calendar years 2015 to 2019 to the border city enterprise zone program. These allocations would expire, if they are unused, at the end of the calendar year. Under present law, the one-time allocations carryover until used. As with the one-time allocations, the cities (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville) could allocate the amounts between the two programs – the border city enterprise zone and border city development zone program. The latter program is focused on attracting new or expanding businesses, while the enterprise zone program is also available to existing businesses to offset the differential in tax and businesses costs with the neighboring states (North or South Dakota).

Effective date: July 1, 2015, but only \$1.5 million is provided for calendar year 2015.

- 4 Business tax credit.** Increase the maximum per worker tax credit that may be provided to border city businesses from \$1,500 to \$3,000.
- 5 Carlton County Soil and Water Conservation District.** Authorizes Carlton County to impose a levy on behalf of the Carlton County Soil and Water Conservation District to pay the costs of planning, constructing and equipping an office and storage facility for the District. Provides that the levy authority expires after the principal, interest, and any costs of a loan to finance the project have been paid off, or that the levy authority expires if the district is unable to obtain a loan for the project prior to May 1, 2017.

The levy authority is subject to local approval by the Carlton County board.

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**Article 7: Department of Revenue – Technical and Policy Property Tax Provisions**

**Overview**

Makes miscellaneous technical and policy changes to property tax law recommended by the Department of Revenue.

- 1 **Clerical corrections on state assessed values.** Allows the commissioner to make clerical corrections to state assessed values until December 31 of the assessment year. Effective the day following final enactment.
- 2 **Clerical corrections on wind energy production.** Allows the commissioner to make clerical corrections relating to Wind Energy Production amounts up until December 31 of the year. Effective the day following final enactment.
- 3 **Clerical corrections.** Allows county assessors to make clerical corrections relating to personal as well as real property valuations. Effective the day following final enactment.
- 4 **School district adjusted net tax capacity reporting deadline.** Changes the deadline for the Department of Revenue to file its annual adjusted net tax capacity report from June 15 to June 30. Effective January 1, 2014.
- 5 **Clerical corrections on pipeline values.** Allows the commissioner to make clerical corrections to state assessed pipeline values until December 31 of the assessment year. Effective the day following final enactment.
- 6 **Clerical corrections on transmission line values.** Allows the commissioner to make clerical corrections to transmission line values until December 31 of the assessment year. Effective the day following final enactment.
- 7 **Clerical corrections on state assessed values.** Allows the commissioner to make clerical corrections to state assessed values until December 31 of the assessment year. Effective the day following final enactment.
- 8 **Local Board of Appeal and Equalization (LBAE) meeting places.** Allows LBAEs to meet at a central location within the county or at the office of the town or city clerk. Current law requires the meetings be held at the office of the clerk. Effective the day following final enactment.
- 9 **Certification and training dates for Local Boards of Appeals and Equalization (LBAEs).** Changes the date by which the LBAEs must provide proof that they have complied with training requirements from December 1 to February 15. Also changes the deadline from December 1 to February 15 for local boards whose powers are transferred to the county to file the required resolutions and proofs of compliance with training requirements to the county assessor in order to have their powers restored. Effective beginning with LBAE meetings held after December 31, 2014.
- 10 **Sustainable Forest Incentive Act (SFIA)–managed forest land.** Clarifies that land

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classified as 2c, managed forest land, cannot be enrolled in the SFIA program. Effective for certifications and applications due in 2014 and thereafter.

- 11 Amortization aid reference.** Corrects an internal reference to a repealed subdivision by providing the appropriate subdivision. Effective retroactively from June 1, 2013, the date that section 423A.02, subd. 1, became effective.
- 12 Payments in Lieu of Tax (PILT) calculations.** Corrects payments for wildlife management land to use the same formula as other payments in lieu of tax for other land. Effective July 1, 2014.
- 13 Payments in Lieu of Tax (PILT) calculations.** Clarifies that a township with qualifying land receives ten percent of the payment a county receives for the land in that township. Effective July 1, 2014.
- 14 Revisor's instruction.** Instructs the Revisor to replace the term "class rate" with the term "classification rate" wherever it appears in statute.
- 15 Repealer. Sustainable Forest Incentive Act (SFIA) payment calculation.** Repeals sections that contain an obsolete formula for SFIA payments. Also repeals an unnecessary definition for the term "class rate." Effective the day following final enactment.