

**Senate Counsel, Research,
and Fiscal Analysis**

G-17 STATE CAPITOL
75 REV. DR. MARTIN LUTHER KING, JR. BLVD.
ST. PAUL, MN 55155-1606
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JO ANNE ZOFF SELLNER
DIRECTOR

Senate

State of Minnesota

TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) *JAS*

DATE: March 8, 2005

RE: Bills to be Heard March 8, 2005

S.F. No. 176 (Saxhaug)

This bill authorizes Aitkin County and Independent School District No. 1 in Aitkin County to hold their initial public hearing under the truth and taxation process jointly. The hearing must be held on the second Tuesday of December each year. The advertisement regarding the hearing may be a joint advertisement.

S.F. No. 561 (Marty)

This bill prohibits certification of new tax increment financing districts and modifications of existing tax increment financing districts after May 31, 2005. Modifications include extending the duration of the district, expanding the activities to be financed within the district, and incurring additional expenses not included in the plan. The bill limits the ability of cities and counties to provide business subsidies to those that are authorized by law or are activities that could have been financed by tax increment financing. If a city or county proposes to provide a business subsidy, it is required to conduct a public hearing on the issue after published notice in a newspaper of general circulation in the municipality. "Business subsidy" is defined to mean a grant; a contribution of property, infrastructure, or services; a below-market-rate loan; a reduction or deferral of a tax or fee; a guaranteed of a payment under a loan, lease, or other obligation; or a preferential use of government facilities given to a business.

If a city or county provides a business subsidy, it may request that the city, county, or the school district within which the business is located may also provide a share of the subsidy. If that local government decides to make a contribution, the amount of the contribution is limited to the tax increment that would have been attributable to its levy on the parcel that contains the business that receives the subsidy.

The bill also repeals the provisions that enable municipalities to grant abatements for economic development purposes.

S.F. No. 1053 (Vickerman)

This bill authorizes Nobles County, the city of Worthington, and Independent School District No. 518 of Worthington to hold a joint public hearing under the Truth and Taxation Law. The hearing is required to be held on the second Tuesday of December. The advertisement of the hearing may be a joint advertisement.

S.F. No. 1419 (Ranum)

This bill authorizes the city of Richfield or its housing and redevelopment authority to create a tax increment financing district in a specifically defined area west of Highway 77. The district will be a redevelopment district and generally defined expenditures of tax increments in the district will be deemed to be incurred for correcting conditions that allow the designation of redevelopment districts. Additionally, this district would be exempt from the "five-year rule" under which activities must be undertaken within the district within a five-year period in order to be acceptable under the antipooling provision of the law.

S.F. No. 1336 (Marty)

This bill prohibits after May 31, 2005, the certification of a new tax increment financing district or modification of an existing tax increment financing plan to extend the duration of a district, expand the activities to be financed within the district, or incur additional expenses that were not previously included in the tax increment plan.

S.F. No. XXXX (Scheid)

This bill extends the duration of an economic development tax increment financing district in the city of Brooklyn Park, which would otherwise terminate in 2005. The bill would extend the duration of the district to the end of 2020. The bill also authorizes expenditure of any increment from this district that is not obligated under a pledge or incumbrance created before January 1, 2005, to be used for purposes of the housing development account of the authority. Under current law, only 15 percent of the increment in a year may be used for the housing development account. The bill modifies the definition of the type of housing that would qualify for expenditures for rental housing. The bill also repeals a provision in the law establishing this district that refers to a now repealed statute.

S.F. No. 1077 (Belanger)

This bill extends from 2008 to 2010 the sunset date for levies under a provision authorizing emergency medical services special taxing districts.

JZS:ph

Agenda #1

Senators Saxhaug, Pogemiller and Belanger introduced--
S.F. No. 176: Referred to the Committee on Taxes.

1 A bill for an act
2 relating to taxation; authorizing Aitkin County and
3 Independent School District No. 1 to conduct joint
4 hearings; amending Minnesota Statutes 2004, section
5 275.065, by adding a subdivision.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. Minnesota Statutes 2004, section 275.065, is
8 amended by adding a subdivision to read:

9 Subd. 9. [AITKIN COUNTY AND SCHOOL DISTRICT

10 HEARING.] Notwithstanding any other law, Aitkin County and
11 Independent School District No. 1 may hold their initial public *and the city of Aitkin, or any two*
12 hearing jointly. The hearing must be held on the second Tuesday *of them*
13 of December each year. The advertisement required in
14 subdivision 5a may be a joint advertisement. The hearing is
15 otherwise subject to the requirements of this section.

16 [EFFECTIVE DATE.] This section is effective for hearings
17 conducted in 2005 and subsequent years.

MINNESOTA - REVENUE

**PROPERTY TAX
Aitkin County Proposed
Property Tax Hearings**

March 7, 2005

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 176 (Saxhaug) / H.F. 182 (Solberg)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	\$0	\$0	\$0	\$0

Effective for hearings conducted in 2005 and subsequent years.

EXPLANATION OF THE BILL

Current law requires local taxing authorities to hold an initial public hearing to discuss its budget and property tax levy for taxes payable in the following year. The bill allows Aitkin County and Independent School District No. 1 to hold their initial public hearing jointly. The hearing must be held on the second Tuesday of December each year, for which the notice may be published as a joint advertisement.

REVENUE ANALYSIS DETAIL

- The proposal would have no impact on state revenues.

Number of Taxpayers: Property owners in Aitkin County and ISD No. 1.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

sf0176(hf0182)_1/nrg

Agenda #2

Senator Vickerman introduced--

S.F. No. 1053: Referred to the Committee on Taxes.

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A bill for an act

relating to taxation; property; authorizing Nobles County, the city of Worthington, and Independent School District No. 518 to conduct joint truth in taxation hearings; amending Minnesota Statutes 2004, section 275.065, by adding a subdivision.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2004, section 275.065, is amended by adding a subdivision to read:

Subd. 9. [NOBLES COUNTY; JOINT INITIAL PUBLIC

HEARING.] Notwithstanding any other law, Nobles County, the city of Worthington, and Independent School District No. 518, ^{or any two of them,} Worthington, may hold their initial public hearing jointly. The hearing must be held on the second Tuesday of December each year. The advertisement required in subdivision 5a may be a joint advertisement. The hearing is otherwise subject to the requirements of this section.

[EFFECTIVE DATE.] This section is effective for hearings conducted in 2005 and subsequent years.

MINNESOTA - REVENUE

PROPERTY TAX Nobles County Proposed Property Tax Hearings

March 7, 2005

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 1053 (Vickerman) / H.F. 1522 (Hamilton)

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
General Fund	\$0	\$0	\$0	\$0

(000's)

Effective for hearings conducted in 2005 and subsequent years.

EXPLANATION OF THE BILL

Current law requires local taxing authorities to hold an initial public hearing to discuss its budget and property tax levy for taxes payable in the following year. The bill allows Nobles County, the city of Worthington, and Independent School District No. 518 to hold their initial public hearing jointly. The hearing must be held on the second Tuesday of December each year, for which the notice may be published as a joint advertisement.

REVENUE ANALYSIS DETAIL

- The proposal would have no impact on state revenues.

Number of Taxpayers: Property owners in Nobles County, Worthington, and ISD No. 518.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

sf1053(hf1522)_1/nrg

Nobles County

www.co.nobles.mn.us

ADMINISTRATION

315 Tenth Street
PO Box 757
Worthington, MN 56187
Phone: 507-372-8241
Fax: 507-372-8363

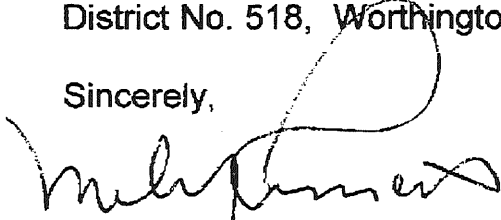
March 4, 2005

Senator Jim Vickerman
226 Capitol
75 Constitution Avenue
St. Paul, MN 55155-1606

Dear Senator Vickerman:

Nobles County supports Bill No. 1053 proposing a joint Truth in Taxation hearing for Nobles County, the City of Worthington, and Independent School District No. 518, Worthington.

Sincerely,



Melvin J. Ruppert
County Administrator

Worthington

OFFICE OF THE MAYOR

City Of Worthington ■ 302 North Street, PO Box 279 ■ Worthington, MN 56197
Tel: (507) 372-8600 ■ Fax: (507) 372-9860 ■ www.ci.worthington.mn.us

March 4, 2005

Senator Jim Vickerman
226 State Capitol
75 Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Dear Senator Vickerman:

The City of Worthington, Nobles County, and Independent School District 518 have formed a joint committee which meets on a monthly basis. One of the purposes of this joint committee is to look at ways to cut costs, decrease overlaps and combine services when possible.

Having heard that the City of St. Paul has for some time held joint Truth in Taxation hearings, I brought the idea to our joint committee where it was very well received. The City of Worthington City Council fully supports this joint hearing concept.

We very much appreciate you carrying this bill for us and thank you for your support.

Sincerely,



Alan Oberloh
Mayor

jo

INDEPENDENT SCHOOL DISTRICT

John Landgaard
Superintendent

David Skog
Director of Management Services



1117 Marine Avenue
Worthington, MN 56187-1610

Phone 507-372-2172
FAX 507-372-2174

March 7, 2005

Senator Vickerman
226 State Capitol Building
St. Paul, MN 55155

Dear Senator Vickerman,

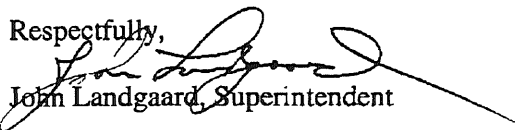
I would like to encourage your support and the committee's support for the proposed legislation of a combined City, County and School District Truth in Taxation meeting. District #518 is in support of this collaborative effort and cooperation based on the fact that we can more efficiently meet the needs of our organizations and the people in our communities.

This proposed legislation would also promote the general tone of governmental collaboration and efficiency that is being encouraged across the state. We believe and are in agreement, that it would be a benefit to the District and community. Please encourage support for the committee and other legislators.

This also could promote further changes in other parts of the state as a pilot project and innovative change to the Truth in Taxation process. District #518 would support and participate in such legislative change.

Please let me know if you would need further information. We appreciate your continued support for our educational system.

Respectfully,


John Landgaard, Superintendent

"YOUR PUBLIC SCHOOLS . . . THERE'S NO BETTER PLACE TO LEARN"
A K-12 NORTH CENTRAL ACCREDITED SCHOOL DISTRICT

AN EQUAL OPPORTUNITY EMPLOYER

Agenda #3

Senators Ranum, Pogemiller, Larson and Belanger introduced--

S.F. No. 1419: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to the city of Richfield; authorizing the
3 creation of a redevelopment tax increment financing
4 district.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

6 Section 1. [CITY OF RICHFIELD; TAX INCREMENT FINANCING
7 DISTRICT.]

8 Subdivision 1. [AUTHORIZATION.] The city of Richfield may
9 create a tax increment financing district consisting of an area
10 lying west of Trunk Highway 77 extending: to 16th Avenue
11 between Crosstown Highway 62 and 66th Street; to 17th Avenue
12 between 66th and 69th Streets; and to 18th Avenue between 69th
13 and 72nd Streets. The city or its housing and redevelopment
14 authority may be the authority for the purposes of Minnesota
15 Statutes, sections 469.174 to 469.179.

16 Subd. 2. [DISTRICT IS REDEVELOPMENT DISTRICT.] The
17 redevelopment tax increment district created pursuant to
18 subdivision 1 is deemed to be a redevelopment district and is
19 subject to Minnesota Statutes, sections 469.174 to 469.179,
20 except that:

21 (1) expenditures for activities as defined in Minnesota
22 Statutes, section 469.1763, subdivision 1, paragraph (b),
23 anywhere in the district are deemed to be the costs of
24 correcting conditions that allow the designation of
25 redevelopment districts pursuant to Minnesota Statutes, section

*presence of low
frequency noise & impacts,
and vibration*

1 469.174, subdivision 10; and

2 (2) the five-year rule under Minnesota Statutes, section

3 469.1763, subdivision 3, does not apply.

4 [EFFECTIVE DATE.] Section 1 is effective upon local

5 approval by the city of Richfield in compliance with Minnesota

6 Statutes, section 645.021.

MINNESOTA REVENUE

PROPERTY TAX Richfield TIF District

March 7, 2005

Department of Revenue
Analysis of H.F. 1247 (Larson) / S.F. 1419 (Ranum)

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	\$0	\$0	\$0	\$0

Effective upon local approval.

EXPLANATION OF THE BILL

Current Law: Tax increment financing (TIF) provides a means of financing municipal improvement projects. Types of districts include redevelopment districts, housing districts, economic development districts, soil condition districts, renewal and renovation districts, and hazardous substance districts. Although these types of districts have particular distinguishing characteristics, all commonly possess the authority to retain the tax dollars generated by the “retained captured net tax capacity”. The captured net tax capacity equals the difference between the current year net tax capacity and the original net tax capacity of the properties within the TIF district. (The retained captured net tax capacity is after the subtraction any fiscal disparity or shared value reductions and after any prior year net tax capacity adjustments.) Activity must commence within 5 years of district creation.

Proposed Law: The bill would allow the city of Richfield to create a new redevelopment TIF district, with boundaries as described. Expenditures anywhere in the district are deemed to be costs of correcting conditions that allow the designation of redevelopment districts. The five-year rule would not apply.

REVENUE ANALYSIS DETAIL

- Future growth in a new TIF district would reduce the local tax base, raising the tax rate for all properties. Homestead taxes would increase. Increasing homestead taxes would result in a small increase in property tax refunds paid by the state.

Number of Taxpayers: Taxpayers in the City of Richfield.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

HANDOUT #2

City of Richfield – Legislative Proposal
Proposed Low-Frequency Noise TIF Area

Introduced as:
SF 1419 (Ranum) Creation of Richfield TIF district

March 8, 2005

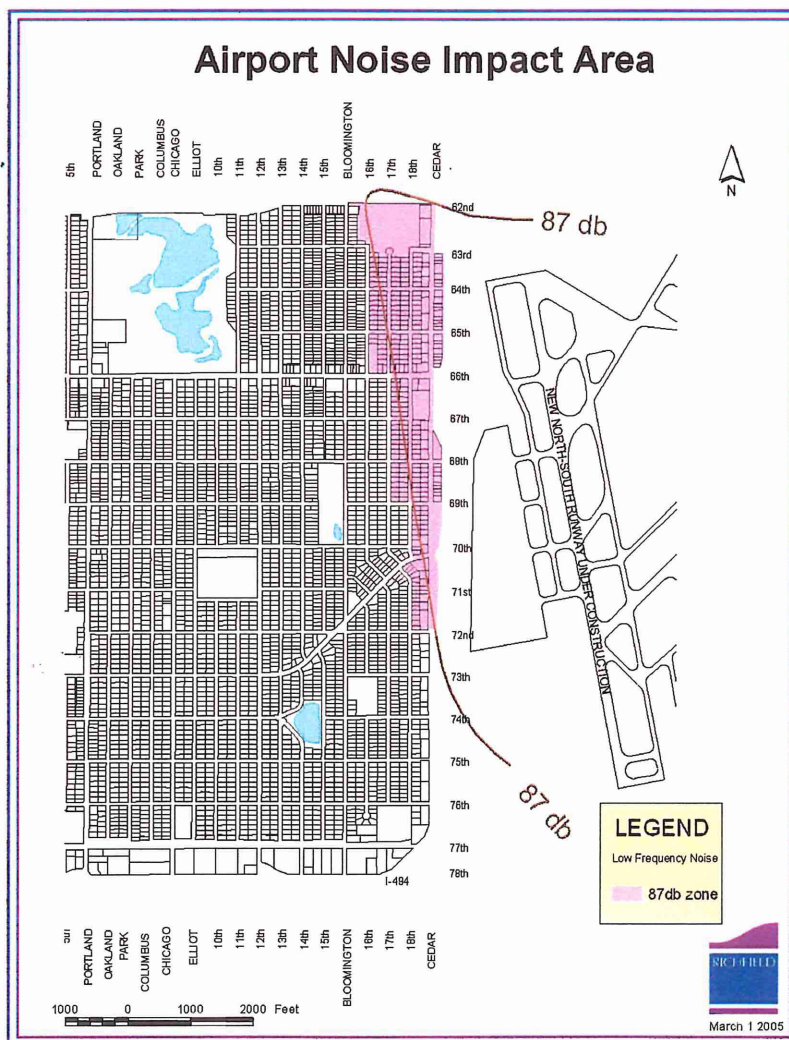
Direct Impacts of the Airport's North-South Runway

- In 1996 the State of Minnesota and the Metropolitan Airports Commission (MAC) decided on an airport expansion plan that included a new “north-south” runway.
- A Governors’s Task Force concluded that the expansion “in-place” (including the new runway), saved Minnesota tax payers approximately \$2 billion in capital costs.
- In order to construct the new north-south runway, MAC had to purchase 428 homes in the City of Richfield (over 4% of Richfield’s housing stock) as well as remove 2 parks and the Rich Acres Golf Course from Richfield.



Low Frequency Noise Impacts from the North-South Runway

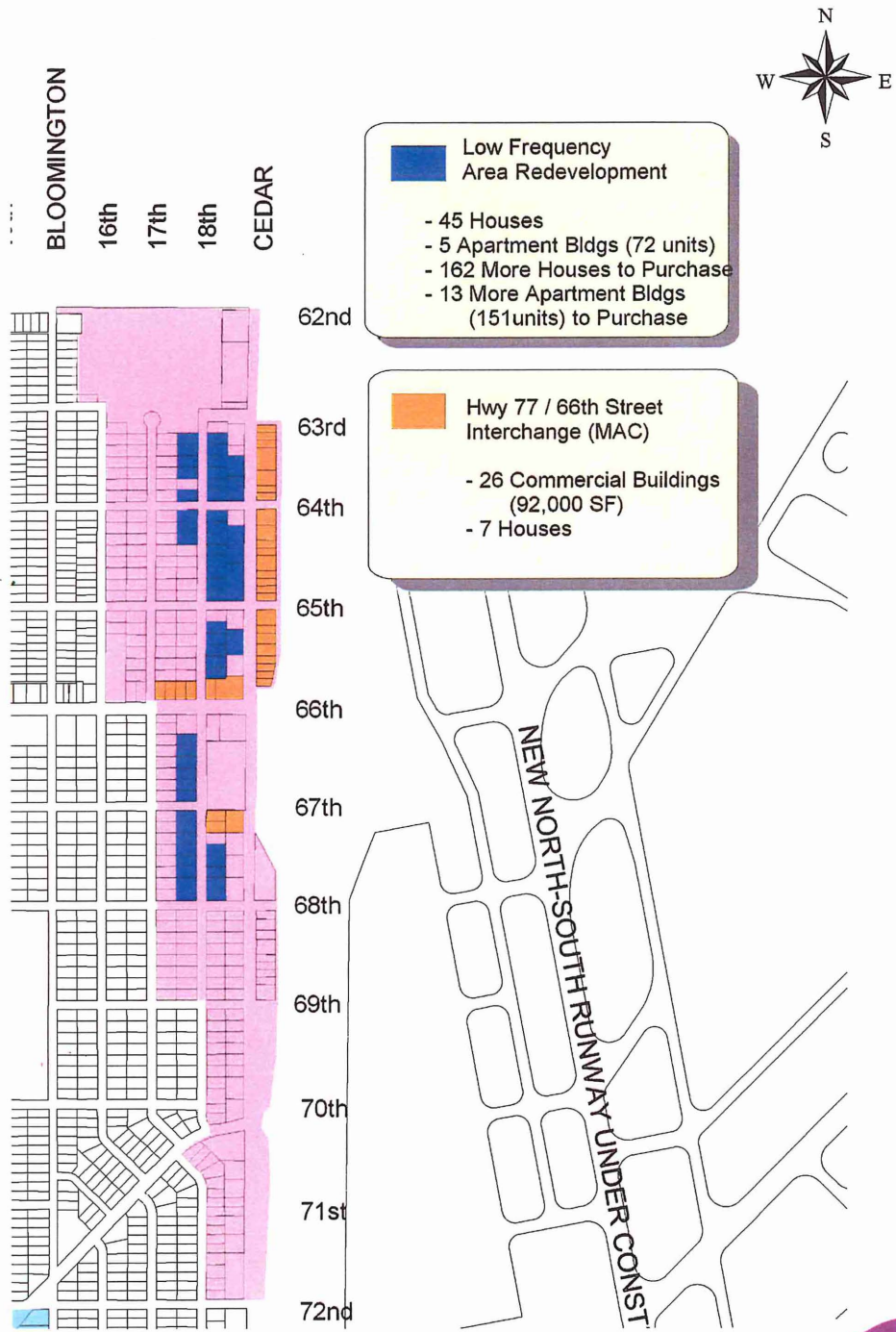
- The location of the north-south runway is approximately 1,200 feet from what had been an existing single family neighborhood in Richfield.
- This proximity prompted concerns from Richfield which were later recognized by MAC.
- In 2000 the Low Frequency Noise Policy Committee Report was conducted jointly by the City of Richfield and MAC.
- This report concluded that Low Frequency Noise (LFN) above 87db is “considered incompatible with residential use” due to the noise and, of greater impact, vibration that will exist.



Property Acquisitions in the Low Frequency Noise Impact Area

- In 1996 there were 225 houses & 235 apartments in the LFN Area.
- The estimated cost to acquire those properties totals approximately \$75 million.
- In 1999 the Legislature created a Governor's Task Force that recognized the LFN area.
- The Governor's Task Force identified several potential funding sources to help mitigate airport impacts (such as acquisitions in Richfield's LFN area); among these were:
 - The creation of a car rental tax;
 - Increased sales tax at the airport; and
 - "Special" tax increment financing/tax abatement areas.
- While the legislature has not approved these recommended funding sources, in 2000 a \$5 million grant (representing over 6% of the required acquisition funds) was provided by the legislature to the City of Richfield.
- Richfield also received a \$10 million grant from MAC (at the instruction of the federal gov't) to acquire homes in the LFN area.
- The City of Richfield also partnered with MAC to acquire homes and businesses needed to provide right-of-way for the expansion of Trunk Highway 77.
- Through all of these funding sources, the City of Richfield has acquired 52 single-family homes, 5 apartment buildings (72 units) and 28 commercial properties.

Airport Area Property Purchases



Low Frequency Area Redevelopment

- 45 Houses
- 5 Apartment Bldgs (72 units)
- 162 More Houses to Purchase
- 13 More Apartment Bldgs (151 units) to Purchase

Hwy 77 / 66th Street Interchange (MAC)

- 26 Commercial Buildings (92,000 SF)
- 7 Houses



i:\gis\community development\staff\julie\projects\airport\airport noise impact maps.apr



3/7/05




Properties Still to be Acquired

- In the 87db LFN Impact Area, there are still 162 houses, 14 apartment buildings (163 units) and 5 airport incompatible businesses.
- The cost to acquire these remaining properties is estimated at \$44 to \$54 million.

Estimated Acquisition Costs Airport Mitigative Area

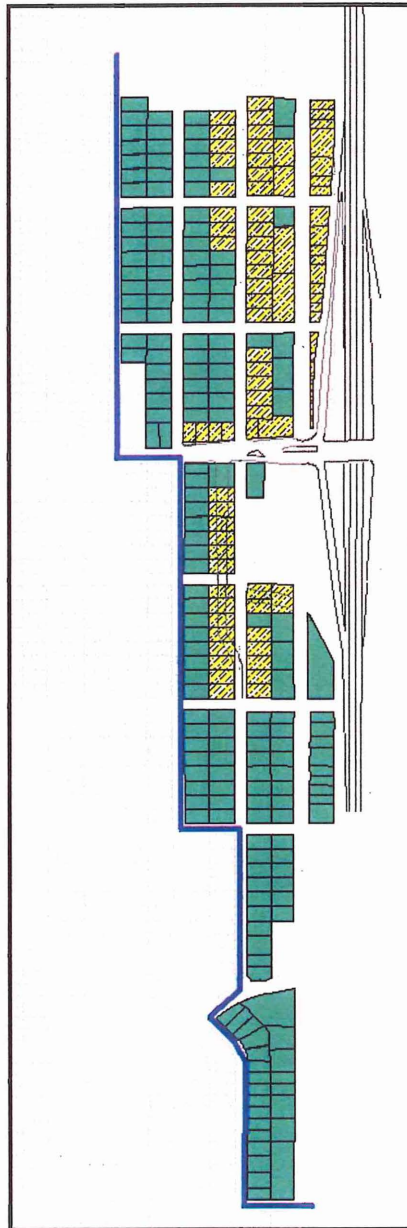
REMAINING USES/COSTS:
155 Houses
7 Duplexes
14 Apartments (163 units)
5 Businesses

\$44 to \$54 Million

-  Properties already purchased
-  Properties remaining for purchase
-  Properties not needed to be purchased



0 250 500 1,000 Feet



Methods of Acquiring Remaining Properties

- **Developer acquires properties**
 - If the acquisition costs result in a project with less than a market rate return on investment (generally 10% - 13%) the project will not be feasible for a developer.
 - Our experience has shown that developers can contribute \$250,000 - \$375,000 per acre and still have a feasible project.
 - With the estimated land assembly costs, this would result in a remaining funding deficit of \$27 to \$34 million.
- **Grants**
 - While greatly appreciated, grants cannot be relied upon.
- **Tax Abatement**
 - Tax abatement is being considered as an alternative.
 - Hennepin County has refrained from participating.
 - Lack of county participation and 15 year limit combine to render this method of funding insufficient.

The City of Richfield has used the above funding methods in the past and will continue to use these, or any other, available sources in the future.

Due to some of the limiting factors of these sources, however, there is a continued need for additional resources. For that reason, the City is seeking a method for the use of:

- **Tax Increment Financing**
 - The existing structures do not meet definition of “structurally substandard” in the statutes governing redevelopment districts.
 - Special legislation would be required to create a special TIF District.

Agenda #4

1 A bill for an act
2 relating to taxation; extending the duration of an
3 economic development tax increment financing district
4 in the city of Brooklyn Park; amending Laws 1994,
5 chapter 587, article 9, section 20, subdivisions 1, 2;
6 repealing Laws 1994, chapter 587, article 9, section
7 20, subdivision 4.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

9 Section 1. Laws 1994, chapter 587, article 9, section 20,
10 subdivision 1, is amended to read:

11 Subdivision 1. [ESTABLISHMENT.] The city of Brooklyn Park
12 may establish an economic development tax increment financing
13 district in which ~~15-percent~~ all of the revenue generated from
14 tax increment in any year that is not expended pursuant to a
15 pledge given or encumbrance created before January 1, 2005, is
16 deposited in the housing development account of the authority
17 and expended according to the tax increment financing plan.

18 Sec. 2. Laws 1994, chapter 587, article 9, section 20,
19 subdivision 2, is amended to read:

20 Subd. 2. [ELIGIBLE ACTIVITIES.] The authority must
21 identify in the plan the housing activities that will be
22 assisted by the housing development account. Housing activities
23 may include rehabilitation, acquisition, demolition, and
24 financing of new or existing single family or multifamily
25 housing. Housing activities listed in the plan need not be
26 located within the district or project area but must be

1 activities that meet the requirements of a qualified housing
2 district under Minnesota Statutes, section ~~273.1399~~ or 469.1761,
3 subdivision 2, for owner-occupied housing or section 469.174,
4 subdivision 29, clause (1), for rental housing.

5 Sec. 3. [CITY OF BROOKLYN PARK TAX INCREMENT FINANCING
6 DISTRICT EXTENSION.]

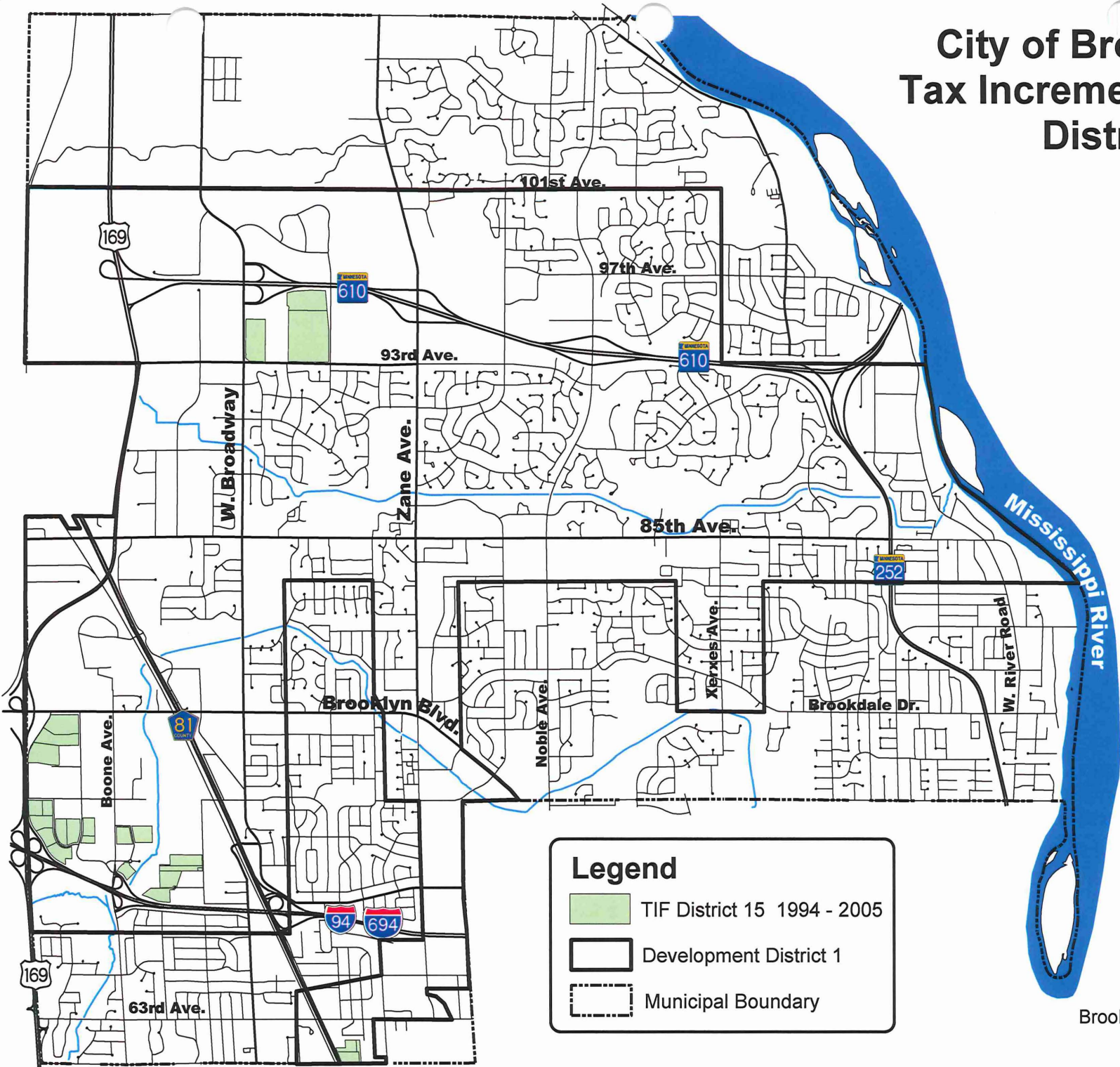
7 Notwithstanding Minnesota Statutes, section 469.176,
8 subdivision 1b, or any other law to the contrary, the duration
9 limit that applies to the economic development tax increment
10 financing district established under Laws 1994, chapter 587,
11 article 9, section 20, is extended to December 31, 2020.

12 Sec. 4. [REPEALER.]




13 Laws 1994, chapter 587, article 9, section 20, subdivision
14 4, is repealed.

HANDBOUT #2

City of Brooklyn Park Tax Increment Financing District 15



Legend

-  TIF District 15 1994 - 2005
-  Development District 1
-  Municipal Boundary

Brooklyn Park EDA
5200 85th Ave. N.
Brooklyn Park, MN 55443
March 7, 2005



No Scale

Agenda #5

Senators Belanger and Sams introduced--
S.F. No. 1077: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; property taxes; extending sunset

3 of emergency medical services special taxing

4 districts; amending Laws 2001, First Special Session

5 chapter 5, article 3, section 8.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. Laws 2001, First Special Session chapter 5,

8 article 3, section 8, the effective date, is amended to read:

9 [EFFECTIVE DATE.] This section is effective for taxes

10 levied in 2002, payable in 2003, through taxes levied in ~~2007~~

11 2009, payable in ~~2008~~ 2010.

MINNESOTA REVENUE

PROPERTY TAX Emergency Medical Services Special Taxing Districts – Extend Sunset Date

March 7, 2005

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of H.F. 525 (Davids) / S.F. 1077 (Belanger)

	<u>Fund Impact</u>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	\$0	\$0	\$0

Effective August 1, 2005.

EXPLANATION OF THE BILL

Current law allows two or more political subdivisions to establish a special taxing district to support the providing of out-of-hospital emergency medical services. These special districts may levy an amount sufficient to pay operating expenses and debt for taxes payable in 2003 through 2008, up to .048% of taxable market value or \$250,000, whichever is less. The bill would extend the sunset date of emergency medical services special taxing districts for two years, through taxes payable in 2010.

REVENUE ANALYSIS DETAIL

- Two emergency medical services special taxing districts were identified from the pay 2005 levy survey, one in Beltrami County and the other in Cass County.
- It is assumed these two emergency medical service special taxing districts would choose to levy through the proposed pay 2010 sunset date.
- Assuming no new districts and an annual levy increase of 5%, the increased property tax burden on homesteads (relative to current law) will increase state-paid homeowner property tax refunds by about \$5,000 for fiscal years 2010 and 2011.

Number of Taxpayers: Currently two emergency medical services special taxing districts.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

Agenda #6

Senator Marty introduced--

S.F. No. 1336: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to tax increment financing; prohibiting new

3 tax increment financing districts or certain

4 modifications of existing districts; proposing coding

5 for new law in Minnesota Statutes, chapter 469.

6 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

7 Section 1. [469.1795] [TERMINATION OF TAX INCREMENT

8 FINANCING AUTHORITY; ADDITIONAL ACTIVITY PROHIBITED.]

9 After May 31, 2005, notwithstanding any other law to the

10 contrary, the following actions are prohibited:

11 (1) certification of a new tax increment financing

12 district; and

13 (2) modification of an existing tax increment financing

14 plan to extend the duration of a district, expand the activities

15 to be financed within the district, or incur additional expenses

16 not included in the plan before May 31, 2005.

17 [EFFECTIVE DATE.] This section is effective June 1, 2005.

MINNESOTA · REVENUE

PROPERTY TAX No New TIF Districts

March 7, 2005

Department of Revenue
Analysis of S.F. 1336 (Marty)

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Fund Impact

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
			(000's)	
General Fund	\$0	\$0	Unknown	Unknown

Effective June 1, 2005.

EXPLANATION OF THE BILL

The bill would prohibit creation of new tax increment financing (TIF) districts, as well as prohibit the extension or expansion of existing TIF districts, after May 31, 2005.

REVENUE ANALYSIS DETAIL

- It is unknown how many future TIF districts would not be created by enacting this proposal. More property would be subject to local taxes, decreasing local tax rates for all property, including homesteads. Decreased homestead taxes would result in a decrease in property tax refunds paid by the state.

Number of Taxpayers: Unknown.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

sf1336_1 / LM

State pays beans to bean-counters

Lagging salaries fuel turnover among auditors

By Terry Fiedler
Star Tribune Staff Writer

The state Department of Revenue has more to worry about this year than tax cheats.

Jerry McClure, director of the Revenue Department's individual tax division, said his office is having a hard time hanging on to its auditors, who have found themselves in great demand as a result of the new regulations put in place in response to corporate scandals.

Since last July, the Revenue Department has hired 38 auditors but also seen 20 leave for other jobs. The overall turnover rate among the department's 400 auditors more than doubled from 11 percent to 24 percent between fiscal year 2002 and fiscal 2004. McClure estimates that an experienced income tax auditor brings in \$300,000 a year in revenue for the state and that it costs the state \$100,000 each time one of them leaves, mainly because of the loss of productivity.

"We're revenue generators," McClure said. "We've proven that. The [tax] money will dry up if we don't get control of this situation."

Pay for an entry-level auditor with an accounting degree is \$34,000 a year in

Paying up

The state Department of Revenue has been experiencing high turnover in its auditor ranks. Administrators believe they need to increase auditor pay to address the problem.

Here are some examples of salaries in this field.

State Department of Revenue:
\$34,000 to \$64,000

Median pay for Twin Cities accountants: \$53,000

Wisconsin field auditor: \$31,564 to \$69,443

IRS auditor: \$35,455 to \$68,215

Average annual pay for college accounting graduates: \$41,000

Sources: Minnesota Department of Revenue;
National Association of Colleges and Employers

McClure's department. Pay tops out at \$64,000. That's not enough today, McClure said, because both the private sector and some other government bodies are willing to pay more.

AUDITORS continues on D6

AUDITORS from D1

Accounting majors most sought-after graduates

According to the National Association of Colleges and Employers, accounting majors are the most sought-after graduates by employers. Average starting pay nationwide is \$41,000, \$7,000 more than the Revenue Department offers its entry-level people. The median annual income for accountants in the Twin Cities, according to recent statistics, is \$53,000, and that number already is likely out of date, McClure said.

In Wisconsin, the pay range for state auditors starts lower — \$31,564 — but the most senior auditors there can make just under \$70,000, vs. the \$64,000 in Minnesota. The IRS offers \$68,215 at the top end of its auditor pay range. McClure said he recently lost a midlevel auditor who got a \$12,000 pay bump from the IRS.

that represents auditors and other state workers, and the Legislature will agree that it's important to bump up auditor pay scales by about \$6,000 a year to make them more competitive. McClure added that the Revenue Department itself might be able to find a way to fund the new pay scales, although legislation is another option to get the pay increase.

Among other things, the department would have to reach an understanding with the union to increase pay. Bob Haag, assistant executive director of MAPE, said the union has just begun discussions about the situation and hasn't taken a position. He said that, in general, the union would be concerned about "raising one group of accountants way up and leaving the other lagging behind."

situation "has to be changed. It's like a revolving door."

He added that Revenue Department auditors return \$8 for every dollar of investment.

"They are a source of revenue, and we are revenue-shy," he said.

Belanger wants to find a way to raise the pay, and he's also considering legislation that would provide more money to hire more Revenue Department auditors.

McClure said there's precedent for what he's suggesting: The state made similar arrangements to increase pay for computer specialists prior to Y2K. He thinks it's an easier choice to bump up auditors' pay because they bring in tax revenue that wouldn't otherwise be collected.

"I know that will blow some people's minds, but to be competitive, we have to talk in those terms," he said.

Terry Fiedler is at
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Agenda #7

Senator Marty introduced--

S.F. No. 561: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; providing public accountability

3 for taxpayer subsidies of private business;

4 prohibiting new tax increment financing districts;

5 proposing coding for new law in Minnesota Statutes,

6 chapter 469; repealing Minnesota Statutes 2004,

7 sections 469.1812; 469.1813; 469.1814; 469.1815.

8 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

9 Section 1. [469.1795] [TERMINATION OF TAX INCREMENT

10 FINANCING AUTHORITY; BUSINESS SUBSIDIES RESTRICTED.]

11 Subdivision 1. [ADDITIONAL ACTIVITY PROHIBITED.] After May

12 31, 2005, notwithstanding any other law to the contrary, the

13 following actions are prohibited:

14 (1) certification of a new tax increment financing

15 district; and

16 (2) modification of an existing tax increment financing

17 plan to extend the duration of a district, expand the activities

18 to be financed within the district, or incur additional expenses

19 not included in the plan before May 31, 2005.

20 Subd. 2. [BUSINESS SUBSIDIES.] As used in this

21 subdivision, "business subsidy" means a grant; contribution of

22 property, infrastructure, or services; a loan at rates below

23 those commercially available to the recipient; a reduction or

24 deferral of a tax or fee; a guarantee of a payment under a loan,

25 lease, or other obligation; or a preferential use of government

26 facilities given to a business. A statutory or home rule

1 charter city or a county may not provide a business subsidy
2 except as authorized by law or except for activities that could
3 have been financed by tax increment under sections 469.174 to
4 469.1791, subject to the limitations in those provisions. If
5 the city or county proposes to provide a business subsidy, it
6 must conduct a public hearing on the issue after published
7 notice of the proposal and the hearing in a newspaper of general
8 circulation in the municipality.

9 Subd. 3. [SUBSIDIES FROM OTHER JURISDICTIONS' LEVIES.] For
10 purposes of this subdivision, a home rule charter or statutory
11 city or a county that provides a business subsidy under
12 subdivision 2 is referred to as a "host municipality." A host
13 municipality may request that the county or city, or the school
14 district, or both, within the boundaries of which is located the
15 business that receives the subsidy, provide a share of the
16 subsidy. If the governing body of the political subdivision
17 that received the request, at a public hearing after published
18 notice, votes to provide a share of the subsidy, it shall
19 transmit to the host municipality a portion of the proceeds of
20 its levy, not to exceed the tax increment that would have been
21 attributable to that political subdivision's levy on the parcel
22 that contains the business that receives the subsidy. The money
23 must be used by the host municipality to provide the business
24 subsidy, subject to the limitations in sections 469.174 to
25 469.1791.

26 Sec. 2. [REPEALER.]
27 Minnesota Statutes 2004, sections 469.1812; 469.1813;
28 469.1814; and 469.1815, are repealed. Tax abatements granted
29 under authority of those repealed sections prior to June 1,
30 2005, may continue according to the terms of those sections but
31 no new abatements may be granted on or after the effective date
32 of this section.

33 Sec. 3. [EFFECTIVE DATE.]
34 Sections 1 and 2 are effective June 1, 2005.

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469.1812 DEFINITIONS.

Subdivision 1. **Scope.** For purposes of sections 469.1812 to 469.1815, the following terms have the meanings given.

Subd. 2. **Governing body.** "Governing body" means, for a city, the city council; for a school district, the school board; for a county, the county board; and for a town, the board of supervisors.

Subd. 3. **Municipality.** "Municipality" means a statutory or home rule charter city or a town.

Subd. 4. **Political subdivision or subdivision.** "Political subdivision" or "subdivision" means a statutory or home rule charter city, town, school district, or county.

469.1813 ABATEMENT AUTHORITY.

Subdivision 1. **Authority.** The governing body of a political subdivision may grant an abatement of the taxes imposed by the political subdivision on a parcel of property, or defer the payments of the taxes and abate the interest and penalty that otherwise would apply, if:

(a) it expects the benefits to the political subdivision of the proposed abatement agreement to at least equal the costs to the political subdivision of the proposed agreement or intends the abatement to phase in a property tax increase, as provided in clause (b)(7); and

(b) it finds that doing so is in the public interest because it will:

- (1) increase or preserve tax base;
- (2) provide employment opportunities in the political subdivision;
- (3) provide or help acquire or construct public facilities;
- (4) help redevelop or renew blighted areas;
- (5) help provide access to services for residents of the political subdivision;
- (6) finance or provide public infrastructure; or
- (7) phase in a property tax increase on the parcel resulting from an increase of 50 percent or more in one year on the estimated market value of the parcel, other than increase attributable to improvement of the parcel.

Subd. 1a. **Use of term.** As used in this section and sections 469.1814 and 469.1815, "abatement" includes a deferral of taxes with abatement of interest and penalties unless the context indicates otherwise.

Subd. 2. **Abatement resolution.** (a) The governing body of a political subdivision may grant an abatement only by adopting an abatement resolution, specifying the terms of the abatement. In the case of a town, the board of supervisors may approve the abatement resolution. The resolution must also include a specific statement as to the nature and extent of the public benefits which the governing body expects to result from the agreement. The resolution may provide that the political subdivision will retain or transfer to another political subdivision the abatement to pay for all or part of the cost of acquisition or improvement of public infrastructure, whether or not located on or adjacent to the parcel for which the tax is abated. The abatement may reduce all or part of the property tax amount for the political subdivision on the parcel. A political subdivision's maximum annual amount for a parcel equals its total local tax rate multiplied by the total net tax capacity of the parcel.

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(b) The political subdivision may limit the abatement:

- (1) to a specific dollar amount per year or in total;
- (2) to the increase in property taxes resulting from improvement of the property;
- (3) to the increases in property taxes resulting from increases in the market value or tax capacity of the property;
- (4) in any other manner the governing body of the subdivision determines is appropriate; or
- (5) to the interest and penalty that would otherwise be due on taxes that are deferred.

(c) The political subdivision may not abate tax attributable to the areawide tax under chapter 276A or 473F, except as provided in this subdivision.

Subd. 3. **School district abatements.** An abatement granted under this section is not an abatement for purposes of state aid or local levy under sections 127A.40 to 127A.51.

Subd. 4. **Property located in tax increment financing districts.** The governing body of a political subdivision may not enter into a property tax abatement agreement under sections 469.1812 to 469.1815 that provides for abatement of taxes on a parcel, if the abatement will occur while the parcel is located in a tax increment financing district.

Subd. 5. **Notice and public hearing.** (a) The governing body of the political subdivision may approve an abatement under sections 469.1812 to 469.1815 only after holding a public hearing on the abatement.

(b) Notice of the hearing must be published in a newspaper of general circulation in the political subdivision at least once more than ten days but less than 30 days before the hearing. The newspaper must be one of general interest and readership in the community, and not one of limited subject matter. The newspaper must be published at least once per week. The notice must indicate that the governing body will consider granting a property tax abatement, identify the property or properties for which an abatement is under consideration, and the total estimated amount of the abatement.

Subd. 6. **Duration limit.** (a) A political subdivision may grant an abatement for a period no longer than ten years, except as provided under paragraph (b). The subdivision may specify in the abatement resolution a shorter duration. If the resolution does not specify a period of time, the abatement is for eight years. If an abatement has been granted to a parcel of property and the period of the abatement has expired, the political subdivision that granted the abatement may not grant another abatement for eight years after the expiration of the first abatement. This prohibition does not apply to improvements added after and not subject to the first abatement.

(b) A political subdivision proposing to abate taxes for a parcel may request, in writing, that the other political subdivisions in which the parcel is located grant an abatement for the property. If one of the other political subdivisions declines, in writing, to grant an abatement or if 90 days pass after receipt of the request to grant an abatement without a written response from one of the political subdivisions, the duration limit for an abatement for the parcel by the requesting political subdivision and any other participating political subdivision is increased to 15 years. If the political subdivision which declined to grant an abatement later grants an abatement for the parcel, the 15-year duration limit is reduced

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by one year for each year that the declining political subdivision grants an abatement for the parcel during the period of the abatement granted by the requesting political subdivision. The duration limit may not be reduced below the limit under paragraph (a).

Subd. 6a. Deferment payment schedule. When the tax is deferred and the interest and penalty abated, the political subdivision must set a schedule for repayments. The deferred payment must be included with the current taxes due and payable in the years the deferred payments are due and payable and must be levied accordingly.

Subd. 6b. Extended duration limit. (a)
Notwithstanding the provisions of subdivision 6, a political subdivision may grant an abatement for a period of up to 20 years, if the abatement is for a qualified business.

(b) To be a qualified business for purposes of this subdivision, at least 50 percent of the payroll of the operations of the business that qualify for the abatement must be for employees engaged in one of the following lines of business or any combination of them:

- (1) manufacturing;
- (2) agricultural processing;
- (3) mining;
- (4) research and development;
- (5) warehousing; or
- (6) qualified high technology.

(c)(1) "Manufacturing" means the material staging and production of tangible personal property by procedures commonly regarded as manufacturing, processing, fabrication, or assembling which changes some existing material into new shapes, new qualities, or new combinations.

(2) "Mining" has the meaning given in section 613(c) of the Internal Revenue Code of 1986.

(3) "Agricultural processing" means transforming, packaging, sorting, or grading livestock or livestock products, agricultural commodities, or plants or plant products into goods that are used for intermediate or final consumption including goods for nonfood use.

(4) "Research and development" means qualified research as defined in section 41(d) of the Internal Revenue Code of 1986.

(5) "Qualified high technology" means one or more of the following activities:

(i) advanced computing, which is any technology used in the design and development of any of the following:

- (A) computer hardware and software;
- (B) data communications; and
- (C) information technologies;

(ii) advanced materials, which are materials with engineered properties created through the development of specialized process and synthesis technology;

(iii) biotechnology, which is any technology that uses living organisms, cells, macromolecules, microorganisms, or substances from living organisms to make or modify a product, improve plants or animals, or develop microorganisms for useful purposes;

(iv) electronic device technology, which is any technology that involves microelectronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics, and optical and optic-electrical

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devices, or data and digital communications and imaging devices;

(v) engineering or laboratory testing related to the development of a product;

(vi) technology that assists in the assessment or prevention of threats or damage to human health or the environment, including, but not limited to, environmental cleanup technology, pollution prevention technology, or development of alternative energy sources;

(vii) medical device technology, which is any technology that involves medical equipment or products other than a pharmaceutical product that has therapeutic or diagnostic value and is regulated; or

(viii) advanced vehicles technology which is any technology that involves electric vehicles, hybrid vehicles, or alternative fuel vehicles, or components used in the construction of electric vehicles, hybrid vehicles, or alternative fuel vehicles. An electric vehicle is a road vehicle that draws propulsion energy only from an on-board source of electrical energy. A hybrid vehicle is a road vehicle that can draw propulsion energy from both a consumable fuel and a rechargeable energy storage system.

(d) The authority to grant new abatements under this subdivision expires on July 1, 2004.

Subd. 7. Review and modification of abatements. The political subdivision may provide in the abatement resolution that the abatement may not be modified or changed during its term. If the abatement resolution does not provide that the abatement may not be modified or changed, the governing body of the political subdivision may review and modify the abatement every second year after it was approved.

Subd. 8. Limitation on abatements. In any year, the total amount of property taxes abated by a political subdivision under this section may not exceed (1) ten percent of the current levy, or (2) \$200,000, whichever is greater. The limit under this subdivision does not apply to an uncollected abatement from a prior year that is added to the abatement levy.

Subd. 9. Consent of property owner not required. A political subdivision may abate the taxes on a parcel under sections 469.1812 to 469.1815 without obtaining the consent of the property owner.

469.1814 BONDING AUTHORITY.

Subdivision 1. Authority. A political subdivision may issue bonds or other obligations to provide an amount equal to the sum of the abatements granted for a property under section 469.1813. The maximum principal amount of these bonds may not exceed the estimated sum of the abatements for the property for the years authorized. The bonds may be general obligations of the political subdivision if the governing body of the political subdivision elects to pledge the full faith and credit of the subdivision in the resolution issuing the bonds.

Subd. 2. Chapter 475 applies. Chapter 475 applies to the obligations authorized by this section, except bonds are excluded from the calculation of the net debt limit.

Subd. 3. Municipal issue for combined abatements. If two or more political subdivisions decide to grant abatements for the same property, the municipality in which the property is located may issue bonds to provide an amount equal to the sum of the abatements for each of the jurisdictions that agrees. The governing body of each of the other jurisdictions must guarantee

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and pledge to pay annually to the municipality the amount of the abatement. This pledge and guarantee is a binding obligation of the political subdivision and must be included in the abatement resolution.

Subd. 4. Bonded abatements not subject to review. If bonds are issued to provide advance payment of abatements under this section, the amount of abatement is not subject to periodic review by the political subdivision under section 469.1813, subdivision 7.

Subd. 5. Use of proceeds. The proceeds of bonds issued under this section may be used to (1) pay for public improvements that benefit the property, (2) to acquire and convey land or other property, as provided under this section, (3) to reimburse the property owner for the cost of improvements made to the property, or (4) to pay the costs of issuance of the bonds.

Subd. 6. Levy to offset tax changes. (a) This subdivision applies only to abatements pledged to pay preexisting obligations.

(b) For purposes of this subdivision, "preexisting obligation" means a bond or binding contract that:

- (1) was issued or approved before August 1, 2001;
- (2) is secured by abatements approved before August 1, 2001; and
- (3) is not a general obligation.

(c) If a political subdivision granted an abatement pledged to pay a preexisting obligation and if the changes in the property tax class rates enacted in calendar year 2001 reduce the abatement by an amount sufficient to prevent payment in full of the preexisting obligation, the political subdivision may add to its levy under section 469.1815 an amount sufficient to provide an abatement equal to the least of:

(1) the amount of the abatement using the political subdivision's tax rate for the current year and the class rates for property taxes payable in 2001;

(2) the amount required to pay the amount due on the preexisting obligation for the year from the political subdivision; or

(3) the maximum dollar amount of the political subdivision's abatement, if any, under the abatement resolution. **469.1815 ADMINISTRATIVE.**

Subdivision 1. Inclusion in proposed and final levies. The political subdivision must add to its levy amount for the current year under sections 275.065 and 275.07 the total estimated amount of all current year abatements granted. If all or a portion of an abatement levy for a prior year was uncollected, the political subdivision may add the uncollected amount to its abatement levy for the current year. The tax amounts shown on the proposed notice under section 275.065, subdivision 3, and on the property tax statement under section 276.04, subdivision 2, are the total amounts before the reduction of any abatements that will be granted on the property.

Subd. 2. Property taxes; abatement payment. The total property taxes shall be levied on the property and shall be due and payable to the county at the times provided under section 279.01. The political subdivision will pay the abatement to the property owner, lessee, or a representative of the bondholders or will retain the abatement to pay public infrastructure costs, as provided by the abatement resolution.

MINNESOTA • REVENUE

PROPERTY TAX No New TIF Districts, Business Subsidies, Abatements

March 7, 2005

Department of Revenue
Analysis of S.F. 561 (Marty)

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

	Fund Impact			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	\$0	Unknown	Unknown	Unknown

Effective June 1, 2005.

EXPLANATION OF THE BILL

The bill would prohibit creation of new tax increment financing (TIF) districts, as well as prohibit the extension or expansion of existing TIF districts, after May 31, 2005.

Business subsidies, as defined, from counties or cities are generally prohibited without a public hearing. Host communities may request other taxing jurisdictions to provide a share of the business subsidy. If the other jurisdiction approves the request after a public hearing, proceeds of the levy are to be paid to the host community for the purpose of the business subsidy.

The authority of political subdivisions to abate property taxes and related provisions are repealed.

REVENUE ANALYSIS DETAIL

- It is unknown how many future TIF districts would not be created by enacting this proposal. More property would be subject to local taxes, decreasing local tax rates for all property, including homesteads. The other provisions of the bill would also likely result in lower homestead property taxes. Decreased homestead taxes would result in a decrease in property tax refunds paid by the state.

Number of Taxpayers: Unknown.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy