

## Agenda #1

1 A bill for an act  
2 relating to education finance; modifying a school  
3 district's percentage of students attending nonpublic  
4 school necessary to qualify for an exemption; creating  
5 a process to resolve a tuition obligation; converting  
6 referendum revenue authority for Common School  
7 District No. 815, Prinsburg; authorizing the school  
8 district to recertify its school levy for taxes  
9 payable in 2005; amending Minnesota Statutes 2004,  
10 section 123A.70.

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

12 Section 1. Minnesota Statutes 2004, section 123A.70, is  
13 amended to read:

14 123A.70 [PRIVATE SCHOOLS; PRINSBURG.]

15 Sections 123A.64 to 123A.68 shall not apply to any common  
16 school district in which is located any existing private school  
17 maintaining elementary and secondary education for 75 50 percent  
18 of the eligible pupils within the district and complying with  
19 the requirements of section 120A.22.

20 [EFFECTIVE DATE.] This section is effective July 1, 2005.

21 Sec. 2. [AMOUNT OF OBLIGATION.]

22 The board of Common School District No. 815, Prinsburg,  
23 must make tuition payments to Independent School District No.  
24 2180, MACCRAY, in the amount of \$282,000. The payments must be  
25 made in six equal installments, on June 30 and December 30 of  
26 each year beginning with a payment on June 30, 2005.

27 [EFFECTIVE DATE.] This section is effective the day  
28 following final enactment.

1           Sec. 3. [CONVERSION OF REFERENDUM REVENUE AUTHORITY TO  
2 SPECIAL LEVY AUTHORITY.]

3           Subdivision 1. [CONVERSION OF QUESTION 1 REFERENDUM LEVY  
4 AUTHORITY TO SPECIAL LEVY AUTHORITY.] Notwithstanding any law to  
5 the contrary, Common School District No. 815, Prinsburg, may  
6 convert the levy authority approved during the November 2004  
7 general election as school district ballot question 1 from  
8 referendum revenue authority to special levy authority. This  
9 levy authority must be used for payments of outstanding tuition  
10 amounts to Independent School District No. 2180, MACCRAY. The  
11 maximum levy authority annually shall be converted from the  
12 amount described as a dollar allowance per resident marginal  
13 cost pupil unit to a fixed dollar amount for each of the three  
14 years as specified by the board of Common School District No.  
15 815, Prinsburg. These amounts may be levied for taxes payable  
16 in 2005, 2006, and 2007 only. Seventy percent of the amount  
17 certified in each year must be spread on tax capacity and the  
18 remaining 30 percent of the levy must be spread on the  
19 referendum market value of the school district. This levy is  
20 not subject to the property tax recognition shift under  
21 Minnesota Statutes, sections 123B.75, subdivision 5, and  
22 127A.441.

23           Subd. 2. [CONVERSION OF QUESTION 2 TO SPECIAL LEVY  
24 AUTHORITY FOR FOUR YEARS.] Notwithstanding any law to the  
25 contrary, Common School District No. 815, Prinsburg, may convert  
26 the levy authority approved during the November 2004 general  
27 election as school district ballot question 2 from referendum  
28 revenue authority to special levy. The maximum levy authority  
29 under this question is the annual amount specified by the board  
30 of Common School District No. 815, Prinsburg, as the amount  
31 necessary to eliminate the district's operating deficit.  
32 Seventy percent of the amount certified in each year must be  
33 spread on tax capacity and the remaining 30 percent of the levy  
34 must be spread on the referendum market value of the school  
35 district. This levy is not subject to the property tax  
36 recognition shift under Minnesota Statutes, sections 123B.75,

1 subdivision 5, and 127A.441.

2 Subd. 3. [SPECIAL OPERATING LEVY AUTHORITY.] Common School  
3 District No. 815, Prinsburg, may hold an election once every  
4 four years on the first Tuesday after the first Monday in  
5 November, beginning with the November 2008 general election to  
6 approve an additional special operating levy for another four  
7 years. The ballot must state that the board of the district  
8 desires to levy the amounts necessary to eliminate any operating  
9 deficit for the following four years. The election must follow  
10 the notice and procedural provisions described under Minnesota  
11 Statutes, section 126C.17. Seventy percent of the amount  
12 certified in each year must be spread on tax capacity and the  
13 remaining 30 percent of the levy must be spread on the  
14 referendum market value of the school district. This levy is  
15 not subject to the property tax recognition shift under  
16 Minnesota Statutes, sections 123B.75, subdivision 5, and  
17 127A.441.

18 Subd. 4. [SCHOOL BOARD RESOLUTION.] The board of Common  
19 School District No. 815, Prinsburg, may adopt a written  
20 resolution converting referendum revenue authority to special  
21 levy authority. The resolution must state the district's desire  
22 to convert its referendum revenue authority approved at the  
23 November 2004 general election into special levy authority and  
24 specify the amounts of the special levy authority. The district  
25 must also notify the Department of Education by July 1 of each  
26 year of the amount it intends to levy for that year.

27 [EFFECTIVE DATE.] This section is effective the day  
28 following final enactment and applies for taxes payable in 2005.

29 Sec. 4. [RECERTIFICATION OF 2005 SCHOOL DISTRICT LEVY.]

30 Subdivision 1. [ELIGIBILITY.] Common School District No.  
31 815, Prinsburg, may recertify its 2004 levy for taxes payable in  
32 2005 if:

33 (1) the district is in statutory operating debt according  
34 to Minnesota Statutes, section 123B.81;

35 (2) the district conducted a successful referendum at the  
36 November 2004 election; and

1 (3) the board of the district has adopted a resolution as  
2 required by section 3, subdivision 4.

3 Subd. 2. [RECERTIFICATION PROCESS.] Notwithstanding any  
4 law to the contrary, Common School District No. 815, Prinsburg,  
5 may recertify its 2004 levy for taxes payable in 2005 in the  
6 following manner:

7 (1) within five days after the effective date of this  
8 section, the board must notify the Department of Education that  
9 it has adopted the resolution according to section 3,  
10 subdivision 4;

11 (2) within five days after receiving the notice from the  
12 district, the Department of Education must recompute the  
13 district's 2004 payable in 2005 levy limitation and report these  
14 amounts to the school district and the county auditor; and

15 (3) within five days after receiving the notice from the  
16 Department of Education, the school district must certify the  
17 added levy amount to the county auditor.

18 The county auditor must add these amounts to the 2004 levy for  
19 taxes payable in 2005 previously certified by the school  
20 district.

21 [EFFECTIVE DATE.] This section is effective the day  
22 following final enactment and applies for taxes payable in 2005.



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## **S.F. No. 485 - Outstanding Tuition Owed by Common Schools District No. 815, Prinsburg to Independent School District No. 2180, MACCRAY**

**Author:** Senator Dean Johnson

**Prepared by:** Shelby Winiecki, Legislative Analyst (651/296-5259)

**Date:** February 15, 2005

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**S.F. No. 485.** Authorizes Common School District No. 815, Prinsburg, to levy beyond the maximum allowed by state law to pay its operating deficit and the outstanding tuition owed to Independent School District No. 2180, MACCRAY, and to certify a pay 2005 levy after December 30, 2004.

**History:** The Prinsburg school district does not operate a public school. Most students attend a private school in the district and the balance attend public school in the MACCRAY district. Prinsburg is in statutory operating debt and has been unable to meet its financial obligations to MACCRAY. Prinsburg owes \$282,000 to MACCRAY and Prinsburg has insufficient revenues to meet future obligations. To address this shortfall, Prinsburg passed a referendum in 2004 and S.F. 485 is required to implement this referendum. The Department of Education has served notice that the school district has until March 1, 2005 for passage of this bill. If the bill does not pass by this deadline the district must initiate the dissolution and attachment process.

**Section 1 [Private Schools; Prinsburg].** Under current law Prinsburg is exempted from the requirement to maintain public schools. Under this exemption, Prinsburg must have 75 percent of its eligible pupils enrolled in an existing private school. This section reduces that percentage requirement from 75 percent to 50 percent.

**[Effective Date.]** This section effective July 1, 2005

**Section 2 [Amount of Obligation].** Prinsburg must make payments to MACCRAY totaling \$282,000 in six equal installments twice each year beginning on June 30, 2005.

**[Effective Date.]** This section is effective immediately.

**Section 3 [Conversion of Referendum Revenue Authority to Special Levy Authority.]**

**Subdivision 1 [Conversion of question 1 referendum levy authority to special levy authority.]**

Prinsburg may convert the referendum revenue authority to special levy authority for payment of the outstanding tuition for the years 2005, 2006, and 2007. The levy is not subject to the referendum cap or to the property tax recognition shift. The levy is spread 70 percent based on adjusted net tax capacity and 30 percent based on referendum market value.

**Subdivision 2 [Conversion of question 2 to special levy authority for four years.]** Prinsburg may convert the referendum revenue authority to special levy authority for payment of the district's operating deficit for the years 2005, 2006, 2007, 2008. The levy is not subject to the referendum cap or to the property tax recognition shift. The levy is spread 70 percent based on adjusted net tax capacity and 30 percent based on referendum market value.

**Subdivision 3 [Special operating levy authority.]** Prinsburg may hold an election every four years, beginning in 2008 to allow for a special operating levy for the amount necessary to eliminate any operating deficit for the following four years. The levy is not subject to the property tax recognition shift. The levy is spread 70 percent based on adjusted net tax capacity and 30 percent based on referendum market value.

**Subdivision 4 [School board resolution.]** Prinsburg school board may adopt a resolution when it wishes to seek such a conversion from referendum revenue to special levy authority and the amount of the special levy. The district must notify the Department of Education of this resolution by July 1 if it intends to levy.

**[Effective Date.]** This section is effective immediately and applies for taxes payable in 2005.

**Section 4 [Recertification of 2005 School District Levy.]**

**Subdivision 1 [Eligibility.]** Prinsburg may recertify its 2004 levy for taxes payable in 2005 if the district is in statutory operating debt, conducted a successful referendum at the 2004 election, and the board adopted the resolution.

**Subdivision 2 [Recertification process.]** The county auditor must include the levies in the 2005 taxes payable if within five days of enactment, the School District notifies the Department of Education that it adopted the resolution, and within five days of receiving the notice, the Department

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of Education recalculates and reports the added amount to the district and the county auditor, and no more than five days later, Prinsburg certifies the added amount to the county auditor.

**[Effective Date.]** This section is effective immediately and applies for taxes payable in 2005.

SEW:dv

# MINNESOTA · REVENUE

## PROPERTY TAX Prinsburg School District Levies

February 9, 2005

	Yes	No
Separate Official Fiscal Note Requested		
<b>Fiscal Impact</b>		
DOR Administrative Costs/Savings		

Department of Revenue  
Analysis of H.F. 248 (Juhnke) / S.F. 485 (Johnson, D.E.)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	(Negligible)	(Negl.)	(Negl.)	(Negl.)

Various effective dates.

### EXPLANATION OF THE BILL

This proposal makes several changes in school district levies for Common School District No. 815, Prinsburg. The proposal reduces the threshold percentage of enrolled private school students to total district enrollment from 75% to 50%, effective July 1, 2005. Prinsburg would otherwise be required to maintain public elementary and secondary schools. The proposal also requires the Department of Education to determine the amount of outstanding tuition Prinsburg owes Independent School District No. 2180, MACCRAY, if they cannot agree on an outstanding tuition amount. Third, the proposal allows the district to convert recently passed referendum levies to special levies, which allows Prinsburg to levy the full amount per pupil authorized in the referendum. The levies will be used to fund the tuition payment shortfall to MACCRAY as well as an operating deficit for Prinsburg. Fourth, the bill authorizes the school district to recertify its levies to reflect these changes for taxes payable in 2005.

### REVENUE ANALYSIS DETAIL

- Data supplied by the Minnesota Department of Education projects a levy for tuition reimbursement to MACCRAY of \$93,500 annually for fiscal years 2006-2008, and a Prinsburg operating deficit levy of \$38,000 annually for fiscal years 2006-2009.
- The levy increases will result in a small increase in homeowner property taxes, and result in a small increase in property tax refunds. This increase would be about \$3,000 per year for FY 2006-2008, and \$1,000 in FY 2009.

**Number of Taxpayers:** Taxpayers in Common School District No. 815.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

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# COMMITTEE REPORT - WITHOUT AMENDMENTS

Committee on

TAVES

S. F. No. 485

Resolution

Re-referred (from another committee)

Committee recommendation:

do pass.

do pass and be placed on the Consent Calendar.

do pass and be re-referred to the Committee on

(no recommendation) be re-referred to the Committee on

2/15/05 (date of committee recommendation)

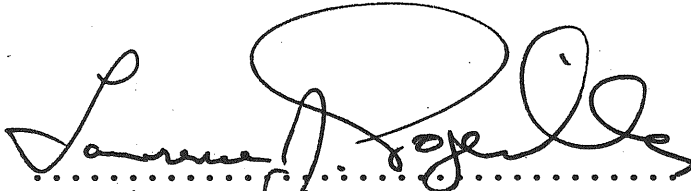
1 Senator Pogemiller from the Committee on Taxes, to which  
2 was re-referred

3 S.F. No. 485: A bill for an act relating to education  
4 finance; modifying a school district's percentage of students  
5 attending nonpublic school necessary to qualify for an  
6 exemption; creating a process to resolve a tuition obligation;  
7 converting referendum revenue authority for Common School  
8 District No. 815, Prinsburg; authorizing the school district to  
9 recertify its school levy for taxes payable in 2005; amending  
10 Minnesota Statutes 2004, section 123A.70.

11 Reports the same back with the recommendation that the bill  
12 do pass. Report adopted.

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.....  
(Committee Chair)

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February 15, 2005.....  
(Date of Committee recommendation)

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Municipal Legislative Commission

# Renew the Partnership:

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## A PRINCIPLED APPROACH TO FINANCING CITY GOVERNMENT

Agenda #2

### EXECUTIVE SUMMARY

A Report From the League of Minnesota Cities

#### FINANCING LOCAL GOVERNMENT TASK FORCE

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Association of Metropolitan Municipalities  
Coalition of Greater Minnesota Cities  
League of Minnesota Cities  
Minnesota Association of Small Cities  
Municipal Legislative Commission  
Range Association of Municipalities and Schools

**JANUARY 2005**

*The organizations represented on the Financing Local Government Task Force endorse the report and intend that it be a living document. As such, we pledge to work collaboratively going forward with the goal of encouraging and facilitating its recommendations.*

Full report available on the LMC web site at: [www.lmnc.org](http://www.lmnc.org)

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ACCOUNTABILITY • CERTAINTY • ADEQUACY • FLEXIBILITY • EQUITY

**Since the inception of the Minnesota Miracle in the early 1970s**, the local government finance system has been based on the belief that, except for the property tax, cities should have limited taxing authority. In return, state collected sales and income taxes have been distributed to cities generally based on need and their property tax capacity relative to other cities. The main goal of the Minnesota Miracle has been ensuring that Minnesotans receive adequate public services without paying inordinately different taxes, regardless of where they live.

At the conclusion of the 2004 legislative session, the LMC Board of Directors formed the Financing Local Government Task Force to review the state-local fiscal partnership. The Task Force concluded that the current system is not serving Minnesotans well or ensuring the state's competitiveness in an increasingly global economy. The Task Force made a number of recommendations with the intent of starting an ongoing dialogue about the state-local partnership. These recommendations are designed to serve as a roadmap to guide state policymakers and city officials in working together to reform the system over the next several years.

These recommendations are organized according to the Task Force's guiding principles for a viable state-city partnership:

- **ACCOUNTABILITY**
- **CERTAINTY**
- **ADEQUACY**
- **FLEXIBILITY**
- **EQUITY**

Some are closely integrated—a policy goal may be realized by more than one recommendation. Some options may bring about improvements for certain cities but create challenges for others. While some recommendations lend themselves to short-term implementation, others may require more in-depth planning and represent longer-run options.

## Recommendations

### ACCOUNTABILITY

*Cities believe that a viable partnership with the state requires cities and the state to communicate effectively with each other and with the public about their roles and responsibilities. Cities and the state must also exercise sound financial stewardship, including maximizing efficiencies in service delivery and other means of cost containment whenever possible.*

Elected officials must stand accountable for the decisions they make on behalf of citizens. Public agencies must be accountable to elected officials and the public. Less obviously, governments must be accountable to each other. When the state and federal governments impose mandates, the lines of accountability are blurred.

Cities are careful stewards of public resources. Minnesotans paid 15.6 percent of their personal income for state and local government in 2004, down from 17.4 percent in 1990. The city share fell from 3.5 percent to 3.1 percent over that time.

The Task Force agrees that state and local governments should work together to clarify their roles and responsibilities in providing, regulating, and paying for public services. It recommends the following:

- ***Transform market value homestead credit reimbursement into a direct credit to individuals.*** The market value homestead credit (MVHC) reimbursement structure undermines accountability by enabling the state to reduce or even eliminate the reimbursement to local governments, while preserving the credit to the homeowner. The structure adds unnecessary confusion, since cities whose reimbursements were cut in 2003 and 2004 were forced to certify property tax levies that were higher than what they actually received.
- ***Create an advisory commission on intergovernmental relations.*** A commission would provide an opportunity for legislators and administration officials to meet with their local partners to find the most effective and efficient ways to meet the needs of Minnesota residents and businesses. Participants would cooperatively and proactively address emerging issues, share creative solutions to public issues, and examine the long-term, broad cumulative impacts of policies.



- **Remove existing barriers to effectiveness.** The state should remove existing barriers to cities exploring opportunities for collaboration, sharing innovative practices, and applying new technologies. The state should allow local officials to implement smart ideas, such as posting notices on city web sites in lieu of publication and using design/build contracts.
- **Empower local decision-making on local budgets.** Artificial caps should be rejected. The state should authorize local officials to determine what revenues are necessary to provide the services demanded by citizens and businesses.

## CERTAINTY

*Cities need to have more certainty and predictability in all of their available revenue sources, including the property tax and the amount of funding they receive from local government aid (LGA) and similar programs. The current practice of almost annual adjustments to LGA and similar programs and the imposition of levy limits do not allow for prudent financial planning and decisions.*

The city budgeting process presents many challenges. Decision-makers strive to make wise spending choices, using resources efficiently and meeting service demands. When revenues upon which cities depend to deliver services are uncertain, budgeting becomes even more complicated. Periodic uncertainty in some budget years may encourage careful identification of spending priorities and exploration of new efficiencies. Significant, ongoing uncertainty about revenues, however, hampers cities' ability to effectively provide services to citizens.

In order to increase the certainty of revenues on which the state and cities rely, the Task Force recommends that the state:

- **Reform the state tax structure to increase stability of revenues.** The state should re-examine its revenue system and consider policy changes, such as reducing reliance on the corporate income and capital gains taxes, and broadening the sales tax base to include more goods and services.

- **Renew the state-local partnership.** The state should be a more reliable partner in providing public services and infrastructure. The annual uncertainty surrounding aid payments from the state should be remedied to enable cities to provide the critical services upon which citizens and businesses rely.

## ADEQUACY

*The revenue sources available to cities and the state must raise adequate funds to meet city needs, to fund mandates, and to maintain Minnesota's long-term competitiveness.*

To enable effective public services and a high quality of life, state and local governments need adequate revenues. Governments must carefully prioritize spending and work to maximize the effectiveness with which they spend public dollars. In tough times, less critical services must be curtailed. But when a lack of revenue results in basic services being cut, vital infrastructure improvements being delayed, and the state's long-term competitiveness being compromised, we must consider a different path.

The Task Force believes that the state should adequately fund its commitments to the public services upon which Minnesotans depend and recommends the following:

- **Fully fund local government aid (LGA).** LGA is the critical program that ensures all Minnesota communities can provide the services and infrastructure necessary to achieve economic prosperity. The program's funding was disproportionately cut in 2003, leaving property-poor and high-need communities struggling to provide necessary services.
- **Implement a metro-area sales tax to fund transportation and transit.** This would provide a critical, reliable, additional revenue source that would be more like the national norm of paying for regional transit through a regional tax source.
- **Increase state revenues.** The state should increase general revenues, while being mindful of impacts on our most vulnerable citizens, to preserve and enhance the services upon which our future depends. Further cuts to aids for cities to fund education or other needs are unacceptable.

## FLEXIBILITY

*As cities have become increasingly diverse in their characteristics, a "one-size-fits-all" system that limits all cities to the property tax as the major, non-state aid revenue source is increasingly unworkable. Some cities have sufficient property tax base to sustain an adequate service level, but many do not. Cities should have greater access to other tax and revenue sources than currently permitted.*

Cities face a wide range of unique circumstances involving their tax base, the mix of revenues on which they depend, where users of their services come from, and their population makeup. Cities also vary in which services they are responsible for financing and delivering. We believe that a full toolkit of revenue options is important so that city officials can best link users of a service with those who pay for it, provide an adequate amount of basic services despite cities' varying ability to pay, and work to ensure stability of city revenues during economic downturns by relying on several sources of funding.

In order to enhance the flexibility of cities in funding services, the Task Force recommends the state:

- **Support revenue diversification.** The state should recognize the diverse circumstances facing cities, and allow them to choose from a wider variety of tools to finance city services and infrastructure. These would include a local sales tax for capital projects; street and other utilities; impact fees; and mechanisms to capture revenues from all users.
- **Enhance local revenue and spending autonomy.** The state should not impose artificial caps on cities, but should increase the autonomy given to city officials to make revenue-raising decisions. Cities should have authority to make spending decisions that best meet the needs of their communities.

## EQUITY

*All citizens should receive adequate levels of municipal services at relatively similar levels of taxation. This means the state should provide financial assistance to cities that have high needs, low fiscal capacity, or both.*

Of the principles discussed in the report, equity may be the hardest to measure and the most subjective—what appears equitable to one person may seem patently unfair to another. Historically, some of the thorniest issues regarding our state-local finance system revolve around differing interpretations of equity. The Minnesota Miracle reforms addressed equity issues by creating a system of centralized revenue collection and decentralized service delivery. At that time, the state initiated its first sales tax to fund a complex new system of inter-governmental aids, including LGA.

The Legislature must continually monitor the system for tax burden equity, considering both ability to pay and to whom the benefits accrue. The Task Force recommends that the state do the following in order to enhance the equity of our state-local finance system:

- **Mitigate excessive property tax burdens.** The state should fully fund the LGA program. The state should target more property tax relief to individuals through the circuit breaker and related programs when taxes increase rapidly or when burdens are excessive relative to income. In addition, the state should provide adequate tax relief to all types of property in low property-wealth and high-need communities.
- **Connect the costs and benefits for services.** The state should provide cities with tools that align service costs with service beneficiaries. For example, a local sales tax may be a useful tool for a regional center to capture revenues from commuters, tourists, and tax-exempt property that place a burden on its infrastructure. When charging users is not feasible or appropriate, the state should adequately compensate communities for overburden through LGA or other mechanisms.



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# Renew the Partnership: A PRINCIPLED APPROACH TO FINANCING CITY GOVERNMENT

A Report From the League of Minnesota Cities

## **FINANCING LOCAL GOVERNMENT TASK FORCE**

Association of Metropolitan Municipalities

Coalition of Greater Minnesota Cities

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**JANUARY 2005**

ACCOUNTABILITY • CERTAINTY • ADEQUACY • FLEXIBILITY • EQUITY

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Municipal Legislative Commission

# Renew the Partnership:

## A PRINCIPLED APPROACH TO FINANCING CITY GOVERNMENT

A Report From the League of Minnesota Cities

### FINANCING LOCAL GOVERNMENT TASK FORCE

Association of Metropolitan Municipalities

Coalition of Greater Minnesota Cities

League of Minnesota Cities

Minnesota Association of Small Cities

Municipal Legislative Commission

Range Association of Municipalities and Schools

**JANUARY 2005**

*The organizations represented on the Financing Local Government Task Force endorse the report and intend that it be a living document. As such, we pledge to work collaboratively going forward with the goal of encouraging and facilitating its recommendations.*

ACCOUNTABILITY • CERTAINTY • ADEQUACY • FLEXIBILITY • EQUITY

**Renew the Partnership:  
A Principled Approach to Financing City Government**  
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*The League of Minnesota Cities is a non-profit, membership organization dedicated to helping cities throughout Minnesota build quality communities by providing effective advocacy, expert analysis, trusted guidance, and collective action. The League serves its members through advocacy, education and training, policy development, risk management, and other services.*



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# Executive Summary

Since the inception of the Minnesota Miracle in the early 1970s, the local government finance system has been based on the belief that, except for the property tax, cities should have limited taxing authority. In return, state collected sales and income taxes have been distributed to cities generally based on need and their property tax capacity relative to other cities. The main goal of the Minnesota Miracle has been ensuring that Minnesotans receive adequate public services without paying inordinately different taxes, regardless of where they live.

At the conclusion of the 2004 legislative session, the LMC Board of Directors formed the Financing Local Government Task Force to review the state-local fiscal partnership. The Task Force concluded that the current system is not serving Minnesotans well or ensuring the state's competitiveness in an increasingly global economy. The Task Force made a number of recommendations with the intent of starting an ongoing dialogue about the state-local partnership. These recommendations are designed to serve as a roadmap to guide state policymakers and city officials in working together to reform the system over the next several years.

These recommendations are organized according to the Task Force's guiding principles for a viable state-city partnership:

- Accountability
- Certainty
- Adequacy
- Flexibility
- Equity

Some are closely integrated—a policy goal may be realized by more than one recommendation. Some options may bring about improvements for certain cities but create challenges for others. While some recommendations lend themselves to short-term implementation, others may require more in-depth planning and represent longer-run options.

## RECOMMENDATIONS

**Accountability**—*Cities believe that a viable partnership with the state requires cities and the state to communicate effectively with each other and with the public about their roles and responsibilities. Cities and the state must also exercise sound financial stewardship, including maximizing efficiencies in service delivery and other means of cost containment whenever possible.*

Elected officials must stand accountable for the decisions they make on behalf of citizens. Public agencies must be accountable to elected officials and the public. Less obviously, governments must be accountable to each other. When the state and federal governments impose mandates, the lines of accountability are blurred.

Cities are careful stewards of public resources. Minnesotans paid 15.6 percent of their personal income for state and local government

in 2004, down from 17.4 percent in 1990. The city share fell from 3.5 percent to 3.1 percent over that time.

The Task Force agrees that state and local governments should work together to clarify their roles and responsibilities in providing, regulating, and paying for public services. It recommends the following:

- **Transform market value homestead credit reimbursement into a direct credit to individuals.** The market value homestead credit (MVHC) reimbursement structure undermines accountability by enabling the state to reduce or even eliminate the reimbursement to local governments, while preserving the credit to the homeowner. The structure adds unnecessary confusion, since cities whose reimbursements were cut in 2003 and 2004 were forced to certify property tax levies that were higher than what they actually received.
- **Create an advisory commission on intergovernmental relations.** A commission would provide an opportunity for legislators and administration officials to meet with their local partners to find the most effective and efficient ways to meet the needs of Minnesota residents and businesses. Participants would cooperatively and proactively address emerging issues, share creative solutions to public issues, and examine the long-term, broad cumulative impacts of policies.
- **Remove existing barriers to effectiveness.** The state should remove existing barriers to cities exploring opportunities for collaboration, sharing innovative practices, and applying new technologies. The state should allow local officials to implement smart ideas, such as posting notices on city web sites in lieu of publication and using design/build contracts.
- **Empower local decision-making on local budgets.** Artificial caps should be rejected. The state should authorize local officials to determine what revenues are necessary to provide the services demanded by citizens and businesses.

**Certainty**—*Cities need to have more certainty and predictability in all of their available revenue sources, including the property tax and the amount of funding they receive from local government aid (LGA) and similar programs. The current practice of almost annual adjustments to LGA and similar programs and the imposition of levy limits do not allow for prudent financial planning and decisions.*

The city budgeting process presents many challenges. Decision-makers strive to make wise spending choices, using resources efficiently and meeting service demands. When revenues upon which cities depend to deliver services are uncertain, budgeting becomes even more complicated. Periodic uncertainty in some budget years may encourage careful identification of spending priorities and exploration of new efficiencies. Significant, ongoing uncertainty about revenues, however, hampers cities' ability to effectively provide services to citizens.

In order to increase the certainty of revenues on which the state and cities rely, the Task Force recommends that the state:

- **Reform the state tax structure to increase stability of revenues.** The state should re-examine its revenue system and consider policy changes, such as reducing reliance on the corporate income and capital gains taxes, and broadening the sales tax base to include more goods and services.
- **Renew the state-local partnership.** The state should be a more reliable partner in providing public services and infrastructure. The annual uncertainty surrounding aid payments from the state should be remedied to enable cities to provide the critical services upon which citizens and businesses rely.

**Adequacy**—*The revenue sources available to cities and the state must raise adequate funds to meet city needs, to fund mandates, and to maintain Minnesota's long-term competitiveness.*

To enable effective public services and a high quality of life, state and local governments need adequate revenues. Governments must carefully prioritize spending and work to maximize the effectiveness with which they spend public dollars. In tough times, less critical services must be curtailed. But when a lack of revenue results in basic services being cut, vital infrastructure improvements being delayed, and the state's long-term competitiveness being compromised, we must consider a different path.

The Task Force believes that the state should adequately fund its commitments to the public services upon which Minnesotans depend and recommends the following:

- **Fully fund local government aid (LGA).** LGA is the critical program that ensures all Minnesota communities can provide the services and infrastructure necessary to achieve economic prosperity. The program's funding was disproportionately cut in 2003, leaving property-poor and high-need communities struggling to provide necessary services.
- **Implement a metro-area sales tax to fund transportation and transit.** This would provide a critical, reliable, additional revenue source that would be more like the national norm of paying for regional transit through a regional tax source.
- **Increase state revenues.** The state should increase general revenues, while being mindful of impacts on our most vulnerable citizens, to preserve and enhance the services upon which our future depends. Further cuts to aids for cities to fund education or other needs are unacceptable.

**Flexibility**—*As cities have become increasingly diverse in their characteristics, a "one-size-fits-all" system that limits all cities to the property tax as the major, non-state aid revenue source is increasingly unworkable. Some cities have sufficient property tax base to sustain an adequate service level, but many do not. Cities should have greater access to other tax and revenue sources than currently permitted.*

Cities face a wide range of unique circumstances involving their tax base, the mix of revenues on which they depend, where users of their services come from, and their population makeup. Cities also vary



in which services they are responsible for financing and delivering. We believe that a full toolkit of revenue options is important so that city officials can best link users of a service with those who pay for it, provide an adequate amount of basic services despite cities' varying ability to pay, and work to ensure stability of city revenues during economic downturns by relying on several sources of funding.

In order to enhance the flexibility of cities in funding services, the Task Force recommends the state:

- **Support revenue diversification.** The state should recognize the diverse circumstances facing cities, and allow them to choose from a wider variety of tools to finance city services and infrastructure. These would include a local sales tax for capital projects; street and other utilities; impact fees; and mechanisms to capture revenues from all users.
- **Enhance local revenue and spending autonomy.** The state should not impose artificial caps on cities, but should increase the autonomy given to city officials to make revenue-raising decisions. Cities should have authority to make spending decisions that best meet the needs of their communities.

**Equity**—*All citizens should receive adequate levels of municipal services at relatively similar levels of taxation. This means the state should provide financial assistance to cities that have high needs, low fiscal capacity, or both.*

Of the principles discussed in the report, equity may be the hardest to measure and the most subjective—what appears equitable to one person may seem patently unfair to another. Historically, some of the thorniest issues regarding our state-local finance system revolve around differing interpretations of equity. The Minnesota Miracle reforms addressed equity issues by creating a system of centralized revenue collection and decentralized service delivery. At that time, the state initiated its first sales tax to fund a complex new system of inter-governmental aids, including LGA.

The Legislature must continually monitor the system for tax burden equity, considering both ability to pay and to whom the benefits accrue. The Task Force recommends that the state do the following in order to enhance the equity of our state-local finance system:

- **Mitigate excessive property tax burdens.** The state should fully fund the LGA program. The state should target more property tax relief to individuals through the circuit breaker and related programs when taxes increase rapidly or when burdens are excessive relative to income. In addition, the state should provide adequate tax relief to all types of property in low property-wealth and high-need communities.
- **Connect the costs and benefits for services.** The state should provide cities with tools that align service costs with service beneficiaries. For example, a local sales tax may be a useful tool for a regional center to capture revenues from commuters, tourists, and tax-exempt property that place a burden on its infrastructure. When charging users is not feasible or appropriate, the state should adequately compensate communities for overburden through LGA or other mechanisms.

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# Introduction

Since the inception of the Minnesota Miracle in the early 1970s, the local government finance system has been based on the belief that, except for the property tax, cities should have limited taxing authority. In return, state collected sales and income tax revenues have been distributed to cities generally based on need and their property tax capacity relative to other cities. The goal has been to ensure residents receive adequate services without paying inordinately different taxes, regardless of where they are located.

In the last five years alone, state aid to cities has fallen by more than 28 percent when measured on a per capita basis. This reduction appears to have been partly due to the state's budget deficit, but also to a changing philosophy among some influential state government leaders about the state's role in financing local government services. Moreover, changes to the system now occur with increasing frequency creating instability and unpredictability.

Cities throughout the state are becoming more reliant on their own residential property tax base to fund services. State aid cuts, for example, have increased cities' reliance on property taxes. Further, class rate compression and phasing out the limited market value program have shifted more of the property tax burden onto homestead property. This has resulted in reduction of services in some instances and increased the tax rate disparity among many cities. Left unaddressed, the underlying premise of the Minnesota Miracle that all citizens should receive adequate levels of municipal services at relatively similar levels of taxation will be unachievable.

At the conclusion of the 2004 legislative session, the League of Minnesota Cities (LMC) Board of Directors formed the Financing Local Government Task Force (see Appendix A for the full text of the Task Force's Statement of Purpose). During the session, it was clear city officials held conflicting opinions about the most effective and equitable way to restore funding to the local government aid (LGA) program, most notably concerning proposals to utilize programs such as the market value homestead credit (MVHC) and transit aid for that purpose. As members of the Task Force, we came together despite these different opinions in order to identify what we, as a community of cities, have in common.

As that process evolved, we defined policy options for renewing the state-local partnership that we could all support. Recommendations to the state form the basis of this report and are intended to start an ongoing dialogue about the state-local partnership. The recommendations are designed to serve as a roadmap to guide state policy-makers and city officials in working together to reform the system over the next several years.

These recommendations are organized according to the guiding principles for a viable state-city partnership in the Task Force's Statement of Purpose: *Accountability, Certainty, Adequacy, Flexibility, and Equity*.

1. **Accountability**—Cities believe that a viable partnership with the state requires cities and the state to communicate effectively with each other and with the public about their roles and responsibilities. Cities and the state must also exercise sound financial stewardship, including maximizing efficiencies in service delivery and other means of cost containment whenever possible.
2. **Certainty**—Cities need to have more certainty and predictability in all of their available revenue sources, including the property tax and the amount of funding they receive from local government aid (LGA) and similar programs. The current practice of almost annual adjustments to LGA and similar programs and the imposition of levy limits do not allow for prudent financial planning and decisions.
3. **Adequacy**—The revenue sources available to cities and the state must raise adequate funds to meet city needs, to fund mandates, and to maintain Minnesota's long-term competitiveness.
4. **Flexibility**—As cities have become increasingly diverse in their characteristics, a "one-size-fits-all" system that limits all cities to the property tax as the major, non-state aid revenue source is increasingly unworkable. Some cities have sufficient property tax base to sustain an adequate service level, but many do not. Cities should have greater access to other tax and revenue sources than currently permitted.
5. **Equity**—All citizens should receive adequate levels of municipal services at relatively similar levels of taxation. This means that the state should provide financial assistance to cities that have high needs, low fiscal capacity, or both.

While not all Task Force members or the groups that we represent see all of the issues in the same way or agree on all of the ramifications of certain policies, we did come to an agreement on the recommendations described in this report. We thoughtfully weighed the consequences of a wide variety of policy options to address the problems in the current state-local fiscal system, and came to a consensus on the final list of recommendations.

The report recommendations should serve as a roadmap to guide city officials and state policy-makers in reforming the state-city relationship over the next several years. We do not think that the current system is serving Minnesotans well or ensuring our state's competitiveness in an increasingly global economy. The impacts of the state and city budget cuts have been felt most keenly by the most vulnerable of our cities and citizens, but the impacts may be more broadly felt as the state deals with another deficit for the next biennium.

The report recommendations should serve as a roadmap to guide city officials and state policy-makers in reforming the state-city relationship over the next several years.

We hope that this report begins a dialogue about how to finance the city services on which citizens and businesses rely in ways characterized by accountability, certainty, adequacy, flexibility, and equity.

Our recommendations are focused on the state-city financial relationship. We do not claim expertise in other parts of the state budget or in the financing of other local governments. But we believe that there are real fiscal challenges in these areas as well. While our recommendations include an increase in state aid to cities, we believe that this policy change should not come at the expense of other local governments or other parts of the state budget.

We hope that this report begins a dialogue about how to finance the city services on which citizens and businesses rely in ways characterized by accountability, certainty, adequacy, flexibility, and equity. We believe that several of the recommendations are achievable in the short term, with commitment from the state and cities to work together and openly discuss the issues. Other recommendations are more long-term goals for how the state-local fiscal partnership should evolve into the future.



# Chapter One: Accountability

**Accountability**—Cities believe that a viable partnership with the state requires cities and the state to communicate effectively with each other and with the public about their roles and responsibilities. Cities and the state must also exercise sound financial stewardship, including maximizing efficiencies in service delivery and other means of cost containment whenever possible.

Good government requires accountability. Elected officials must stand accountable for the decisions they make on behalf of citizens. Public agencies must be accountable to elected officials and the public. Less obviously, governments must be accountable to each other. Perhaps nothing frustrates a citizen more than hearing from a government official that the citizen's concern is "somebody else's fault" or "somebody else's problem." Accountability for public services can be murky when a service is provided by one level of government but funded and/or mandated by another, or when a local government is restricted in its ability to fund a service that is mandated by the state or demanded by citizens. Another example of accountability not being clear is the state imposing a sales tax on certain local government purchases. The sales tax impacts the cost of providing city services.

When the state and federal governments impose mandates, the lines of accountability are blurred. State officials often express frustration with federal mandates. Similarly, state and federal actions can inhibit city officials' ability to find innovative solutions to local problems. Local elected officials must have the authority and tools necessary to take actions in the public's interest without unnecessary restrictions from the state or federal governments.

Citizens generally have confidence in their local government officials (see sidebar). Yet to hear some pundits tell it, cities are inefficient bureaucracies that love nothing more than to raise taxes. The reality, which city officials tirelessly point out, is much more encouraging:

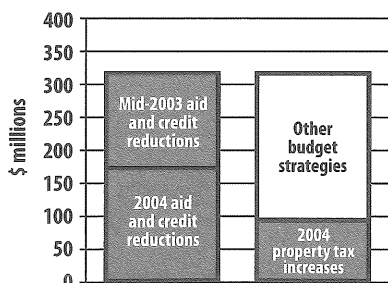
- **Cities are careful stewards of public resources.** Real city revenues per capita declined from 1990 to 2003, the last year for which audited statewide data are available. The dramatic cuts in city aids in 2003 and 2004, combined with extremely tight property tax levy limits, resulted in an overall reduction in city revenues from 2002 to 2003, and likely have resulted in unusually modest revenue increases in 2004. City officials dealt with the cuts to local government aid (LGA) responsibly, relying on property taxes to cover only a fraction of the cuts and employing other strategies, such as new efficiencies (see Chart 1A).

- **City government, like Minnesota government overall, is more affordable to taxpayers today than it was in 1990.** According to the Minnesota Department of Finance's Price of Government estimates, Minnesotans are paying 15.6 percent of their personal income for state and local government in 2004, compared to 17.4 percent in 1990. Cities' estimated share of this amount (including state and

## SIDEBAR:

A 2000 NPR/Kaiser Family Foundation/Kennedy School of Government poll found that roughly two-thirds of respondents (65 percent) indicated that they have confidence in their local governments solving problems that they set out to solve.

**CHART 1A:**  
2003 AND 2004 AID CUTS  
AND CITY RESPONSE





local transfers) has declined from 3.5 percent to 3.1 percent over the same time.

- **Cities' good practices build accountability and trust.** In many ways, cities are models of public budgeting and decision-making. Cities balance their budgets every year, have open and accessible budget processes, and provide many opportunities and methods for meaningful public input.
- **Cities constantly strive for new innovations and efficiencies.** In a recent LMC survey, 275 Minnesota cities cited almost 1,700 cooperative agreements between their city and other government or non-governmental entities. One-third of cities that responded to the survey reported that in 2003 they increased their efficiency through contracting out services, increasing productivity, and/or expanding cooperative agreements or other cost-sharing plans. (For more information on the cooperative agreements reported in the survey, see the *State of the Cities Report 2004*, available in the Policy Research Division section of the LMC web site at: [www.lmnc.org](http://www.lmnc.org).)

## RECOMMENDATIONS

We believe that state and local governments should work together to clarify their roles and responsibilities in providing, regulating, and paying for public services. To improve accountability, we recommend the following:

**Transform MVHC into a direct credit to individuals.** Currently, the market value homestead credit (MVHC) program provides tax relief to homestead property by reducing the homeowner's property tax bill. Local units of government are subsequently compensated by the state for the loss of property tax revenue due to the credit. The MVHC reimbursement structure undermines accountability in a number of ways, most directly by enabling the state to reduce or even eliminate the reimbursement to local units of government while preserving the benefit of the credit to the homeowner. The structure interferes with local officials' accountability to the taxpayers and adds unnecessary confusion, since cities whose reimbursements were cut in 2003 and 2004 were forced to certify a property tax levy amount that was higher than the amount of revenues the city actually received from the property tax system.

**Create an advisory commission on intergovernmental relations.** To ensure the most effective government for citizens, state lawmaking and rulemaking must be made openly with the broadest possible input. To this end, we recommend improving communication between state and local officials through the creation of an advisory commission on intergovernmental relations (ACIR). An advisory commission would provide an opportunity for legislators and administration officials to meet with their local partners to address ways to work together to find the most effective and efficient ways to meet the needs of Minnesota's residents and businesses. Whereas the legislative process generally deals with narrow issues of immediate concern, an ACIR would provide

**We believe that state and local governments should work together to clarify their roles and responsibilities in providing, regulating, and paying for public services.**

a forum to examine the combined impacts of state and federal actions and demographic changes over the long term. The commission would cooperatively address emerging issues in a proactive manner, thoroughly explore the best creative solutions to public issues, and minimize the unintended negative impacts of mandates.

***Remove existing barriers to effectiveness.*** Cities are continually looking for ways to more effectively deliver services demanded by citizens and businesses by exploring new opportunities for collaboration and cooperation, sharing innovative practices, and applying new technologies. The state should remove existing barriers to local effectiveness to allow local elected officials to implement smart ideas. Some examples include:

- Allow greater use of design/build contracts for construction projects.
- Allow greater use of city web sites and other communications vehicles to disseminate some information currently required to be published in newspapers.
- Trust local elected officials to determine fair compensation for their top employees. Many of the best and brightest public administrators and other professional employees like engineers are leaving public service for employment in other states or in the private sector. Local governments receive very few applications from non-Minnesota residents for these kinds of job vacancies. The state should eliminate the salary cap for government employees.

***Empower local decision-making on local budgets.*** Local officials are elected to determine the scope and level of local services. The state should authorize local officials to determine what revenues are necessary to provide the services demanded by citizens and businesses. State-imposed artificial caps that don't account for local circumstances and second-guess the judgment of local elected officials should be rejected.



## Chapter Two: Certainty

**Certainty**—*Cities need to have more certainty and predictability in all of their available revenue sources, including the property tax and the amount of funding they receive from local government aid (LGA) and similar programs. The current practice of almost annual adjustments to LGA and similar programs and the imposition of levy limits do not allow for prudent financial planning and decisions.*

The city budgeting process presents many challenges. Decision-makers strive to use resources efficiently, make wise spending decisions, and meet the demands for services.

The city budgeting process presents many challenges. Decision-makers strive to use resources efficiently, make wise spending decisions, and meet the demands for services. When revenues upon which cities depend to deliver those services are uncertain, budgeting becomes even more complicated. While aid and credit cuts have the most dramatic impact on total revenues, economic downturns can also bring about shortfalls in other revenue sources such as fees and charges.

Volatility in state aids and credits causes cities to struggle to ensure maintenance of basic services like police and fire protection. It is difficult to plan for large capital projects that will have costs spread over many years, such as major street improvements or additional fire stations, when future revenues are uncertain. Volatility in city revenues also makes decisions about operating budgets, such as whether or not to hire additional police officers, more difficult. Cities have had to consider several budget scenarios, each with different amounts of state aid and credit. This added complexity consumes time, money, is an inefficient use of staff resources, and makes the city budgeting process more confusing for citizens.

Periodic uncertainty in some budget years may encourage careful identification of spending priorities and exploration of new ways of doing things. Significant, ongoing uncertainty about revenues as currently exists, however, hampers cities' ability to effectively provide services to citizens. In mid-2004, the governor acknowledged the challenges that uncertainty about aid payments presents to cities. Cities were unsure how much LGA to budget for because of a drafting error that would have significantly changed the aid distribution for some cities. After much debate, the governor directed the state to distribute the 2005 payments according to the intent of the law and not according to the erroneously written law.

### STATE-LOCAL FISCAL PARTNERSHIP: A LITTLE HISTORY

We believe that the state is failing to fulfill its long-established commitment to cities. The state-local partnership to finance the basic services on which Minnesotans depend was formalized in the Minnesota Miracle reforms of 1967 through 1971. These reforms established the state sales tax in order to provide property tax relief to taxpayers and to enable local governments to provide basic services despite differences in property tax base. This policy was reaffirmed with the creation of the Local Government Trust Fund in 1992, which increased the state sales tax and dedicated a portion of the sales tax

revenues to several local government aid programs. The Trust Fund was eliminated in 1996 and the sales tax revenues were redirected to the general fund.

Mid-year cuts in 2003 to LGA and the market value homestead credit (MVHC) reimbursement, revision of the LGA distribution formulae, and the ongoing pressures of state budget deficits have all recently served to dramatically reduce the certainty with which cities view their revenues from the state. The mid-year cuts to 2003 LGA and MVHC reimbursements left cities scrambling to make adjustments halfway through their budget year. Levy limits imposed on cities over 2,500 population meant these cities could not fully replace the cuts with property taxes. In efforts to cope with the 2003 cuts, cities postponed spending for capital improvements, drew down budget reserves, increased fees and charges, and made service reductions.

For some cities, the 2003 aid cuts were particularly challenging. In 2002, these cities saw LGA increases to balance the tax relief provided as part of the 2001 reforms. Along with these aid changes, however, strict levy limits were imposed. The levy limits forced these cities to lower their levies because of the LGA infusion and become more heavily dependent on LGA. When LGA was subsequently cut during the 2003 budget year, these cities were in an especially difficult position to balance their budgets.

The significant reform to the LGA distribution formulae passed by the 2003 Legislature will increase the uncertainty of future aid payment amounts. As a result of the new formulae, the volatility of the distribution has become a much more significant issue (see sidebar). Cities that receive LGA can expect the year-to-year change in aid to be substantially more than under the old LGA program. This volatility will make long-range budgeting more difficult and may create more confusion among citizens about how the program works.

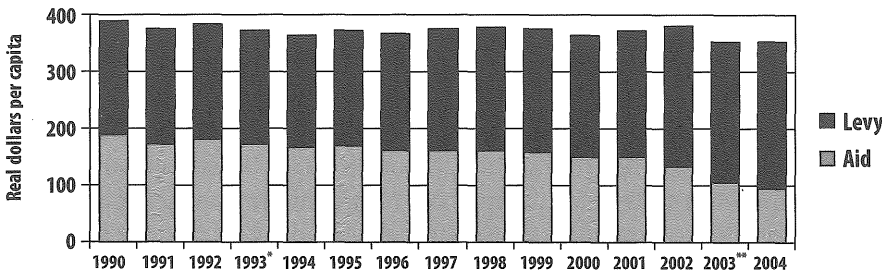
**SIDEBAR:**

Reasons for increased volatility of LGA include: elimination of the grandfathered aid base, a change in the factors used to calculate need for cities over 2,500 population, elimination of the automatic inflationary increase, and the elimination of the special caps on First Class cities. For a discussion of LGA volatility, see the in-depth policy analysis, "LGA Volatility: New system yields bigger year-to-year aid changes and less accurate aid estimates," by LMC Policy Research Manager Eric Willette, available in the Policy Research Division section of the LMC web site at: [www.lmnc.org](http://www.lmnc.org).

**STATE REVENUE INSTABILITY IMPACTS AIDS TO CITIES**

The certainty of state aids and credits is clearly related to the certainty of state revenues. Recessions in the early 1980s, early 1990s, and early 2000s all resulted in significant cuts to state aids. Chart 2A shows that over the last 15 years, cuts in aids and the effects of inflation and

**CHART 2A :**  
CITY PROPERTY TAXES AND STATE AIDS 1990-2004



\*In 1992, the Legislature imposed the sales tax on city purchases.  
\*\*In 2002, the Legislature eliminated the Tax Increment Financing (TIF) grant pool, a \$200 million loss over four years.

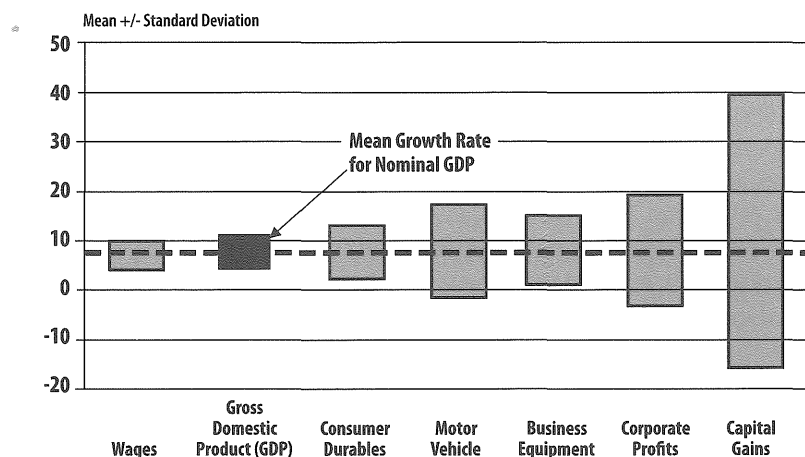
population growth have made cities much more reliant on property taxes. Other legislative changes that have impacted cities' budgets include the sales tax on city government purchases (1992) and the elimination of the tax increment financing (TIF) grant pool (2002).

With the state facing a projected 2005-06 deficit of \$1 billion, cities overall remain concerned about further budget upheaval from additional cuts to the LGA and MVHC programs. Over the last five years, the state's revenue picture has gone from one of surplus to one of repeated deficits. While the economy, international turmoil, and the Dot-Com burst in the stock market all contributed to the souring of Minnesota's revenue projections, there are also structural causes. The state's revenues are in part more volatile because of the increasing volatility in the income tax, a major source of revenue. Income has become more variable due to the growing use of commissions, bonuses, and other rewards for performance. During boom times, workers receive more of these rewards. When the economy sours, they receive less. Income is also made less stable due to the growth in investment income as a portion of total income. Investment income is closely tied to the business cycle. Capital gains are the most volatile source of income (see Chart 2B).

#### CHART 2B:

#### VOLATILITY IN STATE TAXES

#### Minnesota's tax base is more volatile than nominal GDP



Reprinted with permission by the Citizens League, "Let's Get Minnesota's Tax System off the Rollercoaster," by Tom Stinson and Jeremy Prahm, Minnesota Journal, August 2004.

## RECOMMENDATIONS

In order to increase the certainty of revenues on which the state and cities rely, we recommend the state:

**Reform state tax structure to increase stability of revenues.** The state should re-examine its revenue system and make policy changes to increase the year-to-year stability of revenues. A recent article by State Economist Tom Stinson and Jeremy Prahm included the following policy options to achieve this goal<sup>1</sup>:

- **Reduce reliance on the corporate income tax and increase the state property tax on commercial/industrial property.** This could be a revenue-neutral change, meaning that the general fund does not see an increase or decrease in revenues. It could, however, increase stability since corporate income is highly volatile.
- **Increase the tax rate for those earners in the top tax bracket, while simultaneously lowering the tax on capital gains.** Again, the change could be revenue neutral, but state revenues would be more stable with less reliance on capital gains revenue.
- **Apply the sales tax to more necessities in order to better align the sales tax with today's service-driven economy and lower the sales tax rate.** This would help to avoid declines in sales tax revenues during downturns when a greater share of consumer dollars is spent on these items. A new refundable credit program directed to low-income households could help keep the sales tax burden for those households relatively constant even with the changes.

Each of the policies outlined in Stinson and Prahm's article would increase the certainty of state revenues from year to year and, in turn, increase the certainty with which cities view their sources of revenue that come from the state. While stability is not the only important issue in regard to state revenues and aids to cities, it is a critical one. A blue-ribbon task force of state and local officials, business representatives, and experts in tax policy should be convened to examine the stability of the state's tax structure and to explore policy options such as those described above.

**Renew the state-local partnership.** We believe that the state should be a more reliable partner in providing public services and infrastructure to residents and businesses. The state should consistently and fully fund LGA. One possible way to do this is through a re-dedication of state sales tax revenues. The annual uncertainty surrounding aid payments from the state should be remedied to enable all cities to provide the critical services upon which citizens and businesses rely. The state should also authorize more revenue options for cities that are able to increase their financial independence (see Chapter 4: Flexibility). These policy options are discussed in more detail in other chapters of this report.

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#### Endnotes

<sup>1</sup> Stinson, Thomas, and Jeremy Prahm. "Let's Get Minnesota's Tax System Off the Rollercoaster," *Minnesota Journal*, August 2004.

## Chapter Three: Adequacy

**Adequacy**—The revenue sources available to cities and the state must raise adequate funds to meet city needs, to fund mandates, and to maintain Minnesota's long-term competitiveness.

To enable effective public services and our high quality of life, our state and local governments need adequate revenues. Governments must carefully prioritize spending and work to maximize the effectiveness with which they spend public dollars. In tough times, less critical services must be curtailed. But when a lack of revenue results in basic services being cut, when vital infrastructure improvements are delayed, and when our state's long-term competitiveness is compromised, we must consider a different path.

### CITIES ARE COPING WITH INADEQUATE REVENUES

Cuts to city aids and credit reimbursements were a disproportionate share of the state's most recent budget-balancing actions. The first round of cuts occurred in the middle of cities' 2003 budget year. While the combined reduction in aids and credits for 2003 and 2004 exceeded \$300 million, cities increased their property tax levies in 2004 by only \$90 million, scarcely more than a typical year's increase to cover inflation and growth (see also Chart 1A, page 5). While levy limits were a factor in keeping down property tax increases, many mayors and city councils determined that they simply could not increase the property tax burden in an amount necessary to cover the full impact of aid cuts.

It would be easy to say, as some pundits do, that cities should adjust to the state aid and credit reductions by cutting discretionary services and finding new efficiencies rather than increasing revenues. In reality, cities have done these things and much more. October 2004 employment estimates from the Minnesota Department of Employment and Economic Development show that non-school local governments, including cities, reduced their workforce by 4.6 percent, or about 7,000 workers, between September 2002 and September 2004. An LMC survey of city officials conducted in the fall of 2003 found that cities have adjusted their budgets with a multi-pronged approach that includes service cuts, workforce reductions, new efficiencies and drawing down reserves, as well as revenue increases (see Table 3A). The survey also indicated that more cuts were in the

TABLE 3A:

#### STRATEGIES IMPLEMENTED AND CONSIDERED BY CITIES IN DEALING WITH REVENUE SHORTFALLS

	Implemented in 2003	Considering for 2004
Revenue increases	312 cities	327 cities
Spending decreases	201 cities	180 cities
Efficiency measures	120 cities	129 cities
Workforce reductions	95 cities	73 cities
Service cuts	72 cities	63 cities
Drawing down reserves 2001-2003	213 cities	Not available

*The survey did not ask city officials to indicate the relative dollar impact of each strategy employed*



works. (For a more complete discussion of the city fiscal conditions survey, see *State of the Cities Report 2004*, available in the Policy Research Division section of the LMC web site at: [www.lmnc.org](http://www.lmnc.org).)

These decisions are difficult and have consequences for citizens. In many cities, infrastructure maintenance is being delayed, which increases long-term costs. Library hours are being cut. In growing communities, existing service levels are stretched to cover additional development. In some communities, public safety expenditures have been reduced.

### STATE AND LOCAL GOVERNMENTS ARE STRAINED

Of course, cities are not alone in their ongoing budget struggles. Back in the heady days of billion-dollar budget surpluses, the state cut income taxes and license tab fees and took over responsibility for funding basic education costs. The Dot-Com bust and recent recession, however, yielded successive years of state budget deficits across the country. At the state and local levels, budgets have been cut and cut again. The state of Minnesota responded to its deficit by draining reserves, cutting spending, reducing support for local government services, using accounting shifts, and enacting modest fee and fine increases.

Dramatic cost increases in employee health care, state health care programs, and special education are squeezing out other budget priorities. As a result, critical needs are not being fully met: Our schools are cutting budgets every year; our transportation system is deteriorating as congestion grows; tuition is increasing by double digits; basic city services are being compromised.

The current state budget forecast is based on very optimistic assumptions about the growth of our economy. It also does not account for the impact of inflation on the cost of delivering services. Even if the forecast's rosy economic predictions are realized, the state may face another billion-dollar deficit in 2005. Given the previous several months of mixed economic news, the state will not likely "grow" its way out of a deficit situation.

With another budget deficit looming, how should we collectively respond? We believe that our citizens have been presented with a false choice—cut important services that are critical to our state's long-term success or make our state uncompetitive and our government unaffordable by increasing taxes. The reality is quite different, both on the revenue and expenditure sides. While Minnesota has state tax rates well above the national average, the total tax revenue that state and local governments generate from taxpayers has declined as a share of personal income from 18.3 percent in 1994 to 15.6 percent in 2004, according to the Minnesota Department of Finance Price of Government Report. Many other states raise more revenue through local government taxes and receive more federal aid. Further, according to the Minnesota Taxpayers Association, when you compare all state and local government expenditures as a percent of personal

income, Minnesota ranked 22<sup>nd</sup> in 2002—only about 6 percent above the national average<sup>1</sup>.

More importantly, we think that Minnesota's public investments have served the state well by supporting high-quality public services and bolstering a healthy economy. Minnesotans have experienced a significant increase in average per capita income, from about \$9,100 in 1959 to almost \$23,200 in 1999 (both in 1999 dollars)<sup>2</sup>. Over these 40 years, Minnesota climbed from 27<sup>th</sup> highest per capita income in the nation to 11<sup>th</sup> highest. According to the most recent Census Bureau population surveys, the median household income in Minnesota (\$54,931) is third highest in the country, almost 20 percent higher than the national median (\$43,052). Based on data from the Annie E. Casey Foundation's "Kids Count 2004 Databook," Minnesota ranked second lowest in percent of children living in poverty in 2001. In 2003, Minnesota was named the fifth-healthiest state based on several indicators, including access to health providers and general health of the population<sup>3</sup>.

No one relishes increasing taxes or other revenue sources. We believe, however, that our state's future prosperity depends upon strategically increasing our investment in public infrastructure to get us back on track to national prominence. The investments we've made together through government, in education, infrastructure, and other areas, are not the only reason for our success. But the critics who complain that our collective investments have been an impediment to that success are just plain wrong.

## RECOMMENDATIONS

We believe the state should adequately fund its commitments to the public services upon which Minnesotans depend and recommend that the state:

**Fully fund LGA.** We believe that we cannot have a strong state without strong cities. Communities throughout the state have unique needs and unequal ability to pay for basic services. Local government aid (LGA) is the critical program that ensures all Minnesota communities can provide the services and infrastructure necessary to achieve economic prosperity. The program's funding was disproportionately cut in 2003, leaving property-poor and high-need communities struggling to provide necessary services. Some cities can provide necessary services through existing local revenue sources, while others could best be assisted through diversifying the revenue sources available to cities (see Chapter 4, Flexibility). But for many others that have little property wealth or sales tax base, LGA funding is the most effective and fairest way to ensure revenue adequacy for necessary services.

**Implement a metro-area sales tax to fund transportation and transit.** We support a thorough exploration of all transportation-funding options, including a gas-tax increase. There is broad consensus among citizens, business leaders, and policy-makers that our transportation system has not kept pace with the demands created by our state's growth. There are critical

transportation needs throughout the state. Yet transportation-funding increases have stalled at the Capitol as a political logjam over deciding which needs should be met has persisted.

We believe an important first step is to address the many transportation and transit needs of the metropolitan area by enacting a regional sales tax dedicated to transportation and transit. This would provide a critical, reliable, additional revenue source that would be more like the national norm of paying for regional transit through a regional tax source. We are not making a recommendation as to whether general fund dollars currently directed to transit would continue or be redirected.

***Increase state revenues.*** We recommend the state increase general revenues, while being mindful of the impacts on our most vulnerable citizens, to preserve and enhance the services upon which our future depends. The state significantly cut taxes in the late 1990s and made an expensive new commitment to fund K-12 education in 2001. Opting to increase taxes and other revenues is not easy. But underfunding the education of our future workforce and the infrastructure upon which businesses and citizens depend has long-term costs as well. Further cuts in funding cities to fund education or meet other needs are unacceptable. Preserving our current quality of life requires additional state revenues.

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#### Endnotes

<sup>1</sup> "How Does Minnesota Compare?" Minnesota Taxpayers Association, October 2004.

<sup>2</sup> Per capita income figures from the U.S. Census Bureau. Inflation adjustments made by LMC, based on CPI figures from the U.S. Department of Labor, Bureau of Labor Statistics.

<sup>3</sup> Morgan Quitno Press, State and City Ranking Publications.

## Chapter Four: Flexibility

**Flexibility**—As cities have become increasingly diverse in their characteristics, a “one-size-fits-all” system that limits all cities to the property tax as the major, non-state aid revenue source is increasingly unworkable. Some cities have sufficient property tax base to sustain an adequate service level, but many do not. Cities should have greater access to other tax and revenue sources than currently permitted.

Flexibility in financing services is critical because cities face a wide range of unique circumstances involving their tax base, the mix of revenues on which they depend, where the users of their services come from, and the makeup of their population. Flexibility is also critical because cities vary in terms of which services they are responsible for financing and delivering.

We believe that a full toolkit of revenue options is important so cities can:

- Best link the users of a service with those who pay for it.
- Provide an adequate amount of basic services despite cities’ varying ability to pay.
- Work to ensure stability of city revenues during economic downturns by relying on several sources of funding.

The strength and composition of the city property tax base varies from community to community. Some cities are experiencing growth and, therefore, an expansion of the property tax base. Other cities are losing population and facing a shrinking tax base, or simply growing at a much slower pace than other cities. Since tax capacity is a function of market value—how a property is currently used (residential homestead, apartment, commercial/industrial, farm, etc.) and the corresponding classification rate—the strength of the local tax base is affected by the mix of all property uses and by what portion of total property is tax exempt.

The mix of general revenue sources differs among cities (see Chart 4A on page 18). Major areas of difference include reliance on state aids, reliance on charges for services, and the fiscal disparities program that only impacts property taxes in the metro area and on the Iron Range. The chart also shows the average city tax rates for 2002 for the four city groups; here, the effects of tax base disparities become apparent. The city group that raises the most dollars per capita through the local property tax (suburban metro) also has on average the lowest city tax rates. (See sidebar for city group details.)

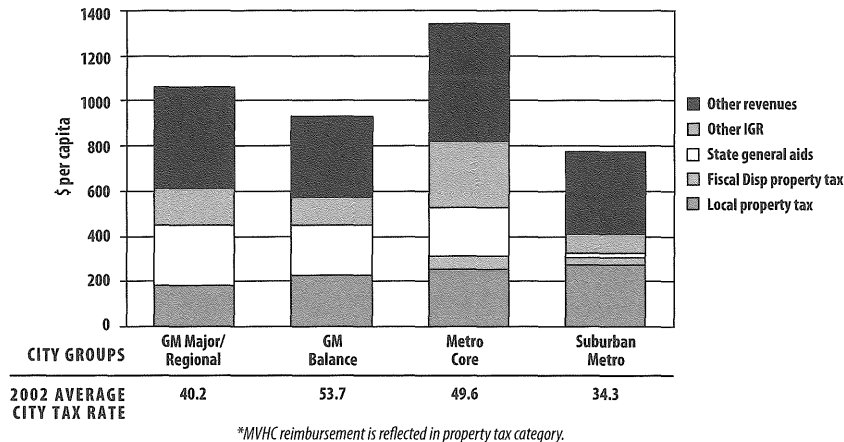
One of the biggest challenges in funding city services is that the costs of some services are paid by only some of those who benefit. This concept, sometimes called “overburden,” is most often identified with two distinct groups that do not fully pay for services from which they benefit: non-residents and tax-exempt property. The “revenue need” measures of the current and previous local government aid (LGA) formulae attempt to measure the impact of overburden on

### SIDEBAR:

The members of the four city groups shown in Chart 4A are as follows: “greater Minnesota major/regional” = Duluth, Rochester, St. Cloud, and the 22 cities in the regional center city cluster; “greater Minnesota balance” = the remaining 690 cities outside the metro area; “metro core” = Minneapolis, St. Paul, and the 13 cities in the old cities cluster; “suburban metro” = the remaining 123 cities in the seven-county metro area. These city clusters are the same as those used for the *State of the Cities Report 2003* analysis. For a description of the clustering methodology, see *State of the Cities Report 2003*, available in the Policy Research Division section of the LMC web site at: [www.lmnc.org](http://www.lmnc.org).

CHART 4A:

## MIX OF CITY REVENUES 2002\*



city services. The level of non-resident beneficiaries of services can be difficult to measure. Many users of parks, public safety services, streets, airports, and libraries are non-residents. Most of the one in five Minnesotans who live outside of incorporated cities use some city services.

Who the local taxpayers are can also be a factor in how cities decide to finance services. The state's population overall is aging, and many cities will likely see an increase in the portion of their population over age 65 over the next 20 to 30 years. It may become more difficult to increase property taxes as the number of taxpayers living on fixed incomes increases, leading cities to explore other financing options.

While the services that residents and businesses across the state receive are similar, the ways in which those services are financed varies widely. Metropolitan cities' contiguous borders and population density make regional collaboration an effective option for many services. For example:

- The responsibility for providing sewer service lies with cities in greater Minnesota and with the Metropolitan Council in most of the metro area.
- Many cities in greater Minnesota finance library services with general fund dollars, while in most of the metro area the responsibility falls to counties. For example, total per capita spending for library services in Mankato and Richfield is roughly the same (\$29.63 and \$32.07 respectively). But in Mankato, the spending is almost equally divided between city and county, while in Richfield, all of the spending is by the county.
- The Metropolitan Council provides most transit services in the metro area. In greater Minnesota, transit services are much more limited and are generally provided by the city or by multiple local governments.

## RECOMMENDATIONS

In order to enhance the flexibility of cities in funding services, we recommend the state do the following as it moves forward in its relationship with cities:

***Support revenue diversification.*** The state should recognize the diversity of circumstances facing cities by granting them the authority to use the following revenue sources, creating a wider variety of tools from which cities can choose to finance city services and infrastructure:

- ***The state should expand authority for a local sales tax.*** The state should grant general authority to all cities to enact a local sales tax for capital projects of regional significance. Currently, only a few cities have been granted this authority. Expanded authority for the local sales tax should not adversely impact existing local sales taxes. Since many cities have little sales tax base, the authority to levy a sales tax would not diminish the importance of other revenues. This would increase revenues for capital projects, but should not reduce general operating revenue sources.
- ***The state should allow cities to implement a street utility.*** A street utility would help cities fund local street projects and maintenance.
- ***Cities should also be able to institute other utilities.*** These utilities would fund services where the benefit to and use by the public can be measured. A utility for mosquito spraying is one example.
- ***The state should give cities the authority to charge impact fees.*** These fees would help ensure that new development pays its fair share of the public costs of new or expanded infrastructure.
- ***Cities should have the authority to capture revenues from all users of city services.*** Cities need additional tools in order to link the users of city services with those who pay for those services. For example, fees assessed to non-resident users of a city's ambulance service currently serve this purpose.

***Enhance local revenue and spending autonomy.*** The state should not impose artificial caps on cities' revenue. These are arbitrary and unnecessary restrictions on city revenues that do not account for the unique circumstances and needs facing cities across the state. Instead, the state should increase the autonomy given to city officials to make revenue-raising decisions. City officials are elected to determine the level of services to provide and how to finance them, whether it is through the general property tax, fees and user charges, bonding or some other mechanism. Cities should have the authority to make spending decisions that best meet the needs of their communities.

In addition, the state should not impose restrictions on local elected officials' ability to establish enterprise operations as part of creative problem-solving efforts. In many cases, enterprise operations provide innovative services not available in the private market. Cities also create enterprises as a way to better match the users of a service with those who pay for it.



## Chapter Five: Equity

**Equity**—All citizens should receive adequate levels of municipal services at relatively similar levels of taxation. This means that the state should provide financial assistance to cities that have high needs or low fiscal capacity.

Of the principles discussed in this report, equity may be the hardest to measure and the most subjective. What appears equitable to one person may seem patently unfair to another. Historically, some of the thorniest issues regarding our state-local finance system revolve around differing interpretations of equity.

The Minnesota Miracle reforms of the late 1960s and early 1970s addressed equity issues by creating a system of centralized revenue collection and decentralized service delivery. More public dollars were raised at the state level through revenue sources that took into account individual taxpayers' ability to pay. The revenues were shared with local governments through intergovernmental transfers that took into account local governments' ability to raise revenues locally. At that time, the state initiated its first sales tax to fund a complex new system of intergovernmental aids, including local government aid (LGA).

The Department of Revenue's "Model Revenue System for Minnesota" identifies two useful ways to measure equity: the benefits principle and the ability-to-pay principle<sup>1</sup>. For goods and services where a direct link can be made between the individual user and the level of benefit they receive, government may want to charge the user for the cost of the service. For goods and services with a broad public benefit, a general tax may be a more appropriate revenue source. In either case, however, the fairness of the tax or fee depends upon the ability to pay of those charged.

Minnesota's state-local tax system is less regressive than that in most states, with tax burdens that are roughly the same share of personal income for taxpayers across different income levels<sup>2</sup>. The state relies less on non-tax revenues, such as fees (user charges) and fines (which tend to be regressive), than other states, which also helps the system be less regressive<sup>3</sup>. But Minnesota's tax system has become more regressive in the past five years, as the state has reduced its reliance on the progressive income tax and increased its reliance on fees and fines.

Local governments' main source of tax revenue is the property tax. Of the major general taxes, the property tax is the least popular and arguably has the most problematic equity issues. Property wealth is not always a good indicator of ability to pay, such as when a senior on a fixed income lives in a home that is rapidly appreciating in value.

The share of Minnesota local property taxes paid by residential homesteads increased from 39 percent in 1997 to 51 percent in 2004. Most of this change can be attributed to changes in state tax policy (see sidebar). This trend is likely to continue with the continuing phase in of policy changes enacted in 2001. The recent severe aid and credit

### SIDEBAR:

The Legislature has made several changes to the property classification rates for homesteads and commercial/industrial property. These changes have resulted in homestead property growing significantly as a portion of total tax capacity, while commercial/industrial property has declined as a portion of total tax capacity. Most of the local property tax is levied on tax capacity.



cuts to cities and counties, and widespread school referendum levy requests, will continue to put pressure on property tax payers.

LGA is one of the most critical pieces in making our state-local fiscal system equitable. LGA enables low property-wealth and high-need cities to provide services at a reasonable tax rate. Over the years, state policy-makers have raised concerns about the equity of the LGA program. These concerns have been largely addressed by legislative action. In 1993, the formula was changed to sever the relationship between spending levels and LGA. The 2003 Legislature implemented a new distribution formula and eliminated most of the grandfathered aid base, distributing nearly all of the appropriation through the formula. Some modifications may still improve the equity of the program, such as eliminating taconite aid from the measure of ability-to-pay. We believe that the major, outstanding issue with the program is that it is not fully funded and therefore cannot adequately address the inequities in property-wealth among cities (see Chapter 3, Adequacy).

## RECOMMENDATIONS

The Legislature must continually monitor the system for tax burden equity, considering both the principles of benefit and ability to pay. We recommend the state do the following in order to enhance the equity of our state-local finance system:

***Mitigate excessive property tax burdens.*** The state should fully fund the LGA program. Deep cuts in aids to local governments, growing school funding needs, and the phase out of the limited market value program are all increasing property tax burdens. The state should target more property tax relief to individuals through the circuit breaker and related programs when taxes increase rapidly or when burdens are excessive relative to income. In addition, the state should provide adequate tax relief to all types of property in low property-wealth and high-need communities.

***Connect the costs and benefits for services.*** In accordance with the benefits principle, the burden of service costs should be fairly compensated by all users through fees and taxes. The state should provide cities with tools to enable the costs of services to align with the service beneficiaries. For example, a local sales tax may be a useful tool for a regional center to capture the burdens placed on its infrastructure by commuters, tourists, and tax-exempt property. In situations where charging the users is not feasible or appropriate, the state should adequately compensate communities for the overburden through LGA or other mechanisms.

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### Endnotes

<sup>1</sup>"Model Revenue System for Minnesota," Minnesota Department of Revenue, July 1992.

<sup>2</sup>"Who Pays? A Distributional Analysis of the Tax Systems in all 50 States (2<sup>nd</sup> edition)," The Institute on Taxation and Economic Policy, January 2003. A related issue is federal deductibility, for which state and local taxes are eligible but fees and charges paid are not.

<sup>3</sup>"The Appropriate Role of User Charges in State and Local Finance," National Conference of State Legislatures, July 1999.

# Appendix A: Statement of Purpose

## PURPOSE

The League of Minnesota Cities Board of Directors created the Financing Local Government Task Force to examine how local government services are now delivered and financed, to identify weaknesses and inequities in the system, and to recommend changes to that system as seem warranted.

## BACKGROUND

Since the inception of the Minnesota Miracle in the early 1970s, the local government finance system has been based on the belief that, except for the property tax, cities should have limited taxing authority. In return, state-collected sales and income tax revenues have been distributed to cities generally based on need and their property tax capacity relative to other cities. The goal has been to ensure that residents receive adequate services without paying inordinately different taxes, regardless of where they are located.

Throughout the years, there have been concerns about the fairness of the major vehicle for redistributing state collected funds to cities—the local government aid (LGA) program. These concerns have generally fallen into two categories: perceptions that the distribution formula is unfair, (i.e., that certain cities receive too much or little compared to others); or, that the overall funding level is inadequate or too high.

The significant differences that exist between cities in how some services their residents receive are funded further compounds those concerns. Libraries and transit, for example, might be part of one city's budget and be provided by the county or special district in another, yet residents in both communities pay for these services. Likewise, economies of scale that might accrue because of geographic proximity are hard to value, but clearly exist. Labor costs—the major expenditure in municipal operating budgets—also vary considerably.

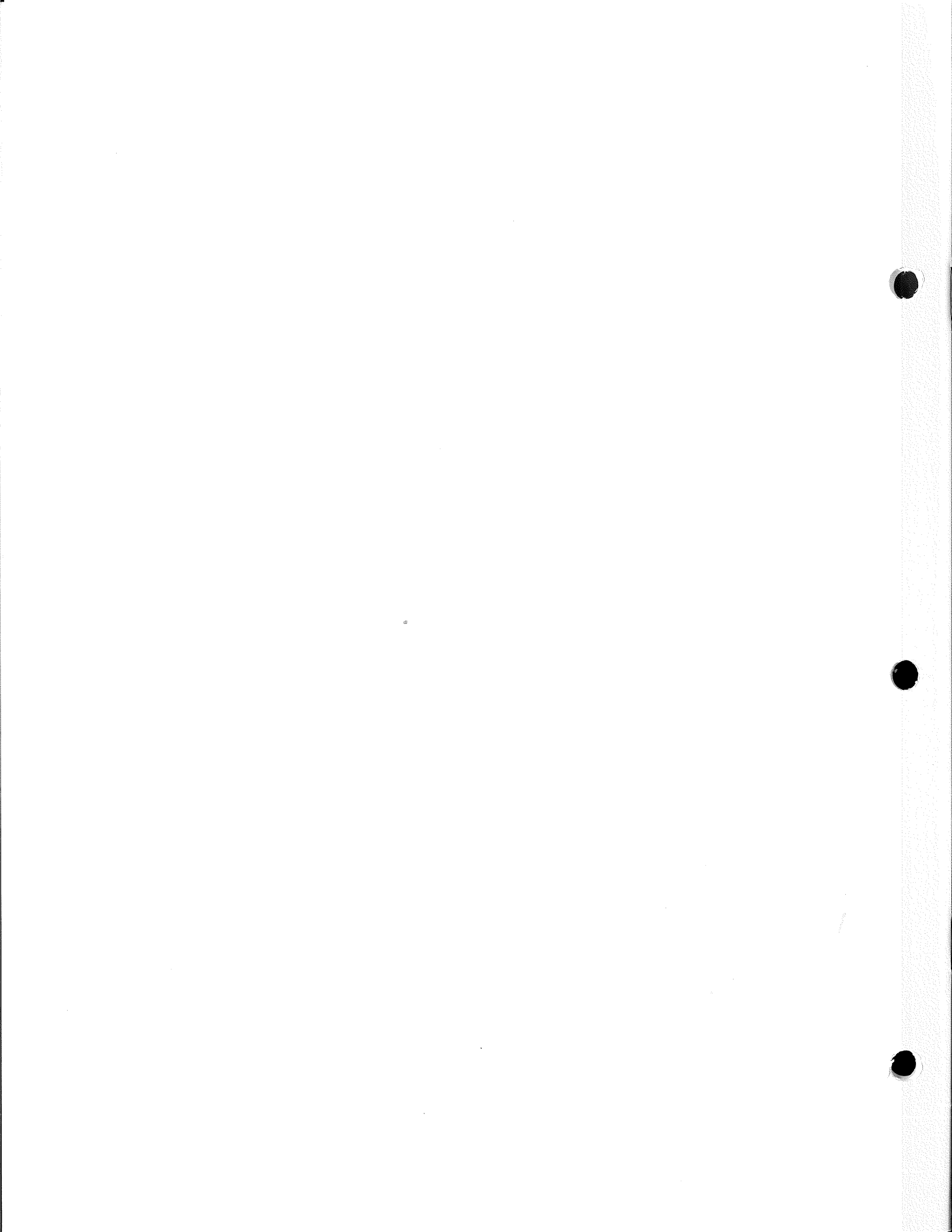
In the last five years alone, state aid to cities has fallen by more than 28 percent when measured on a per capita basis. This reduction appears to have been partly due to the state's budget deficit, but also to a changing philosophy among some influential state government leaders about the state's role in financing local government services. Moreover, changes to the system now occur with increasing frequency creating instability and unpredictability.

Cities throughout the state are becoming more reliant on their own residential property tax base to fund services. State aid cuts, for example, have increased cities' reliance on property taxes. Further, class rate compression and phasing out the limited market value program have shifted more of the property tax burden onto homestead property, which has resulted in reduction of services in some instances and increased the tax rate disparity among many cities. Left unaddressed, the underlying premise of the Minnesota Miracle—that all citizens should receive adequate levels of municipal services at relatively similar levels of taxation—will be unachievable.

## GUIDING PRINCIPLES

Cities need a viable financial partnership with the state. The League believes the following principles should guide how that partnership evolves:

- 1. Accountability**—Cities believe that a viable partnership with the state requires cities and the state to communicate effectively with each other and with the public about their roles and responsibilities. Cities and the state must also exercise sound financial stewardship, including maximizing efficiencies in service delivery and other means of cost containment whenever possible.
- 2. Certainty**—Cities need to have more certainty and predictability in all of their available revenue sources, including the property tax and the amount of funding they receive from LGA and similar programs. The current practice of almost annual adjustments to LGA and similar programs and the imposition of levy limits do not allow for prudent financial planning and decisions.
- 3. Adequacy**—The revenue sources available to cities and the state must raise adequate funds to meet city needs, to fund mandates, and to maintain Minnesota's long-term competitiveness.
- 4. Flexibility**—As cities have become increasingly diverse in their characteristics, a "one-size-fits-all" system that limits all cities to the property tax as the major, non-state aid revenue source is increasingly unworkable. Some cities have sufficient property tax base to sustain an adequate service level, but many do not. Cities should have greater access to other tax and revenue sources than currently permitted.
- 5. Equity**—All citizens should receive adequate levels of municipal services at relatively similar levels of taxation. This means the state should provide financial assistance to cities that have high needs or low fiscal capacity.



## Agenda #3

1 A bill for an act

2 relating to financing and operation of state and local  
3 government; making policy, technical, administrative,  
4 enforcement, collection, refund, and other changes to  
5 income, franchise, property, sales and use, estate,  
6 health care provider, cigarette and tobacco products,  
7 insurance premiums, aggregate removal, mortgage  
8 registry, occupation, net proceeds, and production  
9 taxes, and other taxes and tax-related provisions;  
10 establishing a regional investment credit;  
11 establishing a credit for carsharing; providing an  
12 income tax checkoff; providing a refund for transit  
13 passes; changing the rent credit calculation;  
14 authorizing sales tax exemptions; authorizing local  
15 government sales taxes; repealing the sunset of sales  
16 tax on alcoholic beverages and rental cars;  
17 authorizing distributions of tax proceeds; changing  
18 provisions relating to fiscal disparities, education  
19 financing, state debt collection procedures,  
20 sustainable forest incentives programs, business  
21 subsidy, and tax data provisions; conforming  
22 provisions to certain changes in federal law; changing  
23 powers and duties of certain local governments and  
24 authorities and state departments or agencies;  
25 providing for payments of certain aids and  
26 reimbursements to local units of government; providing  
27 for certain school levies; providing for issuance of  
28 obligations by local governments, and use of the  
29 proceeds of the debt; authorizing certain joint  
30 ventures to provide utility services; authorizing use  
31 of nonprofit organizations to manage certain  
32 enterprises; requiring transfer of a parking facility;  
33 changing tax increment financing provisions, and  
34 providing authorities to certain districts; changing  
35 provisions relating to certificates of title of motor  
36 vehicles and manufactured homes; requiring a state  
37 aviation plan; authorizing establishment of an  
38 International Economic Development Zone and providing  
39 for tax incentives; regulating tax preparers; imposing  
40 requirement on vendors that contract with the state to  
41 collect sales taxes; changing electronic filing  
42 provisions; prohibiting misrepresentation of  
43 employment; providing for filling of vacancies on the  
44 Tax Court; establishing biotechnology and health  
45 science industry grants; imposing requirements related  
46 to JOBZ; providing for studies and reports; providing

1 penalties; creating an education reserve account;  
2 providing for allocation and transfers of funds;  
3 appropriating money; amending Minnesota Statutes 2004,  
4 sections 15.06, subdivision 6; 16D.10; 116J.993,  
5 subdivision 3, by adding a subdivision; 116J.994,  
6 subdivisions 4, 5, 9, by adding a subdivision;  
7 123B.53, subdivision 4, by adding a subdivision;  
8 123B.55; 123B.71, subdivision 9; 126C.17, subdivisions  
9 6, 7, 9, by adding subdivisions; 161.1231, by adding a  
10 subdivision; 168A.02, subdivision 2; 168A.05,  
11 subdivisions 1a, 1b; 168A.11, subdivisions 1, 2, 4;  
12 174.03, by adding a subdivision; 270.02, subdivision  
13 3; 270.30, subdivision 8; 270.65; 270.69, subdivision  
14 4; 270B.01, subdivision 8; 270B.12, subdivision 13;  
15 272.01, subdivision 2; 272.02, subdivisions 1a, 7, 22,  
16 47, 56, by adding subdivisions; 272.029, subdivisions  
17 4, 6; 273.11, subdivision 1a, by adding subdivisions;  
18 273.112, subdivision 3; 273.124, subdivisions 1, 8;  
19 273.13, subdivisions 23, 25; 273.1384, subdivision 3;  
20 273.19, subdivision 1a; 274.014, subdivision 3;  
21 274.14; 275.025, subdivision 1; 275.065, subdivisions  
22 1a, 3; 275.07, subdivisions 1, 4; 276.04, subdivision  
23 2; 276.112; 278.03, subdivision 1; 279.01, subdivision  
24 1, by adding a subdivision; 282.016; 282.21; 282.224;  
25 282.301; 287.04; 289A.02, subdivision 7; 289A.08,  
26 subdivisions 1, 16; 289A.12, subdivision 3; 289A.19,  
27 subdivision 4; 289A.20, subdivisions 2, 4; 289A.31,  
28 subdivision 2; 289A.37, subdivision 5; 289A.38,  
29 subdivision 6; 289A.39, subdivision 1; 289A.40,  
30 subdivision 2; 289A.56, by adding a subdivision;  
31 289A.60, subdivision 6; 290.01, subdivisions 7, 19,  
32 19a, 19a, 19b, 19c, 19d, 31; 290.05, subdivisions 1,  
33 1; 290.06, subdivisions 2c, 22, 28, by adding  
34 subdivisions; 290.0674, subdivisions 1, 2; 290.091,  
35 subdivisions 2, 3; 290.10; 290.17, subdivision 4;  
36 290.191, subdivisions 1, 2, 3, 5, by adding a  
37 subdivision; 290.92, subdivisions 1, 4b; 290.9705,  
38 subdivision 1; 290A.03, subdivisions 11, 15, by adding  
39 a subdivision; 290A.19; 290C.05; 290C.10; 291.005,  
40 subdivision 1; 295.50, subdivision 4; 296A.22, by  
41 adding a subdivision; 297A.61, by adding a  
42 subdivision; 297A.668, subdivisions 1, 3, 5; 297A.669,  
43 subdivision 16; 297A.67, by adding subdivisions;  
44 297A.68, subdivisions 2, 4, 5, 5, 19, 39, by adding  
45 subdivisions; 297A.70, subdivision 8, by adding a  
46 subdivision; 297A.71, by adding subdivisions; 297A.75,  
47 subdivisions 1, 2; 297A.87, subdivisions 2, 3;  
48 297A.99, subdivisions 1, 2, 3, 5, 12; 297B.03;  
49 297F.01, by adding a subdivision; 297F.08, subdivision  
50 12; 297F.09, subdivisions 1, 2, by adding a  
51 subdivision; 297I.01, by adding subdivisions; 297I.05,  
52 subdivisions 4, 5, by adding a subdivision; 298.001,  
53 by adding subdivisions; 298.01, subdivisions 3, 3, 3a,  
54 4, 4; 298.015, subdivisions 1, 2; 298.016, subdivision  
55 4; 298.018; 298.223, subdivision 1; 298.24,  
56 subdivision 1; 298.27; 298.28, subdivisions 9a, 9b,  
57 10; 298.2961, by adding a subdivision; 298.75,  
58 subdivisions 1, 2; 325D.33, subdivision 6; 349.12,  
59 subdivision 25; 373.01, subdivision 3; 373.40,  
60 subdivision 1; 410.32; 412.301; 428A.101; 428A.21;  
61 452.25, subdivision 3; 462A.071, subdivision 6;  
62 469.034, subdivisions 2, 2; 469.1734, subdivision 6;  
63 469.174, subdivision 10, by adding a subdivision;  
64 469.175, subdivisions 1, 4, 6; 469.176, subdivision  
65 1c, by adding subdivisions; 469.1761, by adding a  
66 subdivision; 469.1792; 469.310, subdivisions 11, 11;  
67 469.330, subdivision 11; 469.335; 469.337; 471.342,  
68 subdivisions 3, 5, by adding a subdivision; 473.39, by  
69 adding a subdivision; 473.843, subdivisions 3, 5;  
70 473F.02, subdivision 7; 473F.08, by adding  
71 subdivisions; 474A.131, subdivision 1; 475.52,

1 subdivisions 1, 3, 4; 475.521, subdivision 4; 475.58,  
 2 subdivision 3b; 477A.011, subdivisions 3, 34, 36;  
 3 477A.013, subdivisions 8, 9; 477A.016; 477A.03,  
 4 subdivisions 2a, 2b; 477A.11, subdivision 4, by adding  
 5 a subdivision; 477A.12, subdivisions 1, 2; 477A.14,  
 6 subdivision 1; 480B.01, subdivisions 1, 10; 504B.215,  
 7 by adding a subdivision; Laws 1986, chapter 379,  
 8 section 1; Laws 1986, chapter 379, section 2; Laws  
 9 1991, chapter 291, article 8, section 27; Laws 1991,  
 10 chapter 291, article 8, section 27; Laws 1996, chapter  
 11 71, article 2, section 29; Laws 1998, chapter 389,  
 12 article 3, section 41; Laws 1998, chapter 389, article  
 13 3, section 42; Laws 1998, chapter 389, article 8,  
 14 section 43; Laws 1998, chapter 389, article 8, section  
 15 43; Laws 1998, chapter 389, article 11, section 19;  
 16 Laws 1998, chapter 389, article 11, section 24; Laws  
 17 1998, chapter 389, article 11, section 24; Laws 1999,  
 18 chapter 243, article 4, section 18; Laws 1999, chapter  
 19 243, article 4, section 18; Laws 1999, chapter 243,  
 20 article 4, section 18; Laws 2001 First Special Session  
 21 chapter 5, article 12, section 67; Laws 2001 First  
 22 Special Session chapter 5, article 12, section 95;  
 23 Laws 2002, chapter 377, article 12, section 16; Laws  
 24 2003, chapter 127, article 12, section 38; Laws 2003  
 25 First Special Session chapter 21, article 4, section  
 26 12; Laws 2003 First Special Session chapter 21,  
 27 article 5, section 13; Laws 2003 First Special  
 28 Session, chapter 21, article 6, section 9; proposing  
 29 coding for new law in Minnesota Statutes, chapters  
 30 174; 270; 273; 278; 290; 290C; 297F; 298; 325D; 325F;  
 31 469; 473; repealing Minnesota Statutes 2004, sections  
 32 270.30, subdivision 1; 273.19, subdivision 5; 274.05;  
 33 275.15; 283.07; 289A.26, subdivision 2a; 289A.60,  
 34 subdivision 21; 290.191, subdivision 4; 295.55,  
 35 subdivision 4; 295.60, subdivision 4; 297A.99,  
 36 subdivision 13; 297E.12, subdivision 10; 297F.09,  
 37 subdivision 7; 297G.09, subdivision 6; 297I.35,  
 38 subdivision 2; 297I.85, subdivision 7; 298.01,  
 39 subdivisions 3c, 3d, 4d, 4e; 298.017; 298.227; Laws  
 40 1975, chapter 287, section 5; Laws 2003, chapter 127,  
 41 article 9, section 9.

42 ARTICLE 1

43 INCOME TAX

44 Section 1. Minnesota Statutes 2004, section 289A.02,  
 45 subdivision 7, is amended to read:

46 Subd. 7. [INTERNAL REVENUE CODE.] Unless specifically  
 47 defined otherwise, "Internal Revenue Code" means the Internal  
 48 Revenue Code of 1986, as amended through ~~June-15-2003~~ November  
 49 11, 2003.

50 [EFFECTIVE DATE.] This section is effective for actions  
 51 required on or after November 11, 2003.

52 Sec. 2. Minnesota Statutes 2004, section 289A.08,  
 53 subdivision 1, is amended to read:

54 Subdivision 1. [GENERALLY; INDIVIDUALS.] (a) A taxpayer  
 55 must file a return for each taxable year the taxpayer is  
 56 required to file a return under section 6012 of the Internal

1 Revenue Code, except that:

2 (1) an individual who is not a Minnesota resident for any  
3 part of the year is not required to file a Minnesota income tax  
4 return if the individual's gross income derived from Minnesota  
5 sources as determined under sections 290.081, paragraph (a), and  
6 290.17, is less than the filing requirements for a single  
7 individual who is a full year resident of Minnesota; and

8 (2) an individual who is a Minnesota resident is not  
9 required to file a Minnesota income tax return if the  
10 individual's gross income derived from Minnesota sources as  
11 determined under section 290.17, less the amount of the  
12 individual's gross income that consists of compensation paid to  
13 members of the armed forces of the United States or United  
14 Nations for active duty performed outside Minnesota, is less  
15 than the filing requirements for a single individual who is a  
16 full-year resident of Minnesota.

17 (b) The decedent's final income tax return, and other  
18 income tax returns for prior years where the decedent had gross  
19 income in excess of the minimum amount at which an individual is  
20 required to file and did not file, must be filed by the  
21 decedent's personal representative, if any. If there is no  
22 personal representative, the return or returns must be filed by  
23 the transferees, as defined in section 289A.38, subdivision 13,  
24 who receive property of the decedent.

25 (c) The term "gross income," as it is used in this section,  
26 has the same meaning given it in section 290.01, subdivision 20.

27 [EFFECTIVE DATE.] This section is effective for taxable  
28 years beginning after December 31, 2004.

29 Sec. 3. Minnesota Statutes 2004, section 289A.39,  
30 subdivision 1, is amended to read:

31 Subdivision 1. [EXTENSIONS FOR SERVICE MEMBERS.] (a) The  
32 limitations of time provided by this chapter, chapter 290  
33 relating to income taxes, chapter 271 relating to the Tax Court  
34 for filing returns, paying taxes, claiming refunds, commencing  
35 action thereon, appealing to the Tax Court from orders relating  
36 to income taxes, and the filing of petitions under chapter 278



1 that would otherwise be due ~~May 15, 1996~~ May 1, 2004, and  
2 appealing to the Supreme Court from decisions of the Tax Court  
3 relating to income taxes are extended, as provided in section  
4 7508 of the Internal Revenue Code.

5 (b) If a member of the National Guard or reserves is called  
6 to active duty in the armed forces, the limitations of time  
7 provided by this chapter and chapters 290 and 290A relating to  
8 income taxes and claims for property tax refunds are extended by  
9 the following period of time:

10 (1) in the case of an individual whose active service is in  
11 the United States, six months; or

12 (2) in the case of an individual whose active service  
13 includes service abroad, the period of initial service plus six  
14 months.

15 Nothing in this paragraph reduces the time within which an  
16 act is required or permitted under paragraph (a).

17 (c) If an individual entitled to the benefit of paragraph  
18 (a) files a return during the period disregarded under paragraph  
19 (a), interest must be paid on an overpayment or refundable  
20 credit from the due date of the return, notwithstanding section  
21 289A.56, subdivision 2.

22 (d) The provisions of this subdivision apply to the spouse  
23 of an individual entitled to the benefits of this subdivision  
24 with respect to a joint return filed by the spouses.

25 [EFFECTIVE DATE.] This section is effective for taxable  
26 years beginning after December 31, 2002, and for property taxes  
27 payable after 2003.

28 Sec. 4. Minnesota Statutes 2004, section 290.01,  
29 subdivision 7, is amended to read:

30 Subd. 7. [RESIDENT.] (a) The term "resident" means any  
31 individual domiciled in Minnesota, except that an individual is  
32 not a "resident" for the period of time that the individual is  
33 either:

34 ~~{1} on active duty stationed outside of Minnesota while in~~  
35 ~~the armed forces of the United States or the United Nations, or~~  
36 ~~{2} a "qualified individual" as defined in section~~

1 911(d)(1) of the Internal Revenue Code, if the qualified  
2 individual notifies the county within three months of moving out  
3 of the country that homestead status be revoked for the  
4 Minnesota residence of the qualified individual, and the  
5 property is not classified as a homestead while the individual  
6 remains a qualified individual.

7 (b) "Resident" also means any individual domiciled outside  
8 the state who maintains a place of abode in the state and spends  
9 in the aggregate more than one-half of the tax year in  
10 Minnesota, unless:

11 (1) the individual or the spouse of the individual is in  
12 the armed forces of the United States; or

13 (2) the individual is covered under the reciprocity  
14 provisions in section 290.081.

15 For purposes of this subdivision, presence within the state  
16 for any part of a calendar day constitutes a day spent in the  
17 state. Individuals shall keep adequate records to substantiate  
18 the days spent outside the state.

19 The term "abode" means a dwelling maintained by an  
20 individual, whether or not owned by the individual and whether  
21 or not occupied by the individual, and includes a dwelling place  
22 owned or leased by the individual's spouse.

23 (c) Neither the commissioner nor any court shall consider  
24 charitable contributions made by an individual within or without  
25 the state in determining if the individual is domiciled in  
26 Minnesota.

27 **[EFFECTIVE DATE.]** This section is effective for taxable  
28 years beginning after December 31, 2004.

29 Sec. 5. Minnesota Statutes 2004, section 290.01,  
30 subdivision 19, is amended to read:

31 Subd. 19. [NET INCOME.] The term "net income" means the  
32 federal taxable income, as defined in section 63 of the Internal  
33 Revenue Code of 1986, as amended through the date named in this  
34 subdivision, incorporating any elections made by the taxpayer in  
35 accordance with the Internal Revenue Code in determining federal  
36 taxable income for federal income tax purposes, and with the

1 modifications provided in subdivisions 19a to 19f.

2 In the case of a regulated investment company or a fund  
3 thereof, as defined in section 851(a) or 851(g) of the Internal  
4 Revenue Code, federal taxable income means investment company  
5 taxable income as defined in section 852(b)(2) of the Internal  
6 Revenue Code, except that:

7 (1) the exclusion of net capital gain provided in section  
8 852(b)(2)(A) of the Internal Revenue Code does not apply;

9 (2) the deduction for dividends paid under section  
10 852(b)(2)(D) of the Internal Revenue Code must be applied by  
11 allowing a deduction for capital gain dividends and  
12 exempt-interest dividends as defined in sections 852(b)(3)(C)  
13 and 852(b)(5) of the Internal Revenue Code; and

14 (3) the deduction for dividends paid must also be applied  
15 in the amount of any undistributed capital gains which the  
16 regulated investment company elects to have treated as provided  
17 in section 852(b)(3)(D) of the Internal Revenue Code.

18 The net income of a real estate investment trust as defined  
19 and limited by section 856(a), (b), and (c) of the Internal  
20 Revenue Code means the real estate investment trust taxable  
21 income as defined in section 857(b)(2) of the Internal Revenue  
22 Code.

23 The net income of a designated settlement fund as defined  
24 in section 468B(d) of the Internal Revenue Code means the gross  
25 income as defined in section 468B(b) of the Internal Revenue  
26 Code.

27 The provisions of sections 1113(a), 1117, 1206(a), 1313(a),  
28 1402(a), 1403(a), 1443, 1450, 1501(a), 1605, 1611(a), 1612,  
29 1616, 1617, 1704(l), and 1704(m) of the Small Business Job  
30 Protection Act, Public Law 104-188, the provisions of Public Law  
31 104-117, the provisions of sections 313(a) and (b)(1), 602(a),  
32 913(b), 941, 961, 971, 1001(a) and (b), 1002, 1003, 1012, 1013,  
33 1014, 1061, 1062, 1081, 1084(b), 1086, 1087, 1111(a), 1131(b)  
34 and (c), 1211(b), 1213, 1530(c)(2), 1601(f)(5) and (h), and  
35 1604(d)(1) of the Taxpayer Relief Act of 1997, Public Law  
36 105-34, the provisions of section 6010 of the Internal Revenue

1 Service Restructuring and Reform Act of 1998, Public Law  
2 105-206, the provisions of section 4003 of the Omnibus  
3 Consolidated and Emergency Supplemental Appropriations Act,  
4 1999, Public Law 105-277, and the provisions of section 318 of  
5 the Consolidated Appropriation Act of 2001, Public Law 106-554,  
6 shall become effective at the time they become effective for  
7 federal purposes.

8 The Internal Revenue Code of 1986, as amended through  
9 December 31, 1996, shall be in effect for taxable years  
10 beginning after December 31, 1996.

11 The provisions of sections 202(a) and (b), 221(a), 225,  
12 312, 313, 913(a), 934, 962, 1004, 1005, 1052, 1063, 1084(a) and  
13 (c), 1089, 1112, 1171, 1204, 1271(a) and (b), 1305(a), 1306,  
14 1307, 1308, 1309, 1501(b), 1502(b), 1504(a), 1505, 1527, 1528,  
15 1530, 1601(d), (e), (f), and (i) and 1602(a), (b), (c), and (e)  
16 of the Taxpayer Relief Act of 1997, Public Law 105-34, the  
17 provisions of sections 6004, 6005, 6012, 6013, 6015, 6016, 7002,  
18 and 7003 of the Internal Revenue Service Restructuring and  
19 Reform Act of 1998, Public Law 105-206, the provisions of  
20 section 3001 of the Omnibus Consolidated and Emergency  
21 Supplemental Appropriations Act, 1999, Public Law 105-277, the  
22 provisions of section 3001 of the Miscellaneous Trade and  
23 Technical Corrections Act of 1999, Public Law 106-36, and the  
24 provisions of section 316 of the Consolidated Appropriation Act  
25 of 2001, Public Law 106-554, and the provision of section 101 of  
26 the Military Family Tax Relief Act of 2003, Public Law 108-121,  
27 shall become effective at the time they become effective for  
28 federal purposes.

29 The Internal Revenue Code of 1986, as amended through  
30 December 31, 1997, shall be in effect for taxable years  
31 beginning after December 31, 1997.

32 The provisions of sections 5002, 6009, 6011, and 7001 of  
33 the Internal Revenue Service Restructuring and Reform Act of  
34 1998, Public Law 105-206, the provisions of section 9010 of the  
35 Transportation Equity Act for the 21st Century, Public Law  
36 105-178, the provisions of sections 1004, 4002, and 5301 of the

1 Omnibus Consolidation and Emergency Supplemental Appropriations  
2 Act, 1999, Public Law 105-277, the provision of section 303 of  
3 the Ricky Ray Hemophilia Relief Fund Act of 1998, Public Law  
4 105-369, the provisions of sections 532, 534, 536, 537, and 538  
5 of the Ticket to Work and Work Incentives Improvement Act of  
6 1999, Public Law 106-170, the provisions of the Installment Tax  
7 Correction Act of 2000, Public Law 106-573, and the provisions  
8 of section 309 of the Consolidated Appropriation Act of 2001,  
9 Public Law 106-554, shall become effective at the time they  
10 become effective for federal purposes.

11 The Internal Revenue Code of 1986, as amended through  
12 December 31, 1998, shall be in effect for taxable years  
13 beginning after December 31, 1998.

14 The provisions of the FSC Repeal and Extraterritorial  
15 Income Exclusion Act of 2000, Public Law 106-519, and the  
16 provision of section 412 of the Job Creation and Worker  
17 Assistance Act of 2002, Public Law 107-147, shall become  
18 effective at the time it became effective for federal purposes.

19 The Internal Revenue Code of 1986, as amended through  
20 December 31, 1999, shall be in effect for taxable years  
21 beginning after December 31, 1999. The provisions of sections  
22 306 and 401 of the Consolidated Appropriation Act of 2001,  
23 Public Law 106-554, and the provision of section 632(b)(2)(A) of  
24 the Economic Growth and Tax Relief Reconciliation Act of 2001,  
25 Public Law 107-16, and provisions of sections 101 and 402 of the  
26 Job Creation and Worker Assistance Act of 2002, Public Law  
27 107-147, shall become effective at the same time it became  
28 effective for federal purposes.

29 The Internal Revenue Code of 1986, as amended through  
30 December 31, 2000, shall be in effect for taxable years  
31 beginning after December 31, 2000. The provisions of sections  
32 659a and 671 of the Economic Growth and Tax Relief  
33 Reconciliation Act of 2001, Public Law 107-16, the provisions of  
34 sections 104, 105, and 111 of the Victims of Terrorism Tax  
35 Relief Act of 2001, Public Law 107-134, and the provisions of  
36 sections 201, 403, 413, and 606 of the Job Creation and Worker

1 Assistance Act of 2002, Public Law 107-147, and the provision of  
2 section 102 of the Military Family Tax Relief Act of 2003,  
3 Public Law 108-121, shall become effective at the same time it  
4 became effective for federal purposes.

5 The Internal Revenue Code of 1986, as amended through March  
6 15, 2002, shall be in effect for taxable years beginning after  
7 December 31, 2001.

8 The provisions of sections 101 and 102 of the Victims of  
9 Terrorism Tax Relief Act of 2001, Public Law 107-134, shall  
10 become effective at the same time it becomes effective for  
11 federal purposes.

12 The Internal Revenue Code of 1986, as amended through June  
13 15, 2003, shall be in effect for taxable years beginning after  
14 December 31, 2002. The provisions of section 201 of the Jobs  
15 and Growth Tax Relief and Reconciliation Act of 2003, ~~H.R.-27-if~~  
16 ~~it-is-enacted-into-law~~ Public Law 108-27, and the provisions of  
17 sections 103, 106, 108, 109, and 110 of the Military Family Tax  
18 Relief Act of 2003, Public Law 108-121, are effective at the  
19 same time it became effective for federal purposes.

20 The Internal Revenue Code of 1986, as amended through  
21 November 11, 2003, shall be in effect for taxable years  
22 beginning after December 31, 2003.

23 Except as otherwise provided, references to the Internal  
24 Revenue Code in subdivisions 19a to 19g mean the code in effect  
25 for purposes of determining net income for the applicable year.

26 **[EFFECTIVE DATE.]** This section is effective the day  
27 following final enactment.

28 Sec. 6. Minnesota Statutes 2004, section 290.01,  
29 subdivision 19a, is amended to read:

30 Subd. 19a. [ADDITIONS TO FEDERAL TAXABLE INCOME.] For  
31 individuals, estates, and trusts, there shall be added to  
32 federal taxable income:

33 (1)(i) interest income on obligations of any state other  
34 than Minnesota or a political or governmental subdivision,  
35 municipality, or governmental agency or instrumentality of any  
36 state other than Minnesota exempt from federal income taxes

1 under the Internal Revenue Code or any other federal statute;  
2 and

3 (ii) exempt-interest dividends as defined in section  
4 852(b)(5) of the Internal Revenue Code, except the portion of  
5 the exempt-interest dividends derived from interest income on  
6 obligations of the state of Minnesota or its political or  
7 governmental subdivisions, municipalities, governmental agencies  
8 or instrumentalities, but only if the portion of the  
9 exempt-interest dividends from such Minnesota sources paid to  
10 all shareholders represents 95 percent or more of the  
11 exempt-interest dividends that are paid by the regulated  
12 investment company as defined in section 851(a) of the Internal  
13 Revenue Code, or the fund of the regulated investment company as  
14 defined in section 851(g) of the Internal Revenue Code, making  
15 the payment; and

16 (iii) for the purposes of items (i) and (ii), interest on  
17 obligations of an Indian tribal government described in section  
18 7871(c) of the Internal Revenue Code shall be treated as  
19 interest income on obligations of the state in which the tribe  
20 is located;

21 (2) the amount of income taxes paid or accrued within the  
22 taxable year under this chapter and income taxes paid to any  
23 other state or to any province or territory of Canada, to the  
24 extent allowed as a deduction under section 63(d) of the  
25 Internal Revenue Code, but the addition may not be more than the  
26 amount by which the itemized deductions as allowed under section  
27 63(d) of the Internal Revenue Code exceeds the amount of the  
28 standard deduction as defined in section 63(c) of the Internal  
29 Revenue Code. For the purpose of this paragraph, the  
30 disallowance of itemized deductions under section 68 of the  
31 Internal Revenue Code of 1986, income tax is the last itemized  
32 deduction disallowed;

33 (3) the capital gain amount of a lump sum distribution to  
34 which the special tax under section 1122(h)(3)(B)(ii) of the Tax  
35 Reform Act of 1986, Public Law 99-514, applies;

36 (4) the amount of income taxes paid or accrued within the

1 taxable year under this chapter and income taxes paid to any  
2 other state or any province or territory of Canada, to the  
3 extent allowed as a deduction in determining federal adjusted  
4 gross income. For the purpose of this paragraph, income taxes  
5 do not include the taxes imposed by sections 290.0922,  
6 subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;  
7 (5) the amount of expense, interest, or taxes disallowed  
8 pursuant to section 290.10;

9 (6) the amount of a partner's pro rata share of net income  
10 which does not flow through to the partner because the  
11 partnership elected to pay the tax on the income under section  
12 6242(a)(2) of the Internal Revenue Code; and

13 (7) 80 percent of the depreciation deduction allowed under  
14 section 168(k) of the Internal Revenue Code. For purposes of  
15 this clause, if the taxpayer has an activity that in the taxable  
16 year generates a deduction for depreciation under section 168(k)  
17 and the activity generates a loss for the taxable year that the  
18 taxpayer is not allowed to claim for the taxable year, "the  
19 depreciation allowed under section 168(k)." for the taxable year  
20 is limited to excess of the depreciation claimed by the activity  
21 under section 168(k) over the amount of the loss from the  
22 activity that is not allowed in the taxable year. In succeeding  
23 taxable years when the losses not allowed in the taxable year  
24 are allowed, the depreciation under section 168(k) is allowed;

25 (8) the amount of mortgage interest paid on a residential  
26 home with a market value greater than \$500,000 as determined  
27 under section 273.11, that exceeds \$25,000 to the extent  
28 deducted from federal taxable income; and

29 (9) the amount of expenses disallowed under section 290.10,  
30 subdivision 2.

31 [EFFECTIVE DATE.] This section is effective for taxable  
32 years beginning after December 31, 2004.

33 Sec. 7. Minnesota Statutes 2004, section 290.01,  
34 subdivision 19b, is amended to read:

35 Subd. 19b. [SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.] For  
36 individuals, estates, and trusts, there shall be subtracted from



1 federal taxable income:

2 (1) interest income on obligations of any authority,  
3 commission, or instrumentality of the United States to the  
4 extent includable in taxable income for federal income tax  
5 purposes but exempt from state income tax under the laws of the  
6 United States;

7 (2) if included in federal taxable income, the amount of  
8 any overpayment of income tax to Minnesota or to any other  
9 state, for any previous taxable year, whether the amount is  
10 received as a refund or as a credit to another taxable year's  
11 income tax liability;

12 (3) the amount paid to others, less the amount used to  
13 claim the credit allowed under section 290.0674, not to exceed  
14 \$1,625 for each qualifying child in grades kindergarten to 6 and  
15 \$2,500 for each qualifying child in grades 7 to 12, for tuition,  
16 textbooks, and transportation of each qualifying child in  
17 attending an elementary or secondary school situated in  
18 Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin,  
19 wherein a resident of this state may legally fulfill the state's  
20 compulsory attendance laws, which is not operated for profit,  
21 and which adheres to the provisions of the Civil Rights Act of  
22 1964 and chapter 363A. For the purposes of this clause,  
23 "tuition" includes fees or tuition as defined in section  
24 290.0674, subdivision 1, clause (1). As used in this clause,  
25 "textbooks" includes books and other instructional materials and  
26 equipment purchased or leased for use in elementary and  
27 secondary schools in teaching only those subjects legally and  
28 commonly taught in public elementary and secondary schools in  
29 this state. Equipment expenses qualifying for deduction  
30 includes expenses as defined and limited in section 290.0674,  
31 subdivision 1, clause (3). "Textbooks" does not include  
32 instructional books and materials used in the teaching of  
33 religious tenets, doctrines, or worship, the purpose of which is  
34 to instill such tenets, doctrines, or worship, nor does it  
35 include books or materials for, or transportation to,  
36 extracurricular activities including sporting events, musical or

1 dramatic events, speech activities, driver's education, or  
2 similar programs. For purposes of the subtraction provided by  
3 this clause, "qualifying child" has the meaning given in section  
4 32(c)(3) of the Internal Revenue Code;

5 (4) income as provided under section 290.0802;

6 (5) to the extent included in federal adjusted gross  
7 income, income realized on disposition of property exempt from  
8 tax under section 290.491;

9 (6) to the extent included in federal taxable income,  
10 postservice benefits for youth community service under section  
11 124D.42 for volunteer service under United States Code, title  
12 42, sections 12601 to 12604;

13 (7) to the extent not deducted in determining federal  
14 taxable income by an individual who does not itemize deductions  
15 for federal income tax purposes for the taxable year, an amount  
16 equal to 50 percent of the excess of charitable contributions  
17 allowable as a deduction for the taxable year under section  
18 170(a) of the Internal Revenue Code over \$500;

19 (8) for taxable years beginning before January 1, 2008, the  
20 amount of the federal small ethanol producer credit allowed  
21 under section 40(a)(3) of the Internal Revenue Code which is  
22 included in gross income under section 87 of the Internal  
23 Revenue Code;

24 (9) for individuals who are allowed a federal foreign tax  
25 credit for taxes that do not qualify for a credit under section  
26 290.06, subdivision 22, an amount equal to the carryover of  
27 subnational foreign taxes for the taxable year, but not to  
28 exceed the total subnational foreign taxes reported in claiming  
29 the foreign tax credit. For purposes of this clause, "federal  
30 foreign tax credit" means the credit allowed under section 27 of  
31 the Internal Revenue Code, and "carryover of subnational foreign  
32 taxes" equals the carryover allowed under section 904(c) of the  
33 Internal Revenue Code minus national level foreign taxes to the  
34 extent they exceed the federal foreign tax credit;

35 (10) in each of the five tax years immediately following  
36 the tax year in which an addition is required under subdivision

1 19a, clause (7), an amount equal to one-fifth of the delayed  
2 depreciation. For purposes of this clause, "delayed  
3 depreciation" means the amount of the addition made by the  
4 taxpayer under subdivision 19a, clause (7), minus the positive  
5 value of any net operating loss under section 172 of the  
6 Internal Revenue Code generated for the tax year of the  
7 addition. The resulting delayed depreciation cannot be less  
8 than zero; and

9 (11) job opportunity building zone income as provided under  
10 section 469.316;

11 (12) to the extent included in federal taxable income, an  
12 amount, not to exceed \$10,000, equal to an individual's  
13 unreimbursed expenses for travel, lodging, and lost wages net of  
14 sick pay related to the individual's donation of one or more of  
15 the individual's organs to another person for human organ  
16 transplantation. For purposes of determining the extent to  
17 which expenses are included in federal taxable income, expenses  
18 qualifying under this paragraph are the first expenses  
19 considered in determining the medical expense deduction allowed  
20 under section 213 of the Internal Revenue Code. For purposes of  
21 this clause, "organ" means all or part of an individual's liver,  
22 pancreas, kidney, intestine, lung, or bone marrow, and "human  
23 organ transplantation" means the medical procedure by which  
24 transfer of a human organ is made from the body of one person to  
25 the body of another person. An individual may claim the  
26 subtraction in this clause for each instance of organ donation  
27 for transplantation, during the taxable year in which the  
28 expenses or lost wages occur;

29 (13) the amount of compensation paid to members of the  
30 Minnesota National Guard or other reserve components of the  
31 United States military for active service performed in  
32 Minnesota, excluding compensation for services performed under  
33 the Active Guard Reserve (AGR) program. For purposes of this  
34 clause, "active service" means (i) state active service as  
35 defined in section 190.05, subdivision 5a, clause (1); (ii)  
36 federally funded state active service as defined in section

1 190.05, subdivision 5b; or (iii) federal active service as  
2 defined in section 190.05, subdivision 5c, but "active service"  
3 excludes services performed exclusively for purposes of basic  
4 combat training, advanced individual training, annual training,  
5 and periodic inactive duty training; special training  
6 periodically made available to reserve members; and service  
7 performed in accordance with section 190.08, subdivision 3; and  
8 (14) the amount of compensation paid to members of the  
9 armed forces of the United States or United Nations for active  
10 duty performed outside Minnesota.

11 [EFFECTIVE DATE.] This section is effective for taxable  
12 years beginning after December 31, 2004.

13 Sec. 8. Minnesota Statutes 2004, section 290.01,  
14 subdivision 19c, is amended to read:

15 Subd. 19c. [CORPORATIONS; ADDITIONS TO FEDERAL TAXABLE  
16 INCOME.] For corporations, there shall be added to federal  
17 taxable income:

18 (1) the amount of any deduction taken for federal income  
19 tax purposes for income, excise, or franchise taxes based on net  
20 income or related minimum taxes, including but not limited to  
21 the tax imposed under section 290.0922, paid by the corporation  
22 to Minnesota, another state, a political subdivision of another  
23 state, the District of Columbia, or any foreign country or  
24 possession of the United States;

25 (2) interest not subject to federal tax upon obligations  
26 of: the United States, its possessions, its agencies, or its  
27 instrumentalities; the state of Minnesota or any other state,  
28 any of its political or governmental subdivisions, any of its  
29 municipalities, or any of its governmental agencies or  
30 instrumentalities; the District of Columbia; or Indian tribal  
31 governments;

32 (3) exempt-interest dividends received as defined in  
33 section 852(b)(5) of the Internal Revenue Code;

34 (4) the amount of any net operating loss deduction taken  
35 for federal income tax purposes under section 172 or 832(c)(10)  
36 of the Internal Revenue Code or operations loss deduction under

1 section 810 of the Internal Revenue Code;

2 (5) the amount of any special deductions taken for federal  
3 income tax purposes under sections 241 to 247 of the Internal  
4 Revenue Code;

5 (6) losses from the business of mining, as defined in  
6 section 290.05, subdivision 1, clause (a), that are not subject  
7 to Minnesota income tax;

8 (7) the amount of any capital losses deducted for federal  
9 income tax purposes under sections 1211 and 1212 of the Internal  
10 Revenue Code;

11 (8) the exempt foreign trade income of a foreign sales  
12 corporation under sections 921(a) and 291 of the Internal  
13 Revenue Code;

14 (9) the amount of percentage depletion deducted under  
15 sections 611 through 614 and 291 of the Internal Revenue Code;

16 (10) for certified pollution control facilities placed in  
17 service in a taxable year beginning before December 31, 1986,  
18 and for which amortization deductions were elected under section  
19 169 of the Internal Revenue Code of 1954, as amended through  
20 December 31, 1985, the amount of the amortization deduction  
21 allowed in computing federal taxable income for those  
22 facilities;

23 (11) the amount of any deemed dividend from a foreign  
24 operating corporation determined pursuant to section 290.17,  
25 subdivision 4, paragraph (g);

26 (12) the amount of any environmental tax paid under section  
27 59(a) of the Internal Revenue Code;

28 (13) the amount of a partner's pro rata share of net income  
29 which does not flow through to the partner because the  
30 partnership elected to pay the tax on the income under section  
31 6242(a)(2) of the Internal Revenue Code;

32 (14) the amount of net income excluded under section 114 of  
33 the Internal Revenue Code;

34 (15) any increase in subpart F income, as defined in  
35 section 952(a) of the Internal Revenue Code, for the taxable  
36 year when subpart F income is calculated without regard to the

1 provisions of section 614 of Public Law 107-147; and

2 (16) 80 percent of the depreciation deduction allowed under  
3 section 168(k) of the Internal Revenue Code. For purposes of  
4 this clause, if the taxpayer has an activity that in the taxable  
5 year generates a deduction for depreciation under section 168(k)  
6 and the activity generates a loss for the taxable year that the  
7 taxpayer is not allowed to claim for the taxable year, "the  
8 depreciation allowed under section 168(k)" for the taxable year  
9 is limited to excess of the depreciation claimed by the activity  
10 under section 168(k) over the amount of the loss from the  
11 activity that is not allowed in the taxable year. In succeeding  
12 taxable years when the losses not allowed in the taxable year  
13 are allowed, the depreciation under section 168(k) is allowed;  
14 and

15 (17) the amount of expenses disallowed under section  
16 290.10, subdivision 2.

17 [EFFECTIVE DATE.] This section is effective for taxable  
18 years beginning after December 31, 2004.

19 Sec. 9. Minnesota Statutes 2004, section 290.01,  
20 subdivision 31, is amended to read:

21 Subd. 31. [INTERNAL REVENUE CODE.] Unless specifically  
22 defined otherwise, "Internal Revenue Code" means the Internal  
23 Revenue Code of 1986, as amended through ~~June-15, 2003~~ December  
24 31, 2003.

25 [EFFECTIVE DATE.] This section is effective the day  
26 following final enactment except the changes incorporated by  
27 federal changes are effective at the same times as the changes  
28 were effective for federal purposes.

29 Sec. 10. Minnesota Statutes 2004, section 290.05,  
30 subdivision 1, is amended to read:

31 Subdivision 1. [EXEMPT ENTITIES.] The following  
32 corporations, individuals, estates, trusts, and organizations  
33 shall be exempted from taxation under this chapter, provided  
34 that every such person or corporation claiming exemption under  
35 this chapter, in whole or in part, must establish to the  
36 satisfaction of the commissioner the taxable status of any

1 income or activity:

2 (a) corporations, individuals, estates, and trusts engaged  
3 in the business of mining or producing iron ore and other ores  
4 the mining or production of which is subject to the occupation  
5 tax imposed by section 298.01; but if any such corporation,  
6 individual, estate, or trust engages in any other business or  
7 activity or has income from any property not used in such  
8 business it shall be subject to this tax computed on the net  
9 income from such property or such other business or activity.  
10 Royalty shall not be considered as income from the business of  
11 mining or producing iron ore within the meaning of this section;  
12 (b) the United States of America, the state of Minnesota or  
13 any political subdivision of either agencies or  
14 instrumentalities, whether engaged in the discharge of  
15 governmental or proprietary functions; and  
16 (c) any insurance company; and  
17 (d) a corporation engaged in the business of operating a  
18 personal rapid transit system, as defined in section 297A.61,  
19 subdivision 37, in this state, independent of any government  
20 subsidiaries, but if the corporation engages in any other business  
21 or activity or has income from any property not used in the  
22 business of operating a personal rapid transit system, it is  
23 subject to this tax computed on the net income from the property  
24 or business or activity.

25 [EFFECTIVE DATE.] This section is effective for taxable  
26 years beginning after December 31, 2008.

27 Sec. 11. Minnesota Statutes 2004, section 290.06,  
28 subdivision 2c, is amended to read:

29 Subd. 2c. [SCHEDULES OF RATES FOR INDIVIDUALS, ESTATES,  
30 AND TRUSTS.] (a) The income taxes imposed by this chapter upon  
31 married individuals filing joint returns and surviving spouses  
32 as defined in section 2(a) of the Internal Revenue Code must be  
33 computed by applying to their taxable net income the following  
34 schedule of rates:

35 (1) On the first \$25,680, 5.35 percent;

36 (2) On all over \$25,680, but not over \$102,030, 7.05

1 percent;

2 (3) On all over \$102,030, ~~7-85~~ 8.0 percent.

3 Married individuals filing separate returns, estates, and  
4 trusts must compute their income tax by applying the above rates  
5 to their taxable income, except that the income brackets will be  
6 one-half of the above amounts.

7 (b) The income taxes imposed by this chapter upon unmarried  
8 individuals must be computed by applying to taxable net income  
9 the following schedule of rates:

10 (1) On the first \$17,570, 5.35 percent;

11 (2) On all over \$17,570, but not over \$57,710, 7.05  
12 percent;

13 (3) On all over \$57,710, ~~7-85~~ 8.0 percent.

14 (c) The income taxes imposed by this chapter upon unmarried  
15 individuals qualifying as a head of household as defined in  
16 section 2(b) of the Internal Revenue Code must be computed by  
17 applying to taxable net income the following schedule of rates:

18 (1) On the first \$21,630, 5.35 percent;

19 (2) On all over \$21,630, but not over \$86,910, 7.05  
20 percent;

21 (3) On all over \$86,910, ~~7-85~~ 8.0 percent.

22 (d) In lieu of a tax computed according to the rates set  
23 forth in this subdivision, the tax of any individual taxpayer  
24 whose taxable net income for the taxable year is less than an  
25 amount determined by the commissioner must be computed in  
26 accordance with tables prepared and issued by the commissioner  
27 of revenue based on income brackets of not more than \$100. The  
28 amount of tax for each bracket shall be computed at the rates  
29 set forth in this subdivision, provided that the commissioner  
30 may disregard a fractional part of a dollar unless it amounts to  
31 50 cents or more, in which case it may be increased to \$1.

32 (e) An individual who is not a Minnesota resident for the  
33 entire year must compute the individual's Minnesota income tax  
34 as provided in this subdivision. After the application of the  
35 nonrefundable credits provided in this chapter, the tax  
36 liability must then be multiplied by a fraction in which:



1 (1) the numerator is the individual's Minnesota source  
2 federal adjusted gross income as defined in section 62 of the  
3 Internal Revenue Code and increased by the additions required  
4 under section 290.01, subdivision 19a, clauses (1), (5), and  
5 (6), and reduced by the subtraction under section 290.01,  
6 subdivision 19b, clause (11), and the Minnesota assignable  
7 portion of the subtraction for United States government interest  
8 under section 290.01, subdivision 19b, clause (1), after  
9 applying the allocation and assignability provisions of section  
10 290.081, clause (a), or 290.17; and

11 (2) the denominator is the individual's federal adjusted  
12 gross income as defined in section 62 of the Internal Revenue  
13 Code of 1986, increased by the amounts specified in section  
14 290.01, subdivision 19a, clauses (1), (5), and (6), and reduced  
15 by the amounts specified in section 290.01, subdivision 19b,  
16 clauses (1) and (11).

17 [EFFECTIVE DATE.] This section is effective only if  
18 sections 16 and 17 of this article are enacted for taxable years  
19 beginning after December 31, 2005.

20 Sec. 12. Minnesota Statutes 2004, section 290.06,  
21 subdivision 28, is amended to read:

22 Subd. 28. [CREDIT REFUNDS FOR TRANSIT PASSES.] A-taxpayer  
23 (a) An employer may take-a-credit-against-the-tax-due-under-this  
24 chapter claim a refund equal to 30 percent of the expense  
25 incurred by the taxpayer employer to provide transit passes, for  
26 use in Minnesota, to employees of the taxpayer.

27 (b) As used in this subdivision, the following terms have  
28 the meanings given:

29 (1) "employer" means an individual or entity subject to tax  
30 under this chapter or an entity that is exempt from taxation  
31 under section 290.05, but excluding entities enumerated in  
32 section 290.05, subdivision 1, paragraph (b); and

33 (2) "transit pass" has the meaning given in section  
34 132(f)(5)(A) of the Internal Revenue Code.

35 (c) If the taxpayer employer purchases the transit passes  
36 from the transit system operator, and resells them to the

1 employees, the credit refund is based on the amount of the  
2 difference between the price paid for the passes by the employer  
3 and the amount charged to employees.

4 (d) The commissioner shall prescribe the forms for and the  
5 manner in which the refund may be claimed. The commissioner  
6 must provide for paying refunds at least quarterly. The  
7 commissioner may set a minimum amount of qualifying expenses  
8 that must be incurred before a refund may be claimed.

9 (e) An amount sufficient to pay the refunds required by  
10 this subdivision is appropriated to the commissioner of revenue.

11 [EFFECTIVE DATE.] This section is effective for transit  
12 passes purchased after December 31, 2005.

13 Sec. 13. Minnesota Statutes 2004, section 290.06, is  
14 amended by adding a subdivision to read:

15 Subd. 32. [REGIONAL INVESTMENT CREDIT.] (a) A credit is  
16 allowed against the tax imposed by this chapter for investment  
17 in a qualifying regional angel investment network fund. The  
18 credit equals 25 percent of the taxpayer's investment made in  
19 the fund for the taxable year, but not to exceed the lesser of:

20 (1) the liability for tax under this chapter; or  
21 (2) the amount of the certificate under paragraph (c)  
22 provided to the taxpayer by the fund.

23 (b) For purposes of this subdivision, a regional angel  
24 investment network fund means a pool investment fund that:

25 (1) is organized as a limited liability company and  
26 consists of members who are accredited investors within the  
27 meaning of Regulation D of the Securities and Exchange  
28 Commission, Code of Federal Regulations, title 17, section  
29 230.501(a); and

30 (2) primarily makes equity investments in emerging and  
31 expanding small businesses as defined by the Small Business  
32 Administration, or cooperative associations as defined in  
33 chapter 308B, that are located in local communities in Minnesota  
34 outside of the metropolitan area as defined in section 473.121,  
35 subdivision 2, and does not make investments in residential real  
36 estate.

1       (c) Regional angel investment network funds may apply to  
2 the commissioner of employment and economic development for  
3 certification as a qualifying regional angel investment network  
4 fund. The application must be in the form and made under  
5 procedures specified by the commissioner of employment and  
6 economic development. The commissioner of employment and  
7 economic development may certify up to ten qualifying funds and  
8 provide certificates entitling investors in the funds to credits  
9 under this subdivision of up to \$250,000 for each fund. The  
10 commissioner of employment and economic development must not  
11 issue a total amount of certificates for all funds of more than  
12 \$2,500,000. In awarding certificates under this paragraph, the  
13 commissioner of employment and economic development shall  
14 generally award them to qualified applicants in the order in  
15 which the applications are received, but shall also seek to  
16 certify funds that are broadly dispersed across the entire state  
17 outside of the metropolitan area, as defined in section 473.121,  
18 subdivision 2.

19       (d) The commissioner of revenue may require a taxpayer to  
20 provide a copy of the credit certificate under paragraph (c) to  
21 verify the taxpayer's entitlement to a credit under this  
22 subdivision.

23       (e) If the amount of the credit under this subdivision for  
24 any taxable year exceeds the limitation under paragraph (a),  
25 clause (1), the excess is a credit carryover to each of the 15  
26 succeeding taxable years. The entire amount of the excess  
27 unused credit for the taxable year must be carried first to the  
28 earliest of the taxable years to which the credit may be carried  
29 and then to each successive year to which the credit may be  
30 carried. The amount of the unused credit which may be added  
31 under this paragraph may not exceed the taxpayer's liability for  
32 tax for the taxable year.

33       [EFFECTIVE DATE.] This section is effective the day  
34 following final enactment, for taxable years beginning after  
35 December 31, 2005. It applies to investments made after the  
36 fund has been certified by the commissioner of employment and

1 economic development.

2 Sec. 14. Minnesota Statutes 2004, section 290.06, is  
3 amended by adding a subdivision to read:

4 Subd. 33. [CARSHARING CREDIT.] (a) For purposes of this  
5 subdivision, a "carsharing organization" means an organization  
6 that:

7 (1) is described in section 501(c) of the Internal Revenue  
8 Code;

9 (2) is comprised of members who purchase the use of a motor  
10 vehicle from the organization;

11 (3) owns or leases a fleet of motor vehicles that are  
12 available to members of the organization to pay for the use of a  
13 vehicle on an hourly or per trip basis; and

14 (4) does not assign exclusive rights of use of specific  
15 vehicles to individual members or allow individual members to  
16 keep a vehicle in the member's sole possession.

17 (b) A taxpayer may take a credit against the tax due under  
18 this chapter for the expenses incurred by the taxpayer to  
19 purchase a membership and pay monthly dues to a carsharing  
20 organization or to provide memberships and pay monthly dues to a  
21 carsharing organization for employees of the taxpayer. The  
22 amount of the credit is equal to the lesser of the actual cost  
23 of the membership fee and the monthly dues, or \$390. If an  
24 employer purchases the membership or pays the monthly dues to  
25 the nonprofit carsharing organization and resells the membership  
26 to its employees or charges the monthly dues to its employees,  
27 the credit allowed to the employer is the amount of the  
28 difference between the amount paid by the employer and the  
29 amount charged to the employee.

30 (c) A taxpayer who owns a parking facility that charges  
31 customers an amount to park vehicles at the facility and  
32 provides dedicated parking space at no charge to a nonprofit  
33 carsharing organization to park the motor vehicles that are used  
34 by the members of the organization on an hourly or per-trip  
35 basis, may take a credit against the tax due under this chapter  
36 for the value of the dedicated parking space provided to the

1 nonprofit carsharing organization. The value of the dedicated  
2 parking space is equal to the lowest amount charged to customers  
3 who pay to park at the facility calculated on an hourly, daily,  
4 or other long-term rate that results in the lowest total cost.

5 [EFFECTIVE DATE.] This section is effective for taxable  
6 years beginning after December 31, 2005.

7 Sec. 15. Minnesota Statutes 2004, section 290.0674,  
8 subdivision 2, is amended to read:

9 Subd. 2. [LIMITATIONS.] (a) For claimants with income not  
10 greater than \$33,500, the maximum credit allowed is \$1,000 per  
11 multiplied by the number of claimant's qualifying child-and  
12 \$2,000-per-family children in grades kindergarten through grade  
13 12. No credit is allowed for education-related expenses for  
14 claimants with income greater than \$37,500. The maximum credit  
15 per child claimant is reduced by \$1 for each \$4 of household  
16 income over \$33,500, ~~and-the-maximum-credit-per-family-is~~  
17 ~~reduced-by-\$2-for-each-\$4-of-household-income-over-\$33,500,~~ but  
18 in no case is the credit less than zero.

19 For purposes of this section "income" has the meaning given  
20 in section 290.067, subdivision 2a. In the case of a married  
21 claimant, a credit is not allowed unless a joint income tax  
22 return is filed.

23 (b) For a nonresident or part-year resident, the credit  
24 determined under subdivision 1 and the maximum credit amount in  
25 paragraph (a) must be allocated using the percentage calculated  
26 in section 290.06, subdivision 2c, paragraph (e).

27 [EFFECTIVE DATE.] This section is effective for tax years  
28 beginning after December 31, 2005.

29 Sec. 16. Minnesota Statutes 2004, section 290.091,  
30 subdivision 2, is amended to read:

31 Subd. 2. [DEFINITIONS.] For purposes of the tax imposed by  
32 this section, the following terms have the meanings given:

33 (a) "Alternative minimum taxable income" means the sum of  
34 the following for the taxable year:

35 (1) the taxpayer's federal alternative minimum taxable  
36 income as defined in section 55(b)(2) of the Internal Revenue

1 Code;

2 (2) the taxpayer's itemized deductions allowed in computing  
3 federal alternative minimum taxable income, but excluding:

4 (i) the charitable contribution deduction under section 170  
5 of the Internal Revenue Code ~~to the extent that the deduction~~  
6 ~~exceeds 1.0 percent of adjusted gross income, as defined in~~  
7 ~~section 62 of the Internal Revenue Code;~~

8 (ii) the medical expense deduction;

9 (iii) the casualty, theft, and disaster loss deduction; and

10 (iv) the impairment-related work expenses of a disabled  
11 person; and

12 (v) the amount of the exemption allowed the taxpayer under  
13 section 151(c) of the Internal Revenue Code;

14 (3) for depletion allowances computed under section 613A(c)  
15 of the Internal Revenue Code, with respect to each property (as  
16 defined in section 614 of the Internal Revenue Code), to the  
17 extent not included in federal alternative minimum taxable  
18 income, the excess of the deduction for depletion allowable  
19 under section 611 of the Internal Revenue Code for the taxable  
20 year over the adjusted basis of the property at the end of the  
21 taxable year (determined without regard to the depletion  
22 deduction for the taxable year);

23 (4) to the extent not included in federal alternative  
24 minimum taxable income, the amount of the tax preference for  
25 intangible drilling cost under section 57(a)(2) of the Internal  
26 Revenue Code determined without regard to subparagraph (E);

27 (5) to the extent not included in federal alternative  
28 minimum taxable income, the amount of interest income as  
29 provided by section 290.01, subdivision 19a, clause (1); and

30 (6) the amount of addition required by section 290.01,  
31 subdivision 19a, clause (7);

32 less the sum of the amounts determined under the following:

33 (1) interest income as defined in section 290.01,  
34 subdivision 19b, clause (1);

35 (2) an overpayment of state income tax as provided by  
36 section 290.01, subdivision 19b, clause (2), to the extent

1 included in federal alternative minimum taxable income;

2 (3) the amount of investment interest paid or accrued  
3 within the taxable year on indebtedness to the extent that the  
4 amount does not exceed net investment income, as defined in  
5 section 163(d)(4) of the Internal Revenue Code. Interest does  
6 not include amounts deducted in computing federal adjusted gross  
7 income; and

8 (4) amounts subtracted from federal taxable income as  
9 provided by section 290.01, subdivision 19b, clauses (10) and  
10 ~~(11)~~ to (12).

11 In the case of an estate or trust, alternative minimum  
12 taxable income must be computed as provided in section 59(c) of  
13 the Internal Revenue Code.

14 (b) "Investment interest" means investment interest as  
15 defined in section 163(d)(3) of the Internal Revenue Code.

16 (c) "Tentative minimum tax" equals 6.4 percent of  
17 alternative minimum taxable income after subtracting the  
18 exemption amount determined under subdivision 3.

19 (d) "Regular tax" means the tax that would be imposed under  
20 this chapter (without regard to this section and section  
21 290.032), reduced by the sum of the nonrefundable credits  
22 allowed under this chapter.

23 (e) "Net minimum tax" means the minimum tax imposed by this  
24 section.

25 [EFFECTIVE DATE.] This section is effective only if  
26 sections 11 and 17 of this article are enacted for taxable years  
27 beginning after December 31, 2005.

28 Sec. 17. Minnesota Statutes 2004, section 290.091,  
29 subdivision 3, is amended to read:

30 Subd. 3. [EXEMPTION AMOUNT.] (a) For purposes of computing  
31 the alternative minimum tax, the exemption amount is the  
32 ~~exemption-determined-under-section-55(d)-of-the-Internal-Revenue~~  
33 ~~Code,-as-amended-through-December-31,-1992,-except-that~~  
34 ~~alternative-minimum-taxable-income-as-determined-under-this~~  
35 ~~section-must-be-substituted-in-the-computation-of-the-phase-out~~  
36 ~~under-section-55(d)(3)~~ \$66,300 for married individuals filing

1 joint returns; and \$33,150 for married individuals filing  
2 separate returns, single individuals, and head of household  
3 filers.

4 (b) The exemption amount determined under this subdivision  
5 is reduced by an amount equal to 25 percent of the amount by  
6 which the alternative minimum income exceeds \$248,600 for  
7 married individuals filing joint returns; and \$124,300 for  
8 married individuals filing separate returns, single individuals,  
9 and head of household filers.

10 (c) For taxable years beginning after December 31, 2006,  
11 the exemption amounts under paragraph (a), and the income  
12 amounts in paragraph (b), must be adjusted for inflation. The  
13 commissioner shall make the inflation adjustments in accordance  
14 with section 1(f) of the Internal Revenue Code except that for  
15 the purposes of this subdivision the percentage increase must be  
16 determined from the year starting September 1, 2005, and ending  
17 August 31, 2006, as the base year for adjusting for inflation  
18 for the tax year beginning after December 31, 2006. The  
19 determination of the commissioner under this subdivision is not  
20 a rule under the Administrative Procedure Act.

21 [EFFECTIVE DATE.] This section is effective only if  
22 sections 11 and 16 of this article are enacted for taxable years  
23 beginning after December 31, 2005.

24 Sec. 18. Minnesota Statutes 2004, section 290.10, is  
25 amended to read:

26 290.10 [NONDEDUCTIBLE ITEMS.]

27 Subdivision 1. [EXPENSES, INTEREST, AND TAXES.] Except as  
28 provided in section 290.17, subdivision 4, paragraph (i), in  
29 computing the net income of a taxpayer no deduction shall in any  
30 case be allowed for expenses, interest and taxes connected with  
31 or allocable against the production or receipt of all income not  
32 included in the measure of the tax imposed by this chapter,  
33 except that for corporations engaged in the business of mining  
34 or producing iron ore, the mining of which is subject to the  
35 occupation tax imposed by section 298.01, subdivision 4, this  
36 shall not prevent the deduction of expenses and other items to



1 the extent that the expenses and other items are allowable under  
2 this chapter and are not deductible, capitalizable, retainable  
3 in basis, or taken into account by allowance or otherwise in  
4 computing the occupation tax and do not exceed the amounts taken  
5 for federal income tax purposes for that year. Occupation taxes  
6 imposed under chapter 298, royalty taxes imposed under chapter  
7 299, or depletion expenses may not be deducted under this clause.

8 Subd. 2. [FINES, PENALTIES, DAMAGES, AND EXPENSES.] (a) No  
9 deduction from taxable income for a trade or business expense  
10 under section 162(a) of the Internal Revenue Code shall be  
11 allowed for any fine, penalty, damages, or expenses paid to:

12 (1) the government of the United States, a state, a  
13 territory or possession of the United States, the District of  
14 Columbia, or the Commonwealth of Puerto Rico;

15 (2) the government of a foreign country; or

16 (3) a political subdivision of, or corporation or other  
17 entity serving as an agency or instrumentality of, any  
18 government described in clause (1) or (2).

19 (b) For purposes of this subdivision, "fine, penalty,  
20 damages, or expenses" include, but are not limited to, any  
21 amount:

22 (1) paid pursuant to a conviction or a plea of guilty or  
23 nolo contendere for any crime in a criminal proceeding;

24 (2) paid as a civil penalty imposed by federal, state, or  
25 local law, including tax penalties and interest;

26 (3) paid in settlement of the taxpayer's actual or  
27 potential liability for a civil or criminal fine or penalty;

28 (4) forfeited as collateral posted in connection with a  
29 proceeding that could result in imposition of a fine or penalty;  
30 or

31 (5) legal fees and related expenses paid or incurred in the  
32 prosecution or civil action arising from a violation of the law  
33 imposing the fine or civil penalty, court costs assessed against  
34 the taxpayer, or stenographic and printing charges, compensatory  
35 damages, punitive damages, or restitution.

36 [EFFECTIVE DATE.] This section is effective for taxable

1 years beginning after December 31, 2004.

2 Sec. 19. Minnesota Statutes 2004, section 290.191,  
3 subdivision 2, is amended to read:

4 Subd. 2. [APPORTIONMENT FORMULA OF GENERAL APPLICATION.]

5 Except for those trades or businesses required to use a  
6 different formula under subdivision 3 or section 290.36, and for  
7 those trades or businesses that receive permission to use some  
8 other method under section 290.20 ~~or under subdivision 4~~, a  
9 trade or business required to apportion its net income must  
10 apportion its income to this state on the basis of the  
11 ~~percentage obtained by taking the sum of:~~

12 ~~(1) 75 percent of the percentage which the sales made~~  
13 ~~within this state in connection with the trade or business~~  
14 ~~during the tax period are of the total sales wherever made in~~  
15 ~~connection with the trade or business during the tax period;~~

16 ~~(2) 12.5 percent of the percentage which the total tangible~~  
17 ~~property used by the taxpayer in this state in connection with~~  
18 ~~the trade or business during the tax period is of the total~~  
19 ~~tangible property, wherever located, used by the taxpayer in~~  
20 ~~connection with the trade or business during the tax period; and~~

21 ~~(3) 12.5 percent of the percentage which the taxpayer's~~  
22 ~~total payrolls paid or incurred in this state or paid in respect~~  
23 ~~to labor performed in this state in connection with the trade or~~  
24 ~~business during the tax period are of the taxpayer's total~~  
25 ~~payrolls paid or incurred in connection with the trade or~~  
26 ~~business during the tax period.~~

27 [EFFECTIVE DATE.] This section is effective for taxable  
28 years beginning after December 31, 2005, only if section 21 of  
29 this article is enacted.

30 Sec. 20. Minnesota Statutes 2004, section 290.191,  
31 subdivision 3, is amended to read:

32 Subd. 3. [APPORTIONMENT FORMULA FOR FINANCIAL  
33 INSTITUTIONS.] Except for an investment company required to  
34 apportion its income under section 290.36, a financial  
35 institution that is required to apportion its net income must  
36 apportion its net income to this state on the basis of the

1 ~~percentage obtained by taking the sum of:~~

2 ~~(1) 75 percent of the percentage~~ which the receipts from  
3 within this state in connection with the trade or business  
4 during the tax period are of the total receipts in connection  
5 with the trade or business during the tax period, from wherever  
6 derived;

7 ~~(2) 12.5 percent of the percentage which the sum of the~~  
8 ~~total tangible property used by the taxpayer in this state and~~  
9 ~~the intangible property owned by the taxpayer and attributed to~~  
10 ~~this state in connection with the trade or business during the~~  
11 ~~tax period is of the sum of the total tangible property,~~  
12 ~~wherever located, used by the taxpayer and the intangible~~  
13 ~~property owned by the taxpayer and attributed to all states in~~  
14 ~~connection with the trade or business during the tax period; and~~

15 ~~(3) 12.5 percent of the percentage which the taxpayer's~~  
16 ~~total payrolls paid or incurred in this state or paid in respect~~  
17 ~~to labor performed in this state in connection with the trade or~~  
18 ~~business during the tax period are of the taxpayer's total~~  
19 ~~payrolls paid or incurred in connection with the trade or~~  
20 ~~business during the tax period.~~

21 [EFFECTIVE DATE.] This section is effective for taxable  
22 years beginning after December 31, 2005, only if section 21 of  
23 this article is enacted.

24 Sec. 21. Minnesota Statutes 2004, section 290.191,  
25 subdivision 5, is amended to read:

26 Subd. 5. [DETERMINATION OF SALES FACTOR.] For purposes of  
27 this section, the following rules apply in determining the sales  
28 factor.

29 (a) The sales factor includes all sales, gross earnings, or  
30 receipts received in the ordinary course of the business, except  
31 that the following types of income are not included in the sales  
32 factor:

33 (1) interest;

34 (2) dividends;

35 (3) sales of capital assets as defined in section 1221 of  
36 the Internal Revenue Code;

1 (4) sales of property used in the trade or business, except  
2 sales of leased property of a type which is regularly sold as  
3 well as leased;

4 (5) sales of debt instruments as defined in section  
5 1275(a)(1) of the Internal Revenue Code or sales of stock; and

6 (6) royalties, fees, or other like income of a type which  
7 qualify for a subtraction from federal taxable income under  
8 section 290.01, subdivision 19d(10).

9 (b) Sales of tangible personal property are made within  
10 this state if the property is received by a purchaser at a point  
11 within this state, and the taxpayer is taxable in this state,  
12 regardless of the f.o.b. point, other conditions of the sale, or  
13 the ultimate destination of the property.

14 (c) Tangible personal property delivered to a common or  
15 contract carrier or foreign vessel for delivery to a purchaser  
16 in another state or nation is a sale in that state or nation,  
17 regardless of f.o.b. point or other conditions of the sale. If  
18 the taxpayer is not taxable in the state of the delivery and the  
19 property is shipped from an office, factory, warehouse, or other  
20 place of storage in this state, sales of tangible personal  
21 property outside this state are attributed to this state  
22 regardless of the terms of shipping, delivery, or other  
23 conditions of sale.

24 (d) Notwithstanding paragraphs (b) and (c), when  
25 intoxicating liquor, wine, fermented malt beverages, cigarettes,  
26 or tobacco products are sold to a purchaser who is licensed by a  
27 state or political subdivision to resell this property only  
28 within the state of ultimate destination, the sale is made in  
29 that state.

30 (e) Sales made by or through a corporation that is  
31 qualified as a domestic international sales corporation under  
32 section 992 of the Internal Revenue Code are not considered to  
33 have been made within this state.

34 (f) Sales, rents, royalties, and other income in connection  
35 with real property is attributed to the state in which the  
36 property is located.

1 (g) Receipts from the lease or rental of tangible personal  
2 property, including finance leases and true leases, must be  
3 attributed to this state if the property is located in this  
4 state and to other states if the property is not located in this  
5 state. Receipts from the lease or rental of moving property  
6 including, but not limited to, motor vehicles, rolling stock,  
7 aircraft, vessels, or mobile equipment are included in the  
8 numerator of the receipts factor to the extent that the property  
9 is used in this state. The extent of the use of moving property  
10 is determined as follows:

11 (1) A motor vehicle is used wholly in the state in which it  
12 is registered.

13 (2) The extent that rolling stock is used in this state is  
14 determined by multiplying the receipts from the lease or rental  
15 of the rolling stock by a fraction, the numerator of which is  
16 the miles traveled within this state by the leased or rented  
17 rolling stock and the denominator of which is the total miles  
18 traveled by the leased or rented rolling stock.

19 (3) The extent that an aircraft is used in this state is  
20 determined by multiplying the receipts from the lease or rental  
21 of the aircraft by a fraction, the numerator of which is the  
22 number of landings of the aircraft in this state and the  
23 denominator of which is the total number of landings of the  
24 aircraft.

25 (4) The extent that a vessel, mobile equipment, or other  
26 mobile property is used in the state is determined by  
27 multiplying the receipts from the lease or rental of the  
28 property by a fraction, the numerator of which is the number of  
29 days during the taxable year the property was in this state and  
30 the denominator of which is the total days in the taxable year.

31 (h) Royalties and other income not described in paragraph  
32 (a), clause (6), received for the use of or for the privilege of  
33 using intangible property, including patents, know-how,  
34 formulas, designs, processes, patterns, copyrights, trade names,  
35 service names, franchises, licenses, contracts, customer lists,  
36 or similar items, must be attributed to the state in which the

1 property is used by the purchaser. If the property is used in  
2 more than one state, the royalties or other income must be  
3 apportioned to this state pro rata according to the portion of  
4 use in this state. If the portion of use in this state cannot  
5 be determined, the royalties or other income must be excluded  
6 from both the numerator and the denominator. Intangible  
7 property is used in this state if the purchaser uses the  
8 intangible property or the rights therein in the regular course  
9 of its business operations in this state, regardless of the  
10 location of the purchaser's customers.

11 (i) Sales of intangible property are made within the state  
12 in which the property is used by the purchaser. If the property  
13 is used in more than one state, the sales must be apportioned to  
14 this state pro rata according to the portion of use in this  
15 state. If the portion of use in this state cannot be  
16 determined, the sale must be excluded from both the numerator  
17 and the denominator of the sales factor. Intangible property is  
18 used in this state if the purchaser used the intangible property  
19 in the regular course of its business operations in this state.

20 (j) Receipts from the performance of services must be  
21 attributed to the state where the services are received. For  
22 the purposes of this section, receipts from the performance of  
23 services provided to a corporation, partnership, or trust may  
24 only be attributed to a state where it has a fixed place of  
25 doing business. If the state where the services are received is  
26 not readily determinable or is a state where the corporation,  
27 partnership, or trust receiving the service does not have a  
28 fixed place of doing business, the services shall be deemed to  
29 be received at the location of the office of the customer from  
30 which the services were ordered in the regular course of the  
31 customer's trade or business. If the ordering office cannot be  
32 determined, the services shall be deemed to be received at the  
33 office of the customer to which the services are billed. If the  
34 taxpayer is not taxable in the state of the purchaser, the sale  
35 is attributed to this state if the greater proportion of the  
36 service is performed in this state.

1 [EFFECTIVE DATE.] This section is effective for taxable  
2 years beginning after December 31, 2004, only if sections 19 and  
3 20 of this article are enacted.

4 Sec. 22. [290.433] [GLOBAL WAR ON TERRORISM CHECKOFF.]

5 Every individual who files an income tax return or property  
6 tax refund claim, and every corporation that files an income tax  
7 return, may designate on their return that \$1 or more shall be  
8 added to the tax or deducted from the refund that would  
9 otherwise be payable by or to that individual or corporation and  
10 paid into an account to be established for the purpose of paying  
11 bonuses to residents of this state who are veterans of the  
12 global war on terrorism. The commissioner shall, on the income  
13 tax returns and the property tax refund claim form, notify  
14 filers of their right to designate that a portion of their tax  
15 or refund shall be paid into the account for veterans of the  
16 global war on terrorism. The amounts designated under this  
17 section shall be annually appropriated to the commissioner of  
18 the Department of Veterans Affairs to pay bonuses to veterans of  
19 the global war on terrorism as determined by law. All interest  
20 earned on money accrued shall be credited to the account by the  
21 commissioner of finance.

22 [EFFECTIVE DATE.] This section is effective for taxable  
23 years beginning after December 31, 2004, and for property tax  
24 refund claims for property taxes payable after December 31, 2004.

25 Sec. 23. Minnesota Statutes 2004, section 290.92,  
26 subdivision 4b, is amended to read:

27 Subd. 4b. [WITHHOLDING BY PARTNERSHIPS.] (a) A partnership  
28 shall deduct and withhold a tax as provided in paragraph (b) for  
29 nonresident individual partners based on their distributive  
30 shares of partnership income for a taxable year of the  
31 partnership.

32 (b) The amount of tax withheld is determined by multiplying  
33 the partner's distributive share allocable to Minnesota under  
34 section 290.17, paid or credited during the taxable year by the  
35 highest rate used to determine the income tax liability for an  
36 individual under section 290.06, subdivision 2c, except that the

1 amount of tax withheld may be determined by the commissioner if  
2 the partner submits a withholding exemption certificate under  
3 subdivision 5.

4 (c) The commissioner may reduce or abate the tax withheld  
5 under this subdivision if the partnership had reasonable cause  
6 to believe that no tax was due under this section.

7 (d) Notwithstanding paragraph (a), a partnership is not  
8 required to deduct and withhold tax for a nonresident partner if:

9 (1) the partner elects to have the tax due paid as part of  
10 the partnership's composite return under section 289A.08,  
11 subdivision 7;

12 (2) the partner has Minnesota assignable federal adjusted  
13 gross income from the partnership of less than \$1,000; or

14 (3) the partnership is liquidated or terminated, the income  
15 was generated by a transaction related to the termination or  
16 liquidation, and no cash or other property was distributed in  
17 the current or prior taxable year; or

18 (4) the distributive shares of partnership income are  
19 attributable to:

20 (i) income required to be recognized because of discharge  
21 of indebtedness;

22 (ii) income recognized because of a sale, exchange, or  
23 other disposition of real estate, depreciable property, or  
24 property described in section 179 of the Internal Revenue Code;  
25 or

26 (iii) income recognized on the sale, exchange, or other  
27 disposition of any property that has been the subject of a basis  
28 reduction pursuant to section 108, 734, 743, 754, or 1017 of the  
29 Internal Revenue Code

30 to the extent that the income does not include cash received or  
31 receivable or, if there is cash received or receivable, to the  
32 extent that the cash is required to be used to pay indebtedness  
33 by the partnership or a secured debt on partnership property; or

34 (5) the partnership is a publicly traded partnership, as  
35 defined in section 7704(b) of the Internal Revenue Code.

36 (e) For purposes of subdivision 6a, and sections 289A.09,



1 subdivision 2, 289A.20, subdivision 2, paragraph (c), 289A.50,  
2 289A.56, 289A.60, and 289A.63, a partnership is considered an  
3 employer.

4 (f) To the extent that income is exempt from withholding  
5 under paragraph (d), clause (4), the commissioner has a lien in  
6 an amount up to the amount that would be required to be withheld  
7 with respect to the income of the partner attributable to the  
8 partnership interest, but for the application of paragraph (d),  
9 clause (4). The lien arises under section 270.69 from the date  
10 of assessment of the tax against the partner, and attaches to  
11 that partner's share of the profits and any other money due or  
12 to become due to that partner in respect of the partnership.  
13 Notice of the lien may be sent by mail to the partnership,  
14 without the necessity for recording the lien. The notice has  
15 the force and effect of a levy under section 270.70, and is  
16 enforceable against the partnership in the manner provided by  
17 that section. Upon payment in full of the liability subsequent  
18 to the notice of lien, the partnership must be notified that the  
19 lien has been satisfied.

20 [EFFECTIVE DATE.] This section is effective for taxable  
21 years beginning after December 31, 2004.

22 Sec. 24. Minnesota Statutes 2004, section 290A.03,  
23 subdivision 11, is amended to read:

24 Subd. 11. [RENT CONSTITUTING PROPERTY TAXES.] "Rent  
25 constituting property taxes" means ~~19~~ 17 percent of the gross  
26 rent actually paid in cash, or its equivalent, or the portion of  
27 rent paid in lieu of property taxes, in any calendar year by a  
28 claimant for the right of occupancy of the claimant's Minnesota  
29 homestead in the calendar year, and which rent constitutes the  
30 basis, in the succeeding calendar year of a claim for relief  
31 under this chapter by the claimant.

32 If the amount of rent paid by the claimant for actual  
33 property taxes paid on the unit exceeds 17 percent of rent paid,  
34 the amount of rent constituting property taxes shall be  
35 determined by multiplying the gross rent paid by the claimant  
36 for the calendar year for the unit by a fraction, the numerator

1 of which is the net tax on the property where the unit is  
2 located and the denominator of which is the total scheduled  
3 rent. In no case may the rent constituting property taxes  
4 exceed 50 percent of the gross rent paid by the claimant during  
5 that calendar year.

6 [EFFECTIVE DATE.] This section is effective for property  
7 taxes payable in 2005 and thereafter, and for refund claims  
8 based on property taxes payable in 2005 and thereafter.

9 Sec. 25. Minnesota Statutes 2004, section 290A.03, is  
10 amended by adding a subdivision to read:

11 Subd. 11a. [TOTAL SCHEDULED RENT.] "Total scheduled rent"  
12 means the sum of the monthly rents assigned to the residential  
13 rental units in the property multiplied by 12. The assigned  
14 rents are the rents effective on April 15 for taxes payable in  
15 2005 and thereafter. In determining total scheduled rent, no  
16 deduction is allowed for vacant units, uncollected rent, or  
17 reduced cash rents in units occupied by employees or agents of  
18 the property owner.

19 [EFFECTIVE DATE.] This section is effective for rent paid  
20 on and after January 1, 2005.

21 Sec. 26. Minnesota Statutes 2004, section 290A.03,  
22 subdivision 15, is amended to read:

23 Subd. 15. [INTERNAL REVENUE CODE.] "Internal Revenue Code"  
24 means the Internal Revenue Code of 1986, as amended through June  
25 ~~15, 2003~~ November 11, 2003.

26 [EFFECTIVE DATE.] This section is effective the day  
27 following final enactment except the changes to household income  
28 generated by federal changes to federal adjusted gross income  
29 are effective at the same time federal changes are effective.

30 Sec. 27. Minnesota Statutes 2004, section 290A.19, is  
31 amended to read:

32 290A.19 [OWNER OR MANAGING AGENT TO FURNISH RENT  
33 CERTIFICATE.]

34 The owner or managing agent of any property for which rent  
35 is paid for occupancy as a homestead must furnish a certificate  
36 of rent paid to a person who is a renter on December 31, in the

1 form prescribed by the commissioner. The certificate of rent  
2 paid must show the calculation of rent constituting property  
3 taxes as provided in section 290A.03, subdivisions 11 and 11a.  
4 If the renter moves before December 31, the owner or managing  
5 agent may give the certificate to the renter at the time of  
6 moving, or mail the certificate to the forwarding address if an  
7 address has been provided by the renter. The certificate must  
8 be made available to the renter before February 1 of the year  
9 following the year in which the rent was paid. The owner or  
10 managing agent must retain a duplicate of each certificate or an  
11 equivalent record showing the same information for a period of  
12 three years. The duplicate or other record must be made  
13 available to the commissioner upon request. For the purposes of  
14 this section, "owner" includes a park owner as defined under  
15 section 327C.01, subdivision 6, and "property" includes a lot as  
16 defined under section 327C.01, subdivision 3.

17 **[EFFECTIVE DATE.]** This section is effective for  
18 certificates of rent paid furnished for rent paid on and after  
19 January 1, 2005.

20 Sec. 28. Minnesota Statutes 2004, section 291.005,  
21 subdivision 1, is amended to read:

22 Subdivision 1. Unless the context otherwise clearly  
23 requires, the following terms used in this chapter shall have  
24 the following meanings:

25 (1) "Federal gross estate" means the gross estate of a  
26 decedent as valued and otherwise determined for federal estate  
27 tax purposes by federal taxing authorities pursuant to the  
28 provisions of the Internal Revenue Code.

29 (2) "Minnesota gross estate" means the federal gross estate  
30 of a decedent after (a) excluding therefrom any property  
31 included therein which has its situs outside Minnesota, and (b)  
32 including therein any property omitted from the federal gross  
33 estate which is includable therein, has its situs in Minnesota,  
34 and was not disclosed to federal taxing authorities.

35 (3) "Personal representative" means the executor,  
36 administrator or other person appointed by the court to

1 administer and dispose of the property of the decedent. If  
2 there is no executor, administrator or other person appointed,  
3 qualified, and acting within this state, then any person in  
4 actual or constructive possession of any property having a situs  
5 in this state which is included in the federal gross estate of  
6 the decedent shall be deemed to be a personal representative to  
7 the extent of the property and the Minnesota estate tax due with  
8 respect to the property.

9 (4) "Resident decedent" means an individual whose domicile  
10 at the time of death was in Minnesota.

11 (5) "Nonresident decedent" means an individual whose  
12 domicile at the time of death was not in Minnesota.

13 (6) "Situs of property" means, with respect to real  
14 property, the state or country in which it is located; with  
15 respect to tangible personal property, the state or country in  
16 which it was normally kept or located at the time of the  
17 decedent's death; and with respect to intangible personal  
18 property, the state or country in which the decedent was  
19 domiciled at death.

20 (7) "Commissioner" means the commissioner of revenue or any  
21 person to whom the commissioner has delegated functions under  
22 this chapter.

23 (8) "Internal Revenue Code" means the United States  
24 Internal Revenue Code of 1986, as amended through ~~December 31,~~  
25 ~~2002~~ November 11, 2003.

26 [EFFECTIVE DATE.] This section is effective for estates of  
27 decedents dying after January 31, 2004.

28 Sec. 29. [DISTRIBUTION.]

29 For the fiscal year beginning July 1, 2006, the revenue  
30 collected under Minnesota Statutes, section 290.01, subdivision  
31 19a, clause (8), for taxable years beginning after December 31,  
32 2004, and before January 1, 2006, is appropriated to each of the  
33 listed agencies in the designated percentages and must be used  
34 only for the following programs: (a) Department of Human  
35 Services, (1) emergencies service programs under Laws 1997,  
36 chapter 162, article 3, five percent; (2) transitional housing

1 operations under Minnesota Statutes, section 119A.43, 25  
2 percent; (3) transitional housing operations targeted to  
3 unaccompanied youth under Minnesota Statutes, section 119A.43,  
4 five percent; (b) Minnesota Housing Finance Agency, (1)  
5 Minnesota housing trust fund, under Minnesota Statutes, section  
6 462A.201, 30 percent; (2) rental housing under Minnesota  
7 Statutes, section 462A.2097, ten percent; (3) family homeless  
8 prevention and assistance program, under Minnesota Statutes,  
9 section 462A.204, 25 percent.

10 Sec. 30. [STUDY; CORPORATE FRANCHISE TAX.]

11 The commissioners of the Departments of Finance and Revenue  
12 shall conduct a comprehensive study to identify the reasons for  
13 the decline in corporate tax receipts. The study shall include  
14 an analysis of the current and future effect of existing  
15 corporate tax provisions, both independently and interactively  
16 with other provisions; how tax provisions are changing business  
17 practices; and the impact of outsourcing or relocation of  
18 business operations and jobs. On or before February 1, 2006,  
19 the commissioners shall report to the chairpersons of the house  
20 and senate tax committees the results of the study and shall  
21 include recommendations for changes to the tax laws that would  
22 reduce tax incentives for businesses to outsource or relocate  
23 business operations or jobs.

24 Sec. 31. [REPEALER.]

25 Minnesota Statutes 2004, section 290.191, subdivision 4, is  
26 repealed.

27 [EFFECTIVE DATE.] This section is effective for taxable  
28 years beginning after December 31, 2004.

29 ARTICLE 2

30 SALES TAX

31 Section 1. Minnesota Statutes 2004, section 297A.61, is  
32 amended by adding a subdivision to read:

33 Subd. 37. [PERSONAL RAPID TRANSIT SYSTEM.] "Personal rapid  
34 transit system" means a transportation system of small,  
35 computer-controlled vehicles, transporting one to three  
36 passengers on elevated guideways in a transportation network

1 operating on demand and nonstop directly to any stations in the  
2 network. The system shall provide service on a regular and  
3 continuing basis and operate independent of any government  
4 subsidies.

5 [EFFECTIVE DATE.] This section is effective for sales and  
6 purchases made after June 30, 2008.

7 Sec. 2. Minnesota Statutes 2004, section 297A.67, is  
8 amended by adding a subdivision to read:

9 Subd. 32. [GEOTHERMAL EQUIPMENT.] The loop field  
10 collection system and the heat pump of a geothermal heating and  
11 cooling system is exempt.

12 [EFFECTIVE DATE.] This section is effective for sales and  
13 purchases occurring after June 30, 2005.

14 Sec. 3. Minnesota Statutes 2004, section 297A.67, is  
15 amended by adding a subdivision to read:

16 Subd. 33. [BIOMASS FUEL STOVES.] Stoves designed to burn  
17 fuel pellets made from biomass materials are exempt.

18 [EFFECTIVE DATE.] This section is effective for sales and  
19 purchases made after June 30, 2005.

20 Sec. 4. Minnesota Statutes 2004, section 297A.68,  
21 subdivision 5, is amended to read:

22 Subd. 5. [CAPITAL EQUIPMENT.] (a) Capital equipment is  
23 exempt. The tax must be imposed and collected as if the rate  
24 under section 297A.62, subdivision 1, applied, and then refunded  
25 in the manner provided in section 297A.75.

26 "Capital equipment" means machinery and equipment purchased  
27 or leased, and used in this state by the purchaser or lessee  
28 primarily for manufacturing, fabricating, mining, or refining  
29 tangible personal property to be sold ultimately at retail if  
30 the machinery and equipment are essential to the integrated  
31 production process of manufacturing, fabricating, mining, or  
32 refining. Capital equipment also includes machinery and  
33 equipment used to electronically transmit results retrieved by a  
34 customer of an on-line computerized data retrieval system.

35 (b) Capital equipment includes, but is not limited to:

36 (1) machinery and equipment used to operate, control, or

1 regulate the production equipment;

2 (2) machinery and equipment used for research and  
3 development, design, quality control, and testing activities;

4 (3) environmental control devices that are used to maintain  
5 conditions such as temperature, humidity, light, or air pressure  
6 when those conditions are essential to and are part of the  
7 production process;

8 (4) materials and supplies used to construct and install  
9 machinery or equipment;

10 (5) repair and replacement parts, including accessories,  
11 whether purchased as spare parts, repair parts, or as upgrades  
12 or modifications to machinery or equipment;

13 (6) materials used for foundations that support machinery  
14 or equipment;

15 (7) materials used to construct and install special purpose  
16 buildings used in the production process;

17 (8) ready-mixed concrete equipment in which the ready-mixed  
18 concrete is mixed as part of the delivery process regardless if  
19 mounted on a chassis and leases of ready-mixed concrete trucks;  
20 and

21 (9) machinery or equipment used for research, development,  
22 design, or production of computer software.

23 (c) Capital equipment does not include the following:

24 (1) motor vehicles taxed under chapter 297B;

25 (2) machinery or equipment used to receive or store raw  
26 materials;

27 (3) building materials, except for materials included in  
28 paragraph (b), clauses (6) and (7);

29 (4) machinery or equipment used for nonproduction purposes,  
30 including, but not limited to, the following: plant security,  
31 fire prevention, first aid, and hospital stations; support  
32 operations or administration; pollution control; and plant  
33 cleaning, disposal of scrap and waste, plant communications,  
34 space heating, cooling, lighting, or safety;

35 (5) farm machinery and aquaculture production equipment as  
36 defined by section 297A.61, subdivisions 12 and 13;

1 (6) machinery or equipment purchased and installed by a  
2 contractor as part of an improvement to real property; or

3 (7) any other item that is not essential to the integrated  
4 process of manufacturing, fabricating, mining, or refining.

5 (d) For purposes of this subdivision:

6 (1) "Equipment" means independent devices or tools separate  
7 from machinery but essential to an integrated production  
8 process, including computers and computer software, used in  
9 operating, controlling, or regulating machinery and equipment;  
10 and any subunit or assembly comprising a component of any  
11 machinery or accessory or attachment parts of machinery, such as  
12 tools, dies, jigs, patterns, and molds.

13 (2) "Fabricating" means to make, build, create, produce, or  
14 assemble components or property to work in a new or different  
15 manner.

16 (3) "Integrated production process" means a process or  
17 series of operations through which tangible personal property is  
18 manufactured, fabricated, mined, or refined. For purposes of  
19 this clause, (i) manufacturing begins with the removal of raw  
20 materials from inventory and ends when the last process prior to  
21 loading for shipment has been completed; (ii) fabricating begins  
22 with the removal from storage or inventory of the property to be  
23 assembled, processed, altered, or modified and ends with the  
24 creation or production of the new or changed product; (iii)  
25 mining begins with the removal of overburden from the site of  
26 the ores, minerals, stone, peat deposit, or surface materials  
27 and ends when the last process before stockpiling is completed;  
28 and (iv) refining begins with the removal from inventory or  
29 storage of a natural resource and ends with the conversion of  
30 the item to its completed form.

31 (4) "Machinery" means mechanical, electronic, or electrical  
32 devices, including computers and computer software, that are  
33 purchased or constructed to be used for the activities set forth  
34 in paragraph (a), beginning with the removal of raw materials  
35 from inventory through completion of the product, including  
36 packaging of the product.



1 (5) "Machinery and equipment used for pollution control"  
2 means machinery and equipment used solely to eliminate, prevent,  
3 or reduce pollution resulting from an activity described in  
4 paragraph (a).

5 (6) "Manufacturing" means an operation or series of  
6 operations where raw materials are changed in form, composition,  
7 or condition by machinery and equipment and which results in the  
8 production of a new article of tangible personal property. For  
9 purposes of this subdivision, "manufacturing" includes the  
10 generation of electricity or steam to be sold at retail.

11 (7) "Mining" means the extraction of minerals, ores, stone,  
12 or peat.

13 (8) "On-line data retrieval system" means a system whose  
14 cumulation of information is equally available and accessible to  
15 all its customers.

16 (9) "Primarily" means machinery and equipment used 50  
17 percent or more of the time in an activity described in  
18 paragraph (a).

19 (10) "Refining" means the process of converting a natural  
20 resource to an intermediate or finished product, including the  
21 treatment of water to be sold at retail.

22 (11) This subdivision does not apply to telecommunications  
23 equipment as provided in subdivision 35, and does not apply to  
24 wire, cable, fiber, poles, or conduit for telecommunications  
25 services.

26 [EFFECTIVE DATE.] This section is effective for purchases  
27 made after July 31, 2001.

28 Sec. 5. Minnesota Statutes 2004, section 297A.68,  
29 subdivision 19, is amended to read:

30 Subd. 19. [PETROLEUM PRODUCTS.] The following petroleum  
31 products are exempt:

32 (1) products upon which a tax has been imposed and paid  
33 under chapter 296A, and for which no refund has been or will be  
34 allowed because the buyer used the fuel for nonhighway use;

35 (2) products that are used in the improvement of  
36 agricultural land by constructing, maintaining, and repairing

1 drainage ditches, tile drainage systems, grass waterways, water  
2 impoundment, and other erosion control structures;

3 (3) products purchased by a transit system receiving  
4 financial assistance under section 174.24, 256B.0625,  
5 subdivision 17, or 473.384;

6 (4) products purchased by an ambulance service licensed  
7 under chapter 144E;

8 (5) products used in a passenger snowmobile, as defined in  
9 section 296A.01, subdivision 39, for off-highway business use as  
10 part of the operations of a resort as provided under section  
11 296A.16, subdivision 2, clause (2); ~~or~~

12 (6) products purchased by a state or a political  
13 subdivision of a state for use in motor vehicles exempt from  
14 registration under section 168.012, subdivision 1, paragraph  
15 (b); or

16 (7) products purchased for use as fuel for a commuter rail  
17 system operating under sections 174.80 to 174.90. The tax must  
18 be imposed and collected as if the rate under section 297A.62,  
19 subdivision 1, applied, and then refunded in the manner provided  
20 in section 297A.75.

21 **[EFFECTIVE DATE.]** This section is effective for purchases  
22 made after June 30, 2005.

23 Sec. 6. Minnesota Statutes 2004, section 297A.68, is  
24 amended by adding a subdivision to read:

25 Subd. 40. [MOVIES AND TELEVISION; INPUTS TO PRODUCTION.]  
26 The sale of tangible personal property primarily used or  
27 consumed directly in the preproduction, production, and  
28 postproduction of movies and television shows that are produced  
29 for domestic and international commercial distribution are  
30 exempt. "Preproduction" and "production" include all the  
31 activities related to the preparation of shooting and the  
32 shooting of movies and television shows, including film  
33 processing. Equipment rented for preproduction and production  
34 activities are exempt. "Postproduction" includes all activities  
35 related to editing and finishing of the movie or television  
36 show. This exemption does not apply to tangible personal

1 property or services used primarily in administration, general  
 2 management, or marketing. Machinery and equipment purchased for  
 3 use in producing movies and television shows, fuel, electricity,  
 4 gas, or steam used for space heating and lighting, food,  
 5 lodging, and any property or service for the personal use of any  
 6 individual are not exempt under this subdivision.

7 [EFFECTIVE DATE.] This section is effective for sales and  
 8 purchases made after June 30, 2005.

9 Sec. 7. Minnesota Statutes 2004, section 297A.68, is  
 10 amended by adding a subdivision to read:

11 Subd. 41. [PERSONAL RAPID TRANSIT SYSTEM.] (a) Machinery,  
 12 equipment, and supplies purchased or leased, and used by the  
 13 purchaser or lessee in this state directly in the provision of a  
 14 personal rapid transit system as defined in section 297A.61,  
 15 subdivision 37, are exempt. Machinery, equipment, and supplies  
 16 that qualify for this exemption include, but are not limited to,  
 17 the following:

18 (1) vehicles, guideways, and related parts used directly in  
 19 the transit system;

20 (2) computers and equipment used primarily for operating,  
 21 controlling, and regulating the system;

22 (3) machinery, equipment, furniture, and fixtures necessary  
 23 for the functioning of system stations;

24 (4) machinery, equipment, implements, tools, and supplies  
 25 used to maintain vehicles, guideways, and stations; and

26 (5) electricity and other fuels used in the provision of  
 27 the transit service, including heating, cooling, and lighting of  
 28 system stations.

29 (b) This exemption does not include machinery, equipment,  
 30 and supplies used for support and administration operations.

31 [EFFECTIVE DATE.] This section is effective for sales and  
 32 purchases made after June 30, 2008.

33 Sec. 8. Minnesota Statutes 2004, section 297A.70,  
 34 subdivision 8, is amended to read:

35 Subd. 8. [REGIONWIDE PUBLIC SAFETY RADIO COMMUNICATION  
 36 SYSTEM; PRODUCTS AND SERVICES.] Products and services including,

1 but not limited to, end user equipment used for construction,  
2 ownership, operation, maintenance, and enhancement of the  
3 ~~backbone-system-of-the~~ a regionwide or statewide public safety  
4 radio communication system established under sections 403.21 to  
5 403.34, are exempt. ~~For purposes of this subdivision, backbone~~  
6 ~~system is defined in section 403.21, subdivision 9.---This~~  
7 ~~subdivision is effective for purchases, sales, storage, use, or~~  
8 ~~consumption occurring before August 1, 2005, in the counties of~~  
9 ~~Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.~~  
10 [EFFECTIVE DATE.] This section is effective for sales and  
11 purchases made after June 30, 2005.

12 Sec. 9. Minnesota Statutes 2004, section 297A.70, is  
13 amended by adding a subdivision to read:

14 Subd. 17. [DONATED MEALS.] Meals that are normally sold at  
15 retail in the ordinary business activities of the taxpayer are  
16 exempt if the meals are donated to a nonprofit group as defined  
17 in subdivision 4 for fund-raising purposes.

18 [EFFECTIVE DATE.] This section is effective for donations  
19 made after June 30, 2005.

20 Sec. 10. Minnesota Statutes 2004, section 297A.71, is  
21 amended by adding a subdivision to read:

22 Subd. 33. [COMMUTER RAIL MATERIAL, SUPPLIES, AND  
23 EQUIPMENT.] Materials and supplies consumed in, and equipment  
24 incorporated in the construction, equipment, or improvement of a  
25 commuter rail transportation system operated under sections  
26 174.80 and 174.90 are exempt. This exemption includes railroad  
27 cars and engines and related equipment.

28 [EFFECTIVE DATE.] This section is effective for purchases  
29 made after June 30, 2005.

30 Sec. 11. Minnesota Statutes 2004, section 297A.71, is  
31 amended by adding a subdivision to read:

32 Subd. 34. [WASTE RECOVERY FACILITY.] Materials and  
33 supplies used or consumed in, and equipment incorporated into,  
34 the construction, improvement, or expansion of a waste-to-energy  
35 resource recovery facility are exempt if the facility uses  
36 biomass or mixed municipal solid waste as a primary fuel to

1 generate steam or electricity.

2 [EFFECTIVE DATE.] This section is effective for sales and  
3 purchases made after June 30, 2005.

4 Sec. 12. Minnesota Statutes 2004, section 297A.71, is  
5 amended by adding a subdivision to read:

6 Subd. 35. [PERSONAL RAPID TRANSIT SYSTEM.] Materials and  
7 supplies used or consumed in, and equipment incorporated into  
8 the construction, expansion, or improvement of a personal rapid  
9 transit system as defined in section 297A.61, subdivision 37,  
10 are exempt.

11 [EFFECTIVE DATE.] This section is effective for sales and  
12 purchases made after June 30, 2008.

13 Sec. 13. Minnesota Statutes 2004, section 297A.71, is  
14 amended by adding a subdivision to read:

15 Subd. 36. [ST. MARY'S DULUTH CLINIC HEALTH  
16 SYSTEM.] Materials and supplies used or consumed in and  
17 equipment incorporated into the construction of the hospital  
18 portion of the St. Mary's Duluth Clinic Health System are exempt.

19 [EFFECTIVE DATE.] This section is effective for purchases  
20 made on or after July 1, 2005, and on or before December 31,  
21 2007.

22 Sec. 14. Minnesota Statutes 2004, section 297A.75,  
23 subdivision 1, is amended to read:

24 Subdivision 1. [TAX COLLECTED.] The tax on the gross  
25 receipts from the sale of the following exempt items must be  
26 imposed and collected as if the sale were taxable and the rate  
27 under section 297A.62, subdivision 1, applied. The exempt items  
28 include:

29 (1) capital equipment exempt under section 297A.68,  
30 subdivision 5;

31 (2) building materials for an agricultural processing  
32 facility exempt under section 297A.71, subdivision 13;

33 (3) building materials for mineral production facilities  
34 exempt under section 297A.71, subdivision 14;

35 (4) building materials for correctional facilities under  
36 section 297A.71, subdivision 3;

1 (5) building materials used in a residence for disabled  
2 veterans exempt under section 297A.71, subdivision 11;

3 (6) chair lifts, ramps, elevators, and associated building  
4 materials exempt under section 297A.71, subdivision 12;

5 (7) building materials for the Long Lake Conservation  
6 Center exempt under section 297A.71, subdivision 17;

7 (8) materials, supplies, fixtures, furnishings, and  
8 equipment for a county law enforcement and family service center  
9 under section 297A.71, subdivision 26; and

10 (9) materials and supplies for qualified low-income housing  
11 under section 297A.71, subdivision 23; and

12 (10) fuel purchased for commuter rail systems under section  
13 297A.68, subdivision 19, clause (7).

14 [EFFECTIVE DATE.] This section is effective for purchases  
15 made after June 30, 2005.

16 Sec. 15. Minnesota Statutes 2004, section 297A.75,  
17 subdivision 2, is amended to read:

18 Subd. 2. [REFUND; ELIGIBLE PERSONS.] Upon application on  
19 forms prescribed by the commissioner, a refund equal to the tax  
20 paid on the gross receipts of the exempt items must be paid to  
21 the applicant. Only the following persons may apply for the  
22 refund:

23 (1) for subdivision 1, clauses (1) to (3), the applicant  
24 must be the purchaser;

25 (2) for subdivision 1, clauses (4), (7), and (8), the  
26 applicant must be the governmental subdivision;

27 (3) for subdivision 1, clause (5), the applicant must be  
28 the recipient of the benefits provided in United States Code,  
29 title 38, chapter 21;

30 (4) for subdivision 1, clause (6), the applicant must be  
31 the owner of the homestead property; and

32 (5) for subdivision 1, clause (9), the owner of the  
33 qualified low-income housing project; and

34 (6) for subdivision 1, clause (10), the operator of the  
35 commuter rail system.

36 [EFFECTIVE DATE.] This section is effective for purchases

1 made after June 30, 2005.

2 Sec. 16. Minnesota Statutes 2004, section 297A.87,  
3 subdivision 2, is amended to read:

4 Subd. 2. [SELLER'S PERMIT OR ALTERNATE STATEMENT.] (a) The  
5 operator of an event under subdivision 1 shall obtain one of the  
6 following from a person who wishes to do business as a seller at  
7 the event:

8 (1) evidence that the person holds a valid seller's permit  
9 under section 297A.84; ~~or~~

10 (2) a written statement that the person is not offering for  
11 sale any item that is taxable under this chapter; or

12 (3) a written statement that this is the only selling event  
13 that the person will be participating in for that calendar year,  
14 that the person will be participating for three or fewer days,  
15 and that the person will make \$500 or less in total sales in the  
16 calendar year. The written statement shall include the person's  
17 name, address, and telephone number.

18 (b) The operator shall require the evidence or statement as  
19 a prerequisite to participating in the event as a seller.

20 [EFFECTIVE DATE.] This section is effective for selling  
21 events occurring after June 30, 2005.

22 Sec. 17. Minnesota Statutes 2004, section 297A.87,  
23 subdivision 3, is amended to read:

24 Subd. 3. [OCCASIONAL SALE PROVISIONS ~~NOT~~ APPLICABLE UNDER  
25 LIMITED CIRCUMSTANCES.] The isolated and occasional  
26 sale ~~provisions~~ provision under section 297A.67, subdivision 23,  
27 ~~or~~ applies, provided that the seller only participates for three  
28 or fewer days in one event per calendar year, makes \$500 or less  
29 in sales in the calendar year, and provides the written  
30 statement required in subdivision 2, paragraph (a), clause (3).

31 The isolated and occasional sales provision under section  
32 297A.68, subdivision 25, ~~do~~ does not apply to a seller at an  
33 event under this section.

34 [EFFECTIVE DATE.] This section is effective for selling  
35 events occurring after June 30, 2005.

36 Sec. 18. Minnesota Statutes 2004, section 297A.99,

1 subdivision 1, is amended to read:

2 Subdivision 1. [CITIES OF THE FIRST CLASS; AUTHORIZATION;  
 3 SCOPE.] (a) A ~~political-subdivision-of-this-state~~ city of the  
 4 first class, as defined in section 410.01, may, by ordinance,  
 5 impose a general sales tax if-permitted-by-special-law-or-if-the  
 6 political-subdivision-enacted-and-imposed-the-tax-before-the  
 7 effective-date-of-section-477A.016-and-its-predecessor-provision  
 8 at a rate of tax of one-half of one percent, except the city of  
 9 Duluth may impose a tax at a rate not to exceed one percent. A  
 10 city of the first class may, by ordinance, extend the time to  
 11 impose a sales tax that was enacted before July 1, 2004.

12 (b) ~~This-section-governs-the-imposition-of-a-general-sales~~  
 13 ~~tax-by-the-political-subdivision.--The-provisions-of-this~~  
 14 ~~section-preempt-the-provisions-of-any-special-law~~  
 15 ~~(1)-enacted-before-June-27-1997-or~~  
 16 ~~(2)-enacted-on-or-after-June-27-1997-that-does-not~~  
 17 ~~explicitly-exempt-the-special-law-provision-from-this-section's~~  
 18 ~~rules-by-reference~~ The provisions of subdivisions 4 through 12  
 19 apply to a tax imposed under this subdivision.

20 (c) ~~This-section-does-not-apply-to-or-preempt-a-sales-tax~~  
 21 ~~on-motor-vehicles-or~~ A city of the first class may impose, by  
 22 ordinance, a special excise tax on motor vehicles of up to \$20  
 23 per motor vehicle purchased or acquired from any person engaged  
 24 in the business of selling motor vehicles within the city.

25 [EFFECTIVE DATE.] This section is effective on and after  
 26 July 1, 2005.

27 Sec. 19. Minnesota Statutes 2004, section 297A.99,  
 28 subdivision 2, is amended to read:

29 Subd. 2. [LOCAL-RESOLUTION-BEFORE-APPLICATION-FOR CITIES  
 30 OF THE SECOND AND THIRD CLASS; AUTHORITY; SCOPE.] ~~Before-the~~  
 31 ~~governing-body-of-a-political-subdivision-requests-legislative~~  
 32 ~~approval-of-a-special-law-for-a-local-sales-tax-that-is~~  
 33 ~~administered-under-this-section, it shall adopt a resolution~~  
 34 ~~indicating-its-approval-of-the-tax.--The-resolution-must~~  
 35 ~~include, at a minimum, information on the proposed tax rate, how~~  
 36 ~~the-revenues-will-be-used, the-total-revenue-that-will-be-raised~~



~~1 before-the-tax-expires,-and-the-estimated-length-of-time-that~~  
~~2 the-tax-will-be-in-effect.--This-subdivision-applies-to-local~~  
~~3 laws-enacted-after-June-30,-1998:~~ (a) Subject to the limitations  
4 in paragraphs (b) to (d), a city of the second or third class,  
5 as defined in section 410.01, may, by ordinance, impose a  
6 general sales tax at a rate of one-half of one percent, and may  
7 extend the time to impose a sales tax that was enacted prior to  
8 July 1, 2005.

9 (b) The proceeds of a tax imposed or extended under this  
10 subdivision must be dedicated exclusively to payment of the cost  
11 of a specific capital improvement that provides a benefit to the  
12 city and to the county, region, or territory beyond the city  
13 boundaries, and must be an improvement in at least one of the  
14 following areas:

- 15 (1) regional convention or civic centers;
- 16 (2) regional airports;
- 17 (3) public libraries;
- 18 (4) the city's matching funds requirement for major capital  
19 infrastructure improvements to arterial roads, bridges, or  
20 railroads;
- 21 (5) public safety equipment or facilities for dispatching,  
22 communications, computers, or training; or
- 23 (6) flood control or protection.

24 (c) Prior to imposition of the tax, the city must provide  
25 to the commissioner information that shows the tax will fund an  
26 improvement that meets the requirements of paragraph (b).

27 (d) If the city passes an ordinance to impose the tax, the  
28 ordinance must be published for two consecutive weeks in a  
29 newspaper of general circulation within the city. The ordinance  
30 is not effective until it has been submitted to the voters of  
31 the city at a general election and a majority of votes cast on  
32 the question of approving the tax are in the affirmative.

33 [EFFECTIVE DATE.] This section is effective on and after  
34 July 1, 2005.

35 Sec. 20. Minnesota Statutes 2004, section 297A.99,  
36 subdivision 3, is amended to read:

1 Subd. 3. [~~REQUIREMENTS-FOR-ADOPTION, USE, TERMINATION~~  
2 SPECIAL LAW; LOCAL RESOLUTION; REFERENDUM.] (a) ~~Imposition-of-a~~  
3 ~~local-sales-tax-is-subject-to-approval-by-voters-of-the~~  
4 ~~political-subdivision-at-a-general-election~~ A city of the second  
5 or third class that proposes to adopt a sales tax to pay for the  
6 costs of a project that is not included in subdivision 2, and  
7 cities of the fourth class and counties may impose a general  
8 sales tax if permitted by special law.

9 (b) ~~The-proceeds-of-the-tax-must-be-dedicated-exclusively~~  
10 ~~to-payment-of-the-cost-of-a-specific-capital-improvement-which~~  
11 ~~is-designated-at-least-90-days-before-the-referendum-on~~  
12 ~~imposition-of-the-tax-is-conducted~~ Before the governing body of  
13 a city or county requests legislative approval of a special law  
14 for a local sales tax that is administered under this section,  
15 it shall adopt a resolution indicating its approval of the tax.  
16 The resolution must include, at a minimum, information on the  
17 proposed tax rate, how the revenues will be used, the total  
18 revenue that will be raised before the tax expires, and the  
19 estimated length of time that the tax will be in effect.

20 (c) ~~The-tax-must-terminate-after-the-improvement-designated~~  
21 ~~under-paragraph-(b)-has-been-completed~~ Imposition of a local  
22 sales tax under this subdivision is subject to approval by  
23 voters of the city or county at a general election.

24 (d) ~~After-a-sales-tax-imposed-by-a-political-subdivision~~  
25 ~~has-expired-or-been-terminated, the-political-subdivision-is~~  
26 ~~prohibited-from-imposing-a-local-sales-tax-for-a-period-of-one~~  
27 ~~year.---Notwithstanding-subdivision-13, this-paragraph-applies-to~~  
28 ~~all-local-sales-taxes-in-effect-at-the-time-of-or-imposed-after~~  
29 ~~May-26, 1999~~ The proceeds of the tax must be dedicated  
30 exclusively to payment of the cost of a specific capital  
31 improvement which is designated at least 90 days before the  
32 referendum on imposition of the tax is conducted.

33 (e) The tax must terminate after the improvement designated  
34 under paragraph (d) has been completed.

35 [EFFECTIVE DATE.] This section is effective on and after  
36 July 1, 2005.

1 Sec. 21. Minnesota Statutes 2004, section 297A.99,  
2 subdivision 5, is amended to read:

3 Subd. 5. [TAX RATE.] (a) The tax rate is as specified in  
4 subdivision 1 or 2, or in the special law authorization and as  
5 imposed by the political subdivision.

6 (b) The full political subdivision rate applies to any  
7 sales that are taxed at a state rate, and the political  
8 subdivision must not have more than one local sales tax rate or  
9 more than one local use tax rate. This paragraph does not apply  
10 to sales or use taxes imposed on electricity, piped natural or  
11 artificial gas, or other heating fuels delivered by the seller,  
12 or the retail sale or transfer of motor vehicles, aircraft,  
13 watercraft, modular homes, manufactured homes, or mobile homes.

14 [EFFECTIVE DATE.] This section is effective on and after  
15 July 1, 2005.

16 Sec. 22. Minnesota Statutes 2004, section 297A.99,  
17 subdivision 12, is amended to read:

18 Subd. 12. [EFFECTIVE DATES; NOTIFICATION.] (a) A political  
19 subdivision may impose a tax under this section starting only on  
20 the first day of a calendar ~~quarter~~ year. A political  
21 subdivision may repeal a tax under this section stopping only on  
22 the last day of a calendar quarter.

23 (b) The political subdivision shall notify the commissioner  
24 of revenue at least 90 days before imposing, changing the rate  
25 of, or repealing a tax under this section.

26 (c) The political subdivision shall change the rate of tax  
27 imposed under this section starting only on the first day of a  
28 calendar quarter, and only after the commissioner has notified  
29 sellers at least 60 days prior to the change.

30 (d) The political subdivision shall apply the rate change  
31 for sales tax imposed under this section to purchases from  
32 printed catalogs, wherein the purchaser computed the tax based  
33 upon local tax rates published in the catalog, starting only on  
34 the first day of a calendar quarter, and only after the  
35 commissioner has notified sellers at least 120 days prior to the  
36 change.

1 (e) The political subdivision shall apply local  
2 jurisdiction boundary changes to taxes imposed under this  
3 section starting only on the first day of a calendar quarter,  
4 and only after the commissioner has notified sellers at least 60  
5 days prior to the change.

6 [EFFECTIVE DATE.] This section is effective on and after  
7 July 1, 2005.

8 Sec. 23. Minnesota Statutes 2004, section 297B.03, is  
9 amended to read:

10 297B.03 [EXEMPTIONS.]

11 There is specifically exempted from the provisions of this  
12 chapter and from computation of the amount of tax imposed by it  
13 the following:

14 (1) purchase or use, including use under a lease purchase  
15 agreement or installment sales contract made pursuant to section  
16 465.71, of any motor vehicle by the United States and its  
17 agencies and instrumentalities and by any person described in  
18 and subject to the conditions provided in section 297A.67,  
19 subdivision 11;

20 (2) purchase or use of any motor vehicle by any person who  
21 was a resident of another state or country at the time of the  
22 purchase and who subsequently becomes a resident of Minnesota,  
23 provided the purchase occurred more than 60 days prior to the  
24 date such person began residing in the state of Minnesota and  
25 the motor vehicle was registered in the person's name in the  
26 other state or country;

27 (3) purchase or use of any motor vehicle by any person  
28 making a valid election to be taxed under the provisions of  
29 section 297A.90;

30 (4) purchase or use of any motor vehicle previously  
31 registered in the state of Minnesota when such transfer  
32 constitutes a transfer within the meaning of section 118, 331,  
33 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, 1033, or  
34 1563(a) of the Internal Revenue Code of 1986, as amended through  
35 December 31, 1999;

36 (5) purchase or use of any vehicle owned by a resident of

1 another state and leased to a Minnesota based private or for  
2 hire carrier for regular use in the transportation of persons or  
3 property in interstate commerce provided the vehicle is titled  
4 in the state of the owner or secured party, and that state does  
5 not impose a sales tax or sales tax on motor vehicles used in  
6 interstate commerce;

7 (6) purchase or use of a motor vehicle by a private  
8 nonprofit or public educational institution for use as an  
9 instructional aid in automotive training programs operated by  
10 the institution. "Automotive training programs" includes motor  
11 vehicle body and mechanical repair courses but does not include  
12 driver education programs;

13 (7) purchase of a motor vehicle for use as an ambulance by  
14 an ambulance service licensed under section 144E.10;

15 (8) purchase of a motor vehicle by or for a public library,  
16 as defined in section 134.001, subdivision 2, as a bookmobile or  
17 library delivery vehicle;

18 (9) purchase of a ready-mixed concrete truck;

19 (10) purchase or use of a motor vehicle by a town for use  
20 exclusively for road maintenance, including snowplows and dump  
21 trucks, but not including automobiles, vans, or pickup trucks;

22 (11) purchase or use of a motor vehicle by a corporation,  
23 society, association, foundation, or institution organized and  
24 operated exclusively for charitable, religious, or educational  
25 purposes, except a public school, university, or library, but  
26 only if the vehicle is:

27 (i) a truck, as defined in section 168.011, a bus, as  
28 defined in section 168.011, or a passenger automobile, as  
29 defined in section 168.011, if the automobile is designed and  
30 used for carrying more than nine persons including the driver;  
31 and

32 (ii) intended to be used primarily to transport tangible  
33 personal property or individuals, other than employees, to whom  
34 the organization provides service in performing its charitable,  
35 religious, or educational purpose;

36 (12) purchase of a motor vehicle for use by a transit

1 provider exclusively to provide transit service is exempt if the  
2 transit provider is either (i) receiving financial assistance or  
3 reimbursement under section 174.24 or 473.384, or (ii) operating  
4 under section 174.29, 473.388, or 473.405;

5 (13) purchase or use of a motor vehicle by a qualified  
6 business, as defined in section 469.310, located in a job  
7 opportunity building zone, if the motor vehicle is principally  
8 garaged in the job opportunity building zone and is primarily  
9 used as part of or in direct support of the person's operations  
10 carried on in the job opportunity building zone. The exemption  
11 under this clause applies to sales, if the purchase was made and  
12 delivery received during the duration of the job opportunity  
13 building zone. The exemption under this clause also applies to  
14 any local sales and use tax;

15 (14) purchase or use after June 30, 2005, and before July  
16 1, 2008, of a motor vehicle by a state agency or political  
17 subdivision, provided that the motor vehicle has a fuel  
18 efficiency greater than 45 miles per gallon in highway use, and  
19 greater than 35 miles per gallon in city use, as certified by  
20 the United States Environmental Protection Agency.

21 [EFFECTIVE DATE.] This section is effective for sales and  
22 transfers made after June 30, 2005, and before July 1, 2008.

23 Sec. 24. Minnesota Statutes 2004, section 477A.016, is  
24 amended to read:

25 477A.016 [NEW TAXES PROHIBITED.]

26 No county, city, town or other taxing authority shall  
27 ~~increase-a-present-tax-or~~ impose a new tax on ~~sales-or~~ income.

28 [EFFECTIVE DATE.] This section is effective on and after  
29 July 1, 2005.

30 Sec. 25. Laws 1986, chapter 379, section 1, is amended to  
31 read:

32 Section 1. [CITY OF ST. CLOUD; LIQUOR AND FOOD TAX.]

33 Subdivision 1. [LIQUOR AND FOOD TAX AUTHORIZED.]

34 Notwithstanding Minnesota Statutes, section 477A.016, or any  
35 ordinance, city charter, or other provision of law, the city of  
36 St. Cloud may, by ordinance, impose a sales tax supplemental to

1 the general sales tax imposed in Minnesota Statutes, chapter  
2 297A, the proceeds of which shall be used in accordance with  
3 subdivision 2. The tax imposed by the city may be not more-than  
4 one exceed two percent on the gross receipts from all retail  
5 on-sales of intoxicating liquor and fermented malt beverages  
6 sold at licensed on-sale liquor establishments located within  
7 its geographic boundaries, or not more than one two percent on  
8 the gross receipts from the retail sale of food and beverages  
9 not subject to the liquor tax by a restaurant or place of  
10 refreshment located within its geographic boundaries, or both.  
11 For purposes of this act, the city shall define the terms  
12 "restaurant" and "place of refreshment" by resolution. The  
13 governing body of the city may adopt an ordinance establishing a  
14 convention center taxing district. The ordinance shall describe  
15 with particularity the area within the city to be included in  
16 the district. If the city establishes a convention center  
17 taxing district, the sales taxes authorized under this  
18 subdivision may be imposed only upon the sales occurring at  
19 on-sale liquor establishments, restaurants, or other places of  
20 refreshment located within the district. The city may impose a  
21 tax at a rate that is greater than one percent, not to exceed  
22 two percent, only after the approval of the voters of the city  
23 at the next general election.

24 Subd. 2. [USE OF PROCEEDS OF LIQUOR AND FOOD TAX.] The  
25 proceeds of any tax imposed under subdivision 1 shall be used by  
26 the city to pay all or a portion of the expenses of constructing  
27 a convention center facility ~~or~~ and related facilities, and the  
28 municipal athletic complex. Authorized expenses include, but  
29 are not limited to, securing or paying debt service on bonds or  
30 other obligations issued to finance the construction of a  
31 convention center facility ~~or~~ and related facilities, and the  
32 municipal athletic complex. For the purposes of this act,  
33 "related facilities" means all publicly owned real or personal  
34 property that the governing body of the city determines will be  
35 necessary to facilitate the use of the ~~convention-center~~  
36 facilities including, but not limited to, parking, skyways,

1 lighting, and landscaping.

2 Subd. 3. [EXPIRATION OF TAXING AUTHORITY.] The authority  
3 granted by subdivision 1 to the city to impose a liquor and food  
4 tax shall expire when the principal and interest on any bonds or  
5 other obligations issued to finance construction of a convention  
6 center facility ~~or~~ and related facilities, and municipal  
7 athletic complex have been paid or at an earlier time as the  
8 city shall, by ordinance, determine.

9 [EFFECTIVE DATE.] This section is effective the day after  
10 compliance by the city of St. Cloud with Minnesota Statutes,  
11 section 645.021, subdivision 3.

12 Sec. 26. Laws 1986, chapter 379, section 2, subdivision 1,  
13 is amended to read:

14 Subdivision 1. [ADDITIONAL TAX AUTHORIZED.]  
15 Notwithstanding Minnesota Statutes, section 477A.016, or any  
16 ordinance, city charter, or other provision of law, the city of  
17 St. Cloud may, by ordinance, impose a tax at a rate not to  
18 exceed ~~two~~ three percent in addition to the tax authorized under  
19 Laws 1979, chapter 197, on the gross receipts from the  
20 furnishing for consideration of lodging at a hotel, motel,  
21 rooming house, tourist court, or resort other than the renting  
22 or leasing of it for a continuous period of 30 days or  
23 more. The city may impose a tax at a rate that is greater than  
24 two percent, not to exceed three percent, only after the  
25 approval of the voters of the city at the next general election.

26 [EFFECTIVE DATE.] This section is effective the day after  
27 compliance by the city of St. Cloud with Minnesota Statutes,  
28 section 645.021, subdivision 3.

29 Sec. 27. Laws 1991, chapter 291, article 8, section 27,  
30 subdivision 4, is amended to read:

31 Subd. 4. [EXPIRATION OF TAXING AUTHORITY AND EXPENDITURE  
32 LIMITATION.] The authority granted by subdivisions 1 and 2 to  
33 the city to impose a sales tax and an excise tax shall expire  
34 when the principal and interest on any bonds or obligations  
35 issued to finance construction of Riverfront 2000 and related  
36 facilities have been paid or at an earlier time as the city



1 shall, by ordinance, determine. ~~The total capital,~~  
 2 ~~administrative, and operating expenditures payable from bond~~  
 3 ~~proceeds and revenues received from the taxes authorized by~~  
 4 ~~subdivisions 1 and 2, excluding investment earnings on bond~~  
 5 ~~proceeds and revenues, shall not exceed \$25,000,000 for~~  
 6 ~~Riverfront 2000 and related facilities.~~

7 [EFFECTIVE DATE.] This section is effective upon compliance  
 8 by the city of Mankato with Minnesota Statutes, section 645.021,  
 9 subdivision 3.

10 Sec. 28. Laws 1991, chapter 291, article 8, section 27,  
 11 subdivision 5, is amended to read:

12 Subd. 5. [BONDS.] The city of Mankato may issue general  
 13 obligation bonds of the city in an aggregate amount not to  
 14 exceed \$25,000,000 for Riverfront 2000 and related facilities,  
 15 without election under Minnesota Statutes, chapter 475, on the  
 16 question of issuance of the bonds or a tax to pay them. The  
 17 debt represented by bonds issued for Riverfront 2000 and related  
 18 facilities shall not be included in computing any debt  
 19 limitations applicable to the city of Mankato, and the levy of  
 20 taxes required by section 475.61 to pay principal of and  
 21 interest on the bonds shall not be subject to any levy  
 22 limitation or be included in computing or applying any levy  
 23 limitation applicable to the city.

24 [EFFECTIVE DATE.] This section is effective upon compliance  
 25 by the city of Mankato with Minnesota Statutes, section 645.021,  
 26 subdivision 3.

27 Sec. 29. Laws 1996, chapter 471, article 2, section 29, is  
 28 amended to read:

29 Sec. 29. [CITY OF HERMANTOWN; SALES AND USE TAX.]  
 30 Subdivision 1. [SALES AND USE TAX AUTHORIZED.] (a)  
 31 Notwithstanding Minnesota Statutes, section 477A.016, or any  
 32 other contrary provision of law, ordinance, or city charter, the  
 33 city of Hermantown may, by ordinance, impose an additional sales  
 34 and use tax of up to one percent on sales transactions, storage,  
 35 and use taxable pursuant to Minnesota Statutes, chapter 297A,  
 36 that occur within the city.

1       **(b) The proceeds of the first one-half of one percent of**  
2 **tax imposed under this section must be used to meet the costs of**  
3 **by the city for the following projects:**

4           (1) extending a sewer interceptor line;

5           (2) construction of a booster pump station, reservoirs, and  
6 related improvements to the water system; and

7           (3) construction of a police and fire station.

8       **(c) Revenues received from the remaining one-half of one**  
9 **percent of the tax authorized under this section must be used by**  
10 **the city to pay all or part of the capital and administrative**  
11 **costs of developing, acquiring, constructing, and initially**  
12 **furnishing and equipping for the following projects:**

13           **(1) construction of a community recreation center;**

14           **(2) completion of a civic center services complex;**

15           **(3) construction and relocation of a new public works**  
16 **facility;**

17           **(4) construction of roads, street improvements, and other**  
18 **traffic control measures within the city; and**

19           **(5) acquisition, construction, and improvement of parks and**  
20 **trails within the city.**

21       **(d) Authorized expenses include, but are not limited to,**  
22 **acquiring property, paying construction, administrative, and**  
23 **operating expenses related to the development of the projects**  
24 **listed in paragraph (c), paying debt service on bonds or other**  
25 **obligations, including lease obligations, issued to finance**  
26 **construction, expansion, or improvement of the projects listed**  
27 **in paragraph (c), and other compatible uses, including but not**  
28 **limited to, parking, lighting, and landscaping.**

29       Subd. 2. [REFERENDUM.] **(a) If the Hermantown city council**  
30 **proposes to impose the sales tax authorized by this section, it**  
31 **shall conduct a referendum on the issue.**

32       **(b) If the Hermantown city council initially imposes the**  
33 **tax at a rate that is less than one percent and proposes**  
34 **increasing the tax rate at a later date up to the full one**  
35 **percent, it shall conduct a referendum on the increase.**

36       **(c) The question of imposing or increasing the tax must be**

1 submitted to the voters at a special or general election. The  
2 tax may not be imposed unless a majority of votes cast on the  
3 question of imposing the tax are in the affirmative. The  
4 commissioner of revenue shall prepare a suggested form of  
5 question to be presented at the election. This subdivision  
6 applies notwithstanding any city charter provision to the  
7 contrary.

8 Subd. 3. [ENFORCEMENT; COLLECTION; AND ADMINISTRATION OF  
9 TAXES.] A sales tax imposed under this section must be reported  
10 and paid to the commissioner of revenue with the state sales  
11 taxes, and be subject to the same penalties, interest, and  
12 enforcement provisions. The proceeds of the tax, less refunds  
13 and a proportionate share of the cost of collection, shall be  
14 remitted at least quarterly to the city. The commissioner shall  
15 deduct from the proceeds remitted an amount that equals the  
16 indirect statewide cost as well as the direct and indirect  
17 department costs necessary to administer, audit, and collect the  
18 tax. The amount deducted shall be deposited in the state  
19 general fund.

20 Subd. 3a. [BONDING AUTHORITY.] (a) The city may issue  
21 general obligation bonds under Minnesota Statutes, chapter 475,  
22 to finance the costs in subdivision 1, paragraph (c). The total  
23 amount of bonds issued for the projects under subdivision 1,  
24 paragraph (c), may not exceed \$12,900,000 in the aggregate. An  
25 election to approve the bonds is not required.

26 (b) The bonds are not included in computing any debt  
27 limitation applicable to the city and the levy of taxes under  
28 Minnesota Statutes, section 475.61, to pay principal of and  
29 interest on the bonds is not subject to any levy limitation.

30 (c) The taxes authorized under this section may be pledged  
31 to and used for the payment of the bonds and any bonds issued to  
32 refund them.

33 Subd. 4. [TERMINATION.] The portion of the tax authorized  
34 under-this-section to finance the improvements described in  
35 subdivision 1, paragraph (b), terminates at the later of (1) ten  
36 years after the date of initial imposition of the tax, or (2) on

1 the first day of the second month next succeeding a  
 2 determination by the city council that sufficient funds have  
 3 been received from that portion of the tax dedicated to finance  
 4 ~~the those~~ improvements ~~described-in-subdivision-1,-clauses-(1)~~  
 5 ~~to-(3)~~, and to prepay or retire at maturity the principal,  
 6 interest, and premium due on any bonds issued for the  
 7 improvements. The portion of the tax authorized to finance the  
 8 improvements described in subdivision 1, paragraph (c),  
 9 terminates when the revenues raised are sufficient to finance  
 10 those improvements, up to an amount equal to \$12,900,000 plus  
 11 any interest, premium, and other costs associated with the bonds  
 12 issued under subdivision 3a. The city council may terminate  
 13 this portion of the tax earlier. Any funds remaining after  
 14 completion of the improvements and retirement or redemption of  
 15 the bonds may be placed in the general fund of the city.

16 ~~Subd.-5.--[LOCAL-APPROVAL,-EFFECTIVE-DATE-]-This-section-is~~  
 17 ~~effective-the-day-after-final-enactment,-upon-compliance-with~~  
 18 ~~Minnesota-Statutes,-section-645.021,-subdivision-3,-by-the-city~~  
 19 ~~of-Hermantown.~~

20 [EFFECTIVE DATE.] This section is effective the day after  
 21 the governing body of the city of Hermantown and its chief  
 22 clerical officer comply with Minnesota Statutes, section  
 23 645.021, subdivisions 2 and 3.

24 Sec. 30. Laws 1998, chapter 389, article 8, section 43,  
 25 subdivision 3, is amended to read:

26 Subd. 3. [USE OF REVENUES.] Revenues received from the  
 27 taxes authorized by subdivisions 1 and 2 must be used by the  
 28 city to pay for the cost of collecting and administering the  
 29 taxes and to pay for the following projects:

- 30 (1) transportation infrastructure improvements including  
 31 ~~both~~ regional highway and airport improvements;  
 32 (2) improvements to the civic center complex;  
 33 (3) a municipal water, sewer, and storm sewer project  
 34 necessary to improve regional ground water quality; and  
 35 (4) construction of a regional recreation and sports center  
 36 and ~~associated~~ other higher education facilities available for

1 both community and student use, ~~located at or adjacent to the~~  
2 ~~Recheester-center.~~

3 The total amount of capital expenditures or bonds for these  
4 projects that may be paid from the revenues raised from the  
5 taxes authorized in this section may not exceed  
6 ~~\$71,500,000~~ \$111,500,000. The total amount of capital  
7 expenditures or bonds for the project in clause (4) that may be  
8 paid from the revenues raised from the taxes authorized in this  
9 section may not exceed ~~\$20,000,000~~ \$28,000,000.

10 [EFFECTIVE DATE.] This section is effective the day  
11 following final enactment.

12 Sec. 31. Laws 1998, chapter 389, article 8, section 43,  
13 subdivision 4, is amended to read:

14 Subd. 4. [BONDING AUTHORITY.] (a) The city may issue bonds  
15 under Minnesota Statutes, chapter 475, to finance the capital  
16 expenditure and improvement projects. An election to approve  
17 the bonds under Minnesota Statutes, section 475.58, may be held  
18 in combination with the election to authorize imposition of the  
19 tax under subdivision 1. Whether to permit imposition of the  
20 tax and issuance of bonds may be posed to the voters as a single  
21 question. The question must state that the sales tax revenues  
22 are pledged to pay the bonds, but that the bonds are general  
23 obligations and will be guaranteed by the city's property taxes.

24 (b) The issuance of bonds under this subdivision is not  
25 subject to Minnesota Statutes, section 275.60.

26 (c) The bonds are not included in computing any debt  
27 limitation applicable to the city, and the levy of taxes under  
28 Minnesota Statutes, section 475.61, to pay principal of and  
29 interest on the bonds is not subject to any levy limitation.  
30 The aggregate principal amount of bonds, plus the aggregate of  
31 the taxes used directly to pay eligible capital expenditures and  
32 improvements may not exceed ~~\$71,500,000~~ \$111,500,000, plus an  
33 amount equal to the costs related to issuance of the bonds.

34 (d) The taxes may be pledged to and used for the payment of  
35 the bonds and any bonds issued to refund them, only if the bonds  
36 and any refunding bonds are general obligations of the city.

1        [EFFECTIVE DATE.] This section is effective the day  
2 following final enactment.

3        Sec. 32. Laws 1999, chapter 243, article 4, section 18,  
4 subdivision 1, is amended to read:

5        Subdivision 1. [SALES AND USE TAX.] (a) Notwithstanding  
6 Minnesota Statutes, section ~~297A.48~~~~-subdivision-1a~~, 477A.016,  
7 or any other provision of law, ordinance, or city charter, if  
8 approved by the city voters at the first municipal general  
9 election held after the date of final enactment of this act or  
10 at a special election held November 2, 1999, the city of Proctor  
11 may impose by ordinance a sales and use tax of up to one-half of  
12 one percent for the purposes specified in subdivision 3,  
13 paragraph (a). The provisions of Minnesota Statutes,  
14 section ~~297A.48~~ 297A.99, govern the imposition, administration,  
15 collection, and enforcement of the tax authorized under this  
16 subdivision.

17        (b) The city of Proctor may impose by ordinance an  
18 additional sales and use tax of up to one-half of one percent if  
19 approved by the city voters at a general election or at a  
20 special election held for this purpose. The revenues received  
21 from this additional tax must be used for the purposes specified  
22 in subdivision 3, paragraph (b).

23        [EFFECTIVE DATE.] This section is effective the day  
24 following final enactment, upon compliance by the city of  
25 Proctor with Minnesota Statutes, section 645.021, subdivision 3.

26        Sec. 33. Laws 1999, chapter 243, article 4, section 18,  
27 subdivision 3, is amended to read:

28        Subd. 3. [USE OF REVENUES.] (a) Revenues received from  
29 taxes authorized by subdivisions 1, paragraph (a), and 2 must be  
30 used by the city to pay the cost of collecting the taxes and to  
31 pay for construction and improvement of the following city  
32 facilities:

33        (1) streets; and

34        (2) constructing and equipping the Proctor community  
35 activity center.

36        Authorized expenses include, but are not limited to,

1 acquiring property, paying construction and operating expenses  
2 related to the development of an authorized facility, and paying  
3 debt service on bonds or other obligations, including lease  
4 obligations, issued to finance the construction, expansion, or  
5 improvement of an authorized facility. The capital expenses for  
6 all projects authorized under this paragraph that may be paid  
7 with these taxes is limited to \$3,600,000, plus an amount equal  
8 to the costs related to issuance of the bonds.

9 (b) Revenues received from taxes authorized by subdivision  
10 1, paragraph (b), must be used by the city to pay the cost of  
11 collecting the taxes and for construction and improvements of  
12 city streets, public utilities, sidewalks, bikeways, and trails.

13 [EFFECTIVE DATE.] This section is effective the day  
14 following final enactment, upon compliance by the city of  
15 Proctor with Minnesota Statutes, section 645.021, subdivision 3.

16 Sec. 34. Laws 1999, chapter 243, article 4, section 18,  
17 subdivision 4, is amended to read:

18 Subd. 4. [BONDING AUTHORITY.] (a) The city may issue bonds  
19 under Minnesota Statutes, chapter 475, to finance the capital  
20 expenditure and improvement projects described in subdivision  
21 3. An election to approve the bonds under Minnesota Statutes,  
22 section 475.58, is not required.

23 (b) The issuance of bonds under this subdivision is not  
24 subject to Minnesota Statutes, sections 275.60 and ~~279-61~~ 275.61.

25 (c) The bonds are not included in computing any debt  
26 limitation applicable to the city, and the levy of taxes under  
27 Minnesota Statutes, section 475.61, to pay principal of and  
28 interest on the bonds is not subject to any levy limitation.

29 (d) For projects described in subdivision 3, paragraph (a),  
30 the aggregate principal amount of bonds, plus the aggregate of  
31 the taxes used directly to pay eligible capital expenditures and  
32 improvements, may not exceed \$3,600,000, plus an amount equal to  
33 the costs related to issuance of the bonds, including interest  
34 on the bonds. For projects described in subdivision 3,  
35 paragraph (b), the aggregate principal amount of bonds may not  
36 exceed \$7,200,000, plus an amount equal to the costs related to

1 issuance of the bonds, including interest on the bonds.

2 (e) The sales and use and excise taxes authorized in this  
3 section may be pledged to and used for the payment of the bonds  
4 and any bonds issued to refund them only if the bonds and any  
5 refunding bonds are general obligations of the city.

6 [EFFECTIVE DATE.] This section is effective the day  
7 following final enactment, upon compliance by the city of  
8 Proctor with Minnesota Statutes, section 645.021, subdivision 3.

9 Sec. 35. Laws 2001, First Special Session chapter 5,  
10 article 12, section 67, the effective date, is amended to read:

11 [EFFECTIVE DATE.] This section is effective for purchases  
12 and sales made after June 30, 2001, and before ~~January 17, 2003~~  
13 July 1, 2006.

14 [EFFECTIVE DATE.] This section is effective the day  
15 following final enactment.

16 Sec. 36. Laws 2001, First Special Session chapter 5,  
17 article 12, section 95, is amended to read:

18 Sec. 95. [REPEALER.]

19 (a) Minnesota Statutes 2000, sections 297A.61, subdivision  
20 16; 297A.68, subdivision 21; and 297A.71, subdivisions 2 and 16,  
21 are repealed effective for sales and purchases occurring after  
22 June 30, 2001, except that the repeal of section 297A.61,  
23 subdivision 16, paragraph (d), is effective for sales and  
24 purchases occurring after July 31, 2001.

25 ~~{b}-Minnesota-Statutes-20007-sections-297A-627-subdivision~~  
26 ~~27-and-297A-647-subdivision-17-are-repealed-effective-for-sales~~  
27 ~~and-purchases-made-after-December-317-2005-~~

28 ~~{e}~~ (b) Minnesota Statutes 2000, section 297A.71,  
29 subdivision 15, is repealed effective for sales and purchases  
30 made after June 30, 2002.

31 ~~{d}~~ (c) Minnesota Statutes 2000, section 289A.60,  
32 subdivision 15, is repealed effective for liabilities after  
33 January 1, 2003.

34 [EFFECTIVE DATE.] This section is effective the day  
35 following final enactment.

36 Sec. 37. Laws 2002, chapter 377, article 12, section 16,



1 subdivision 1, is amended to read:

2 Subdivision 1. [NONPROFIT CORPORATION MAY BE ESTABLISHED.]

3 The city of Thief River Falls may incorporate or authorize the  
4 incorporation of a nonprofit corporation to operate a community  
5 or regional center in the city. A nonprofit corporation  
6 incorporated under this section is exempt from payment of sales  
7 and use tax on materials, equipment, and supplies consumed or  
8 incorporated into the construction of the community or regional  
9 center. The exemption under this section applies to purchases  
10 by the nonprofit corporation, a contractor, subcontractor, or  
11 builder. A contractor, subcontractor, or builder that does not  
12 pay sales tax on purchases for construction of the community or  
13 regional center shall not charge sales or use tax to the  
14 nonprofit corporation. The nonprofit corporation may file a  
15 claim for refund for any sales taxes paid on the construction  
16 costs of the community or regional center, and the commissioner  
17 of revenue shall pay the refunded amount directly to the  
18 nonprofit corporation.

19 [EFFECTIVE DATE.] This section is effective retroactively  
20 for purchases made on and after July 1, 2002.

21 Sec. 38. [CITY OF ALBERT LEA; SALES AND USE TAX.]

22 Subdivision 1. [SALES AND USE TAX  
23 AUTHORIZED.] Notwithstanding Minnesota Statutes, section  
24 477A.016, or any other provision of law, ordinance, or city  
25 charter, the city of Albert Lea may, by ordinance, impose a  
26 sales and use tax of one-half of one percent for the purposes  
27 specified in subdivision 2. The provisions of Minnesota  
28 Statutes, section 297A.99, govern the imposition,  
29 administration, collection, and enforcement of the tax  
30 authorized under this subdivision.

31 Subd. 2. [USE OF REVENUES.] The proceeds of the tax  
32 imposed under this section shall be used to pay for lake  
33 improvement projects as detailed in the Shell Rock River  
34 watershed plan.

35 Subd. 3. [REFERENDUM.] If the Albert Lea City Council  
36 proposes to impose the tax authorized by this section, the

1 question of imposing the tax must be submitted to the voters at  
2 the next general election.

3 Subd. 4. [TERMINATION OF TAXES.] The taxes imposed under  
4 this section expire at the earlier of (1) ten years after the  
5 taxes are first imposed, or (2) when the city council first  
6 determines that the amount of revenues raised to pay for the  
7 projects under subdivision 2, shall meet or exceed the sum of  
8 \$15,000,000. Any funds remaining after completion of the  
9 projects may be placed in the general fund of the city.

10 [EFFECTIVE DATE.] This section is effective the day after  
11 compliance by the governing body of the city of Albert Lea with  
12 Minnesota Statutes, section 645.021, subdivision 3.

13 Sec. 39. [CITY OF BEAVER BAY; TAXES AUTHORIZED.]

14 Subdivision 1. [SALES AND USE TAXES.] Notwithstanding  
15 Minnesota Statutes, section 477A.016, or any other provision of  
16 law or ordinance, if approved by the voters of the city at the  
17 next general election held after the date of final enactment of  
18 this act, the city of Beaver Bay may impose by ordinance a sales  
19 and use tax at a rate of up to one percent for the purposes  
20 specified in subdivision 2. The provisions of Minnesota  
21 Statutes, section 297A.99, govern the imposition,  
22 administration, collection, and enforcement of the tax  
23 authorized under this subdivision.

24 Subd. 2. [USE OF REVENUES.] The revenues received from  
25 taxes authorized by subdivision 1 must be used to pay the bonded  
26 indebtedness on the city community building and to provide  
27 funding for recreational facilities, the upgrading of the water  
28 and sewer system, upgrading and replacement of fire equipment,  
29 and improvement of streets.

30 Subd. 3. [TERMINATION OF TAXES.] The authority granted  
31 under subdivision 1 to the city of Beaver Bay to impose sales  
32 and use taxes expires when the city council determines that the  
33 amount of revenue received to pay the costs of the projects  
34 described in subdivision 2 shall meet or exceed \$1,500,000. Any  
35 funds remaining after completion of the projects may be placed  
36 in the general fund of the city. The tax imposed under

1 subdivision 1 may expire at an earlier time if the city so  
2 determines by ordinance.

3 [EFFECTIVE DATE.] This section is effective the day after  
4 the governing body of the city of Beaver Bay and its chief  
5 clerical officer timely comply with Minnesota Statutes, section  
6 645.021, subdivisions 2 and 3.

7 Sec. 40. [CITY OF BEMIDJI.]

8 Subdivision 1. [SALES AND USE TAX AUTHORIZED.]

9 Notwithstanding Minnesota Statutes, section 477A.016, or any  
10 other provision of law, ordinance, or city charter, pursuant to  
11 the approval of the city voters at the general election held on  
12 November 5, 2002, the city of Bemidji may impose by ordinance a  
13 sales and use tax of one-half of one percent for the purposes  
14 specified in subdivision 2. The provisions of Minnesota  
15 Statutes, section 297A.99, govern the imposition,  
16 administration, collection, and enforcement of the tax  
17 authorized under this subdivision.

18 Subd. 2. [USE OF REVENUES.] Revenues received from the tax  
19 authorized by subdivision 1 must be used for the cost of  
20 collecting and administering the tax and to pay all or part of  
21 the capital or administrative costs of the acquisition,  
22 construction, and improvement of parks and trails within the  
23 city, as provided for in the city of Bemidji's parks, open  
24 space, and trail system plan, adopted by the Bemidji City  
25 Council on November 21, 2001. Authorized expenses include, but  
26 are not limited to, acquiring property, paying construction  
27 expenses related to the development of these facilities and  
28 improvements, and securing and paying debt service on bonds or  
29 other obligations issued to finance acquisition, construction,  
30 improvement, or development of parks and trails within the city  
31 of Bemidji.

32 Subd. 3. [BONDS.] Pursuant to the approval of the city  
33 voters at the general election held on November 5, 2002, the  
34 city of Bemidji may issue, without an additional election,  
35 general obligation bonds of the city in an amount not to exceed  
36 \$9,826,000 to pay capital and administrative expenses for the

1 acquisition, construction, improvement, and development of parks  
2 and trails as specified in subdivision 2. The debt represented  
3 by the bonds must not be included in computing any debt  
4 limitations applicable to the city, and the levy of taxes  
5 required by Minnesota Statutes, section 475.61, to pay the  
6 principal of any interest on the bonds must not be subject to  
7 any levy limitations or be included in computing or applying any  
8 levy limitation applicable to the city.

9 Subd. 4. [TERMINATION OF TAX.] The tax imposed under  
10 subdivision 1 expires when the Bemidji City Council determines  
11 that the amount described in subdivision 3 has been received  
12 from the tax to finance the capital and administrative costs for  
13 acquisition, construction, improvement, and development of parks  
14 and trails and to repay or retire at maturity the principal,  
15 interest, and premium due on any bonds issued for the park and  
16 trail improvements under subdivision 3. Any funds remaining  
17 after completion of the park and trail improvements and  
18 retirement or redemption of the bonds may be placed in the  
19 general fund of the city. The tax imposed under subdivision 1  
20 may expire at an earlier time if the city so determines by  
21 ordinance.

22 [EFFECTIVE DATE.] This section is effective the day after  
23 compliance by the governing body of the city of Bemidji with  
24 Minnesota Statutes, section 645.021, subdivision 3.

25 Sec. 41. [CITY OF CLOQUET; TAXES AUTHORIZED.]

26 Subdivision 1. [SALES AND USE TAX.] Notwithstanding  
27 Minnesota Statutes, section 477A.016, or any other provision of  
28 law, ordinance, or city charter, if approved by the voters  
29 pursuant to Minnesota Statutes, section 297A.99, the city of  
30 Cloquet may impose by ordinance a sales and use tax of up to  
31 one-half of one percent for the purpose specified in subdivision  
32 3. The provisions of Minnesota Statutes, section 297A.99,  
33 govern the imposition, administration, collection, and  
34 enforcement of the tax authorized under this subdivision.

35 Subd. 2. [EXCISE TAX AUTHORIZED.] Notwithstanding  
36 Minnesota Statutes, section 477A.016, or any other provision of

1 law, ordinance, or city charter, the city of Cloquet may impose  
2 by ordinance, for the purposes specified in subdivision 3, an  
3 excise tax of up to \$20 per motor vehicle, as defined by  
4 ordinance, purchased or acquired from any person engaged within  
5 the city in the business of selling motor vehicles at retail.

6 Subd. 3. [USE OF REVENUES.] Revenues received from taxes  
7 authorized by subdivisions 1 and 2 must be used by the city to  
8 pay the cost of collecting the taxes and to pay for the  
9 following projects:

10 (1) construction and implementation of riverfront task  
11 force park improvements including Veteran's Park;

12 (2) extension of water and sewer lines and other  
13 improvements to city infrastructure necessary for construction  
14 of a city industrial park; and

15 (3) costs associated with the closure of the Cloquet  
16 Municipal Landfill.

17 Authorized expenses include, but are not limited to,  
18 acquiring property and paying construction expenses related to  
19 these improvements, and paying debt service on bonds or other  
20 obligations issued to finance acquisition and construction of  
21 these improvements.

22 Subd. 4. [BONDING AUTHORITY.] (a) The city may issue bonds  
23 under Minnesota Statutes, chapter 475, to pay capital and  
24 administrative expenses for the improvements described in  
25 subdivision 3 in an amount that does not exceed \$7,000,000. An  
26 election to approve the bonds under Minnesota Statutes, section  
27 475.58, is not required.

28 (b) The issuance of bonds under this subdivision is not  
29 subject to Minnesota Statutes, sections 275.60 and 275.61.

30 (c) The debt represented by the bonds is not included in  
31 computing any debt limitation applicable to the city, and any  
32 levy of taxes under Minnesota Statutes, section 475.61, to pay  
33 principal of and interest on the bonds is not subject to any  
34 levy limitation.

35 Subd. 5. [TERMINATION OF TAXES.] The taxes imposed under  
36 subdivisions 1 and 2 expire at the earlier of (1) 14 years, or

1 (2) when the city council determines that sufficient funds have  
2 been received from the taxes to finance the capital and  
3 administrative costs of the improvements described in  
4 subdivision 3, plus the additional amount needed to pay the  
5 costs related to issuance of bonds under subdivision 4,  
6 including interest on the bonds. Any funds remaining after  
7 completion of the project and retirement or redemption of the  
8 bonds may be placed in the general fund of the city. The taxes  
9 imposed under subdivisions 1 and 2 may expire at an earlier time  
10 if the city so determines by ordinance.

11 [EFFECTIVE DATE.] This section is effective the day after  
12 the governing body of the city of Cloquet and its chief clerical  
13 officer timely comply with Minnesota Statutes, section 645.021,  
14 subdivisions 2 and 3.

15 Sec. 42. [CITY OF CLEARWATER.]

16 Subdivision 1. [SALES AND USE TAX AUTHORIZED.]

17 Notwithstanding Minnesota Statutes, section 477A.016, or any  
18 other provision of law, ordinance, or city charter, pursuant to  
19 the approval of the city voters at the next general election or  
20 at a special election held for this purpose, the city of  
21 Clearwater may impose by ordinance a sales and use tax of  
22 one-half of one percent for the purposes specified in  
23 subdivision 2. The provisions of Minnesota Statutes, section  
24 297A.99, govern the imposition, administration, collection, and  
25 enforcement of the tax authorized under this subdivision.

26 Subd. 2. [USE OF REVENUES.] Revenues received from the tax  
27 authorized by subdivision 1 must be used for the cost of  
28 collecting and administering the tax and to pay all or part of  
29 the capital or administrative costs of the development,  
30 acquisition, construction, and improvement of parks, trails,  
31 parkland, open space, and land and buildings for a regional  
32 community and recreation center. Authorized expenses include,  
33 but are not limited to, acquiring property, paying construction  
34 expenses related to the development of these facilities and  
35 improvements, and securing and paying debt service on bonds or  
36 other obligations issued to finance acquisition, construction,

1 improvement, or development.

2 Subd. 3. [BONDS.] Pursuant to the approval of the city  
3 voters to impose the tax authorized in subdivision 1, the city  
4 of Clearwater may issue without an additional election general  
5 obligation bonds of the city in an amount not to exceed  
6 \$3,000,000 to pay capital and administrative expenses for the  
7 acquisition, construction, improvement, and development of the  
8 projects specified in subdivision 2. The debt represented by  
9 the bonds must not be included in computing any debt limitations  
10 applicable to the city, and the levy of taxes required by  
11 Minnesota Statutes, section 475.61, to pay the principal or any  
12 interest on the bonds must not be subject to any levy  
13 limitations or be included in computing or applying any levy  
14 limitation applicable to the city.

15 Subd. 4. [TERMINATION OF TAX.] The tax imposed under  
16 subdivision 1 expires when the Clearwater City Council  
17 determines that the amount described in subdivision 3 has been  
18 received from the tax to finance the capital and administrative  
19 costs for acquisition, construction, improvement, and  
20 development of the projects specified in subdivision 2 and to  
21 repay or retire at maturity the principal, interest, and premium  
22 due on any bonds issued for the projects under subdivision 3.  
23 Any funds remaining after completion of the projects specified  
24 in subdivision 2 and retirement or redemption of the bonds may  
25 be placed in the general fund of the city. The tax imposed  
26 under subdivision 1 may expire at an earlier time if the city so  
27 determines by ordinance.

28 [EFFECTIVE DATE.] This section is effective the day after  
29 compliance by the governing body of the city of Clearwater with  
30 Minnesota Statutes, section 645.021, subdivision 3.

31 Sec. 43. [CITY OF MEDFORD; SALES AND USE TAX.]

32 Subdivision 1. [SALES AND USE TAX AUTHORIZED.]  
33 Notwithstanding Minnesota Statutes, section 477A.016, or any  
34 other provision of law, ordinance, or city charter, the city of  
35 Medford may, by ordinance, impose a sales and use tax of  
36 one-half of one percent for the purposes specified in

1 subdivision 2. Except as otherwise specifically provided, the  
2 provisions of Minnesota Statutes, section 297A.99, govern the  
3 imposition, administration, collection, and enforcement of the  
4 tax authorized under this subdivision.

5 Subd. 2. [USE OF REVENUES.] The proceeds of the tax  
6 imposed under this section must be used to pay up to \$5,000,000  
7 in costs related to improving the city's wastewater system and  
8 wastewater treatment plant.

9 Subd. 3. [REFERENDUM.] If the Medford City Council  
10 proposes to impose the tax authorized by this section, the  
11 question of imposing the tax must be submitted to the voters at  
12 the next general election. The tax may not be imposed unless  
13 the majority of votes cast on the question of imposing the tax  
14 are in the affirmative. The commissioner of revenue shall  
15 prepare a suggested form of the question to be presented at the  
16 election. The question must state that the sales tax revenues  
17 would be pledged to pay any bonds issued under subdivision 4 and  
18 that these bonds are guaranteed by the city's property taxes.

19 Subd. 4. [BONDING AUTHORITY.] (a) The city may issue bonds  
20 under Minnesota Statutes, chapter 475, to finance the capital  
21 expenditure and improvement projects authorized under  
22 subdivision 2. The total amount of bonds issued for the  
23 projects listed in subdivision 2 may not exceed \$5,000,000 in  
24 aggregate. An election to approve the bonds, as required under  
25 Minnesota Statutes, section 475.58, is not required.

26 (b) The issuance of the bonds under this subdivision is not  
27 subject to Minnesota Statutes, sections 275.60 and 275.61.

28 (c) The bonds are not included in computing any debt  
29 limitation applicable to the city, and the levy of taxes under  
30 Minnesota Statutes, section 475.61, to pay the principal of and  
31 interest on the bonds is not subject to any levy limitation.

32 (d) The taxes authorized under this section may be pledged  
33 to and used for the payment of the bonds and any bonds issued to  
34 refund them only if the bonds and any refunding bonds are  
35 general obligations of the city.

36 Subd. 5. [TERMINATION OF TAXES.] The taxes imposed under



1 this section expire at the earlier of (1) 20 years after the  
2 taxes are first imposed, or (2) when the city council first  
3 determines that the amount of revenues raised to pay for the  
4 projects under subdivision 2 shall meet or exceed the sum of  
5 \$5,000,000, plus an amount equal to the costs related to the  
6 issuance of bonds under subdivision 4. Any funds remaining  
7 after completion of the projects and retirement or redemption of  
8 the bonds may be placed in the general funds of the city.

9 [EFFECTIVE DATE.] This section is effective the day after  
10 compliance with the governing body of the city of Medford with  
11 Minnesota Statutes, section 645.021, subdivision 3.

12 Sec. 44. [CITY OF PARK RAPIDS.]

13 Subdivision 1. [SALES AND USE TAX AUTHORIZED.]

14 Notwithstanding Minnesota Statutes, section 477A.016, or any  
15 other provision of law, ordinance, or city charter, pursuant to  
16 the approval of the city voters at the next general election or  
17 at a special election held for this purpose, the city of Park  
18 Rapids may impose by ordinance a sales and use tax of one  
19 percent for the purposes specified in subdivision 2. The  
20 provisions of Minnesota Statutes, section 297A.99, govern the  
21 imposition, administration, collection, and enforcement of the  
22 tax authorized under this subdivision.

23 Subd. 2. [USE OF REVENUES.] Revenues received from the tax  
24 authorized by subdivision 1 must be used for the cost of  
25 collecting and administering the tax and to pay all or part of  
26 the capital or administrative costs of the development,  
27 acquisition, construction, and improvement of the following  
28 projects:

29 (1) two-thirds of the cost of construction and operation of  
30 a community center that may include a senior citizen center,  
31 fitness center, swimming pool, meeting rooms, indoor track, and  
32 racquetball, basketball, and tennis courts, provided that an  
33 amount equal to one-third of the cost of construction is  
34 received from private sources;

35 (2) capital improvement projects including, but not limited  
36 to, installation of water, sewer, storm sewer, street

1 improvements, new city water tower and well, costs related to  
2 improvements to marked trunk highway 34; and  
3 (3) park improvements.

4 Authorized expenses include, but are not limited to,  
5 acquiring property, paying construction expenses related to the  
6 development of these facilities and improvements, and securing  
7 and paying debt service on bonds or other obligations issued to  
8 finance acquisition, construction, improvement, or development.

9 Subd. 3. [BONDS.] Pursuant to the approval of the city  
10 voters to impose the tax authorized in subdivision 1, the city  
11 of Park Rapids may issue without an additional election general  
12 obligation bonds of the city to pay capital and administrative  
13 expenses for the acquisition, construction, improvement, and  
14 development of the projects specified in subdivision 2. The  
15 debt represented by the bonds must not be included in computing  
16 any debt limitations applicable to the city, and the levy of  
17 taxes required by Minnesota Statutes, section 475.61, to pay the  
18 principal or any interest on the bonds must not be subject to  
19 any levy limitations or be included in computing or applying any  
20 levy limitation applicable to the city.

21 Subd. 4. [TERMINATION OF TAX.] The tax imposed under  
22 subdivision 1 expires the earlier of July 1, 2023, or when the  
23 city council determines that sufficient revenues have been  
24 received to retire the bonds in subdivision 3. Any funds  
25 remaining after completion of the projects specified in  
26 subdivision 2 and retirement or redemption of the bonds may be  
27 placed in the general fund of the city. The tax imposed under  
28 subdivision 1 may expire at an earlier time if the city so  
29 determines by ordinance.

30 [EFFECTIVE DATE.] This section is effective the day after  
31 compliance by the governing body of the city of Park Rapids with  
32 Minnesota Statutes, section 645.021, subdivision 3.

33 Sec. 45. [CITY OF PROCTOR; LODGING TAX.]

34 The city of Proctor may use up to ten percent of the  
35 revenues received from the lodging tax imposed by the city under  
36 Minnesota Statutes, section 469.190, for preservation of the

1 Caboose and the Baldwin Locomotive, Class M3 Mallet, Number 225,  
2 donated to the city by the Duluth, Missabe and Iron Range  
3 Railway Company, and the F-101F aircraft, serial number 59-0407,  
4 donated to the city by the Department of the Air Force.

5 [EFFECTIVE DATE.] This section is effective the day  
6 following final enactment.

7 Sec. 46. [ST. CLOUD AREA CITIES; SALES AND USE TAX  
8 AUTHORIZED.]

9 Subdivision 1. [SALES AND USE TAX  
10 AUTHORIZED.] Notwithstanding Minnesota Statutes, sections  
11 297A.99, subdivision 3, paragraph (d), and 477A.016, or any  
12 other provision of law, ordinance, or city charter, each of the  
13 cities of St. Cloud, Sartell, Sauk Rapids, St. Augusta, St.  
14 Joseph, and Waite Park may impose by ordinance a sales and use  
15 tax at the rate of one-half of one percent for the purposes  
16 specified in subdivision 2, pursuant to the approval of the  
17 voters of that city at the next general election. The  
18 provisions of Minnesota Statutes, section 297A.99, except  
19 subdivision 3, paragraph (d), govern the imposition,  
20 administration, collection, and enforcement of the tax  
21 authorized under this subdivision.

22 Subd. 2. [USE OF REVENUES.] (a) Revenues received from the  
23 tax authorized by subdivision 1 must be used for the cost of  
24 collecting and administering the tax and to pay all or part of  
25 the capital or administrative costs of the development,  
26 acquisition, construction, improvement, and securing and paying  
27 debt service on bonds or other obligations issued to finance the  
28 following regional projects:

- 29 (1) St. Cloud Regional Airport;
- 30 (2) major transportation improvements;
- 31 (3) arts, libraries, and community centers;
- 32 (4) acquisition and improvement of park land and open  
33 space; and

34 (5) St. Cloud Civic Center remodeling and expansion, not to  
35 exceed \$20,000,000 from the amount allocated to St. Cloud under  
36 subdivision 3, clause (2).

1       (b) The revenues returned to each city under subdivision 3  
2 may only be used to fund projects that have been approved by  
3 voters at the referendum authorizing this tax.

4       Subd. 3. [ALLOCATION OF SALES AND USE TAX REVENUES TO  
5 CITIES.] Revenues collected from the taxes authorized by  
6 subdivision 1, after paying the cost of collecting and  
7 administering the tax, shall be allocated to cities imposing the  
8 tax as follows:

9       (1) the first \$900,000 of revenues collected annually,  
10 indexed annually to the Consumer Price Index, to the city of St.  
11 Cloud for expansion of the St. Cloud Civic Center or the  
12 construction and relocation of the Great River Regional Library;  
13 and

14       (2) the revenues collected from the taxes imposed under  
15 subdivision 1 that exceed the amount needed to meet the  
16 obligations under clause (1) in any year shall be returned to  
17 the cities pursuant to a joint powers agreement allocating sales  
18 tax revenues among the cities.

19       Subd. 4. [ST. CLOUD BONDING AUTHORIZED.] Pursuant to the  
20 approval of the city voters to impose the tax authorized in  
21 subdivision 1, the city of St. Cloud may issue without an  
22 additional election, general obligation bonds of the city not to  
23 exceed \$80,000,000 to pay the costs of the projects specified in  
24 subdivision 2. The debt represented by the bonds must not be  
25 included in computing any debt limitations applicable to the  
26 city, and the levy of taxes required by Minnesota Statutes,  
27 section 475.61, to pay the principal or any interest on the  
28 bonds must not be subject to any levy limitations or be included  
29 in computing or applying any levy limitation applicable to the  
30 city.

31       Subd. 5. [TERMINATION OF TAX.] The tax imposed in the city  
32 of St. Cloud under subdivision 1 expires when the city council  
33 determines that sufficient funds have been collected from the  
34 tax to retire or redeem the bonds authorized under subdivision  
35 3. The taxes imposed in the cities of Sartell, Sauk Rapids, St.  
36 Augusta, St. Joseph, and Waite Park expire when the projects

1 authorized under subdivision 2 have been completed, but no later  
2 than 20 years after the date the tax is first imposed. Any  
3 funds remaining after completion of the projects specified in  
4 subdivision 2 and retirement or redemption of the bonds may be  
5 placed in the general fund of the city. The tax imposed under  
6 subdivision 1 may expire at an earlier time if the city so  
7 determines by ordinance.

8 [EFFECTIVE DATE.] This section is effective the day after  
9 compliance by the governing body of the city with Minnesota  
10 Statutes, section 645.021, subdivision 3, for sales and  
11 purchases on and after January 1, 2006.

12 Sec. 47. [SALES AND USE TAX COMPLIANCE GAP.]

13 The commissioner must reduce the amount of the compliance  
14 gap in the payment of sales and use tax by 25 percent before  
15 December 31, 2007; and must reduce the compliance gap in the  
16 payment of sales and use tax by an additional 25 percent before  
17 December 31, 2009. The commissioner must establish an effective  
18 method to allow individuals who purchase taxable products or  
19 services and have not paid the tax at the time of the purchase  
20 to pay the tax. The commissioner must advise residents of this  
21 state how to pay sales and use tax.

22 [EFFECTIVE DATE.] This section is effective the day  
23 following final enactment.

24 Sec. 48. [WAITE PARK; LOCAL SALES TAX AUTHORIZED.]

25 Notwithstanding Minnesota Statutes, section 477A.016, or  
26 any other provision of law, ordinance, or charter, the city of  
27 Waite Park may impose a sales and use tax of one-half of one  
28 percent pursuant to approval of the city voters at an election  
29 held in November 2003.

30 Revenues from the tax imposed under this section must be  
31 used for the purposes listed in Laws 2002, chapter 377, article  
32 11, section 2, subdivision 2, and approved by the voters in the  
33 November 2003 referendum. The amount of revenues collected from  
34 this tax which may be spent for airport costs under Laws 2002,  
35 chapter 377, article 11, section 2, subdivision 2, paragraph  
36 (a), is limited to \$25,000 for each quarter in which the tax is

1 imposed with the remainder returned to the city to be spent on  
2 the other allowed uses.

3 The tax under this section shall be imposed beginning July  
4 1, 2005, and shall expire at the same time as the taxes imposed  
5 under Laws 2002, chapter 377, article 11, section 2.

6 [EFFECTIVE DATE.] This section is effective the day  
7 following final enactment, upon compliance of the governing body  
8 of the city of Waite Park with Minnesota Statutes, section  
9 645.021, subdivision 3.

10 Sec. 49. [CITY OF WASECA; SALES AND USE TAX.]

11 Subdivision 1. [SALES AND USE TAX  
12 AUTHORIZED.] Notwithstanding Minnesota Statutes, section  
13 477A.016, or any other provision of law, ordinance, or city  
14 charter, the city of Waseca may, by ordinance, impose a sales  
15 and use tax of one-half of one percent for the purposes  
16 specified in subdivision 2. The provisions of Minnesota  
17 Statutes, section 297A.99, govern the imposition,  
18 administration, collection, and enforcement of the tax  
19 authorized under this subdivision.

20 Subd. 2. [USE OF REVENUES.] The proceeds of the tax  
21 imposed under this section must be used to pay for up to  
22 \$1,820,000 in costs related to one or more of the following  
23 capital projects as described in the referendum in subdivision 3:

24 (1) water quality and lake improvements;  
25 (2) community center improvements;  
26 (3) an industrial incubator; and  
27 (4) downtown improvements, including a theatre and blighted  
28 property acquisition.

29 Subd. 3. [REFERENDUM.] If the Waseca city council proposes  
30 to impose the tax authorized by this section, the question of  
31 imposing the tax must be submitted to the voters at the next  
32 general election. The tax may not be imposed unless the  
33 majority of votes cast on the question of imposing the tax are  
34 in the affirmative. The specific projects to be funded by the  
35 tax must be identified at least 90 days before the referendum is  
36 held and included in the question presented at the election.

1 The question must state that the sales tax revenues would be  
2 pledged to pay any bonds issued under subdivision 4 and that  
3 these bonds are guaranteed by the city's property taxes.

4 Subd. 4. [BONDING AUTHORITY.] The city may issue bonds  
5 under Minnesota Statutes, chapter 475, to finance the capital  
6 expenditure and improvement projects authorized under  
7 subdivision 2 and approved under subdivision 3. The total  
8 amount of bonds issued for the projects approved in subdivision  
9 3 may not exceed \$1,820,000 in aggregate. An election to  
10 approve the bonds, as required under Minnesota Statutes, section  
11 475.58, is not required.

12 Subd. 5. [TERMINATION OF TAXES.] The taxes imposed under  
13 this section expire at the earlier of (1) ten years after the  
14 taxes are first imposed, or (2) when the city council first  
15 determines that the amount of revenues raised is sufficient to  
16 finance the capital projects approved under subdivision 3 and to  
17 prepay or retire at maturity the principal, interest, and  
18 premium due on any bonds issued under subdivision 4. Any funds  
19 remaining after completion of the projects may be placed in the  
20 general funds of the city.

21 [EFFECTIVE DATE.] This section is effective the day after  
22 compliance with the governing body of the city of Waseca with  
23 Minnesota Statutes, section 645.021, subdivision 3.

24 Sec. 50. [CITY OF WINONA.]

25 Subdivision 1. [SALES AND USE TAX  
26 AUTHORIZED.] Notwithstanding Minnesota Statutes, section  
27 477A.016, or any other provision of law, ordinance, or city  
28 charter, if approved by the voters pursuant to Minnesota  
29 Statutes, section 297A.99, the city of Winona may impose by  
30 ordinance a sales and use tax of one-half of one percent for the  
31 purposes specified in subdivision 3. The provisions of  
32 Minnesota Statutes, section 297A.99, govern the imposition,  
33 administration, collection, and enforcement of the tax  
34 authorized under this subdivision.

35 Subd. 2. [EXCISE TAX AUTHORIZED.] Notwithstanding  
36 Minnesota Statutes, section 477A.016, or any other provision of

1 law, ordinance, or city charter, the city of Winona may impose  
2 by ordinance, for the purposes specified in subdivision 3, an  
3 excise tax of up to \$20 per motor vehicle, as defined by  
4 ordinance, purchased or acquired from any person engaged within  
5 the city in the business of selling motor vehicles at retail.

6 Subd. 3. [USE OF REVENUES.] Revenues received from the  
7 taxes authorized by subdivisions 1 and 2 must be dedicated to  
8 pay all or part of the capital or administrative costs of  
9 transportation projects or transportation improvements located  
10 within the city, and to pay the cost of collecting and  
11 administering the tax. Authorized expenses include, but are not  
12 limited to, acquiring property and paying construction and  
13 engineering expenses related to the improvements.

14 Subd. 4. [TERMINATION OF TAX.] The taxes imposed under  
15 subdivisions 1 and 2 expire when the Winona City Council  
16 determines that sufficient funds have been received from the tax  
17 to pay the costs of the transportation projects or improvements  
18 to which the tax was dedicated or ten years after imposition of  
19 the tax, whichever is earlier. Any funds remaining after  
20 completion of the transportation project or transportation  
21 improvements may be placed in a capital project fund of the city.  
22 The tax imposed under subdivisions 1 and 2 may expire at an  
23 earlier time if the city so determines by ordinance.

24 [EFFECTIVE DATE.] This section is effective the day after  
25 compliance by the governing body of the city of Winona with  
26 Minnesota Statutes, section 645.021, subdivision 3.

27 Sec. 51. [DISTRIBUTION.]

28 For revenues from sales after December 31, 2005, and before  
29 January 1, 2007, 70 percent of all revenues, including penalties  
30 and interest, derived from the tax imposed under Minnesota  
31 Statutes, section 297A.62, subdivision 2, are appropriated to  
32 the commissioner of revenue for distribution to counties as  
33 provided in this section. For sales after December 31, 2006,  
34 the total amount distributed under this section for each year is  
35 the same amount that was distributed for sales in 2006. Fifty  
36 percent of the revenue must be allocated among all counties on a



1 per capita basis and 50 percent of the revenue must be allocated  
2 to the county where the retail sale was made. The commissioner  
3 shall determine the county in which a retail sale was made by  
4 using zip codes. The commissioner shall distribute the revenue  
5 to counties on or before the last day of each calendar quarter.  
6 The revenue distributed to counties must be used to reduce  
7 property taxes. To qualify for this distribution, a county must  
8 certify to the commissioner of revenue that it has increased its  
9 funding for chemical dependency treatment programs that tend to  
10 reduce the burden of property taxation caused by individuals who  
11 are chemically dependent. The amount of the increase must be at  
12 least ten percent of the amount to be distributed.

13 [EFFECTIVE DATE.] This section is effective for sales made  
14 after December 31, 2005.

15 Sec. 52. [REPEALER.]

16 Minnesota Statutes 2004, section 297A.99, subdivision 13,  
17 is repealed effective July 1, 2005.

18 ARTICLE 3

19 PROPERTY TAXES

20 Section 1. Minnesota Statutes 2004, section 123B.53, is  
21 amended by adding a subdivision to read:

22 Subd. 1a. [DEBT SERVICE LEVIES; CHOICE OF TAX BASE.] A  
23 school board may by resolution elect to levy the debt service  
24 for a bond issued after July 1, 2005, against the referendum  
25 market value of the district, as defined under section 126C.01,  
26 subdivision 3, rather than the net tax capacity of the district,  
27 except that for purposes of this subdivision, noncommercial 4c(1)  
28 property under section 273.13 is valued at its market value. A  
29 resolution to levy against referendum market value must be  
30 passed at an open meeting of the board, at least 60 days prior  
31 to the referendum election.

32 [EFFECTIVE DATE.] This section is effective the day  
33 following final enactment.

34 Sec. 2. Minnesota Statutes 2004, section 123B.53,  
35 subdivision 4, is amended to read:

36 Subd. 4. [DEBT SERVICE EQUALIZATION REVENUE.] (a) The debt

1 service equalization revenue of a district equals the sum of the  
2 first tier debt service equalization revenue and the second tier  
3 debt service equalization revenue.

4 (b) The first tier debt service equalization revenue of a  
5 district equals the greater of zero or the eligible debt service  
6 revenue minus the amount raised by a levy of 15 percent times  
7 the adjusted net tax capacity of the district minus the second  
8 tier debt service equalization revenue of the district.

9 (c) The second tier debt service equalization revenue of a  
10 district equals the greater of zero or the eligible debt service  
11 revenue, excluding alternative facilities levies under section  
12 123B.59, subdivision 5, minus the amount raised by a levy of 25  
13 percent times the adjusted net tax capacity of the district.

14 (d) Debt service equalization revenue is determined as  
15 provided under this subdivision regardless of whether the debt  
16 service is being levied against net tax capacity or referendum  
17 market value.

18 [EFFECTIVE DATE.] This section is effective July 1, 2005.

19 Sec. 3. Minnesota Statutes 2004, section 123B.55, is  
20 amended to read:

21 123B.55 [DEBT SERVICE LEVY.]

22 Subdivision 1. [LEVY AMOUNT.] A district may levy the  
23 amounts necessary to make payments for bonds issued and for  
24 interest on them, including the bonds and interest on them,  
25 issued as authorized by Minnesota Statutes 1974, section  
26 275.125, subdivision 3, clause (7)(C); and the amounts necessary  
27 for repayment of debt service loans and capital loans, minus the  
28 amount of debt service equalization revenue of the district.

29 Subd. 2. [AID APPORTIONMENT.] A district's debt service  
30 equalization aid shall be apportioned between the net tax  
31 capacity debt service levy and the referendum market value debt  
32 service levy in the same proportions as eligible debt service  
33 revenues resulting from bonds issued against net tax capacity  
34 are to eligible debt service revenues resulting from bonds  
35 issued against referendum market value.

36 Subd. 3. [NET TAX CAPACITY DEBT SERVICE LEVY.] The levy

1 amount determined under subdivision 1, plus the eligible debt  
 2 service revenues resulting from bonds issued against net tax  
 3 capacity, minus the debt service equalization aid apportioned to  
 4 the net tax capacity debt service levy, must be levied against  
 5 the net tax capacity of the district as determined under section  
 6 273.13 and must be included with the other net tax capacity  
 7 levies certified to the county auditor under section 275.07.

8 Subd. 4. [REFERENDUM MARKET VALUE DEBT SERVICE LEVY.] The  
 9 eligible debt service revenues resulting from bonds issued  
 10 against referendum market value, minus the debt service  
 11 equalization aid apportioned to the referendum market value debt  
 12 service levy, must be levied against the referendum market value  
 13 of the district as defined in section 126C.01, subdivision 3,  
 14 and must be separately certified to the county auditor under  
 15 section 275.07.

16 [EFFECTIVE DATE.] This section is effective beginning with  
 17 taxes payable in 2006.

18 Sec. 4. Minnesota Statutes 2004, section 123B.71,  
 19 subdivision 9, is amended to read:

20 Subd. 9. [INFORMATION REQUIRED.] A school board proposing  
 21 to construct a facility described in subdivision 8 shall submit  
 22 to the commissioner a proposal containing information including  
 23 at least the following:

24 (1) the geographic area and population to be served,  
 25 preschool through grade 12 student enrollments for the past five  
 26 years, and student enrollment projections for the next five  
 27 years;

28 (2) a list of existing facilities by year constructed,  
 29 their uses, and an assessment of the extent to which alternate  
 30 facilities are available within the school district boundaries  
 31 and in adjacent school districts;

32 (3) a list of the specific deficiencies of the facility  
 33 that demonstrate the need for a new or renovated facility to be  
 34 provided, and a list of the specific benefits that the new or  
 35 renovated facility will provide to the students, teachers, and  
 36 community users served by the facility;

1 (4) the relationship of the project to any priorities  
2 established by the school district, educational cooperatives  
3 that provide support services, or other public bodies in the  
4 service area;

5 (5) a specification of how the project will increase  
6 community use of the facility and whether and how the project  
7 will increase collaboration with other governmental or nonprofit  
8 entities;

9 (6) a description of the project, including the  
10 specification of site and outdoor space acreage and square  
11 footage allocations for classrooms, laboratories, and support  
12 spaces; estimated expenditures for the major portions of the  
13 project; and the dates the project will begin and be completed;

14 (7) a specification of the source of financing the project;  
15 the scheduled date for a bond issue or school board action; a  
16 schedule of payments, including debt service equalization aid;  
17 whether the debt service will be levied against net tax capacity  
18 or referendum market value; and the effect of a bond issue on  
19 local property taxes by the property class and valuation;

20 (8) an analysis of how the proposed new or remodeled  
21 facility will affect school district operational or  
22 administrative staffing costs, and how the district's operating  
23 budget will cover any increased operational or administrative  
24 staffing costs;

25 (9) a description of the consultation with local or state  
26 road and transportation officials on school site access and  
27 safety issues, and the ways that the project will address those  
28 issues;

29 (10) a description of how indoor air quality issues have  
30 been considered and a certification that the architects and  
31 engineers designing the facility will have professional  
32 liability insurance;

33 (11) as required under section 123B.72, for buildings  
34 coming into service after July 1, 2002, a certification that the  
35 plans and designs for the extensively renovated or new  
36 facility's heating, ventilation, and air conditioning systems

1 will meet or exceed code standards; will provide for the  
2 monitoring of outdoor airflow and total airflow of ventilation  
3 systems; and will provide an indoor air quality filtration  
4 system that meets ASHRAE standard 52.1;

5 (12) a specification of any desegregation requirements that  
6 cannot be met by any other reasonable means; and

7 (13) a specification, if applicable, of how the facility  
8 will utilize environmentally sustainable school facility design  
9 concepts.

10 [EFFECTIVE DATE.] This section is effective July 1, 2005.

11 Sec. 5. Minnesota Statutes 2004, section 126C.17,  
12 subdivision 6, is amended to read:

13 Subd. 6. [REFERENDUM EQUALIZATION LEVY.] (a) For fiscal  
14 year 2003 ~~and later~~ through 2007, a district's referendum  
15 equalization levy equals the sum of the first tier referendum  
16 equalization levy and the second tier referendum equalization  
17 levy.

18 (b) A district's first tier referendum equalization levy  
19 equals the district's first tier referendum equalization revenue  
20 times the lesser of one or the ratio of the district's  
21 referendum market value per resident marginal cost pupil unit to  
22 \$476,000.

23 (c) A district's second tier referendum equalization levy  
24 equals the district's second tier referendum equalization  
25 revenue times the lesser of one or the ratio of the district's  
26 referendum market value per resident marginal cost pupil unit to  
27 \$270,000.

28 Sec. 6. Minnesota Statutes 2004, section 126C.17, is  
29 amended by adding a subdivision to read:

30 Subd. 6a. [LOCAL EFFORT LEVEL.] (a) For fiscal year 2008  
31 and later, a district's local effort level equals the sum of the  
32 first tier referendum equalization level and the second tier  
33 referendum local effort level.

34 (b) A district's first tier referendum local effort level  
35 equals the district's first tier referendum equalization revenue  
36 times the lesser of one or the ratio of the district's

1 referendum market value per resident marginal cost pupil unit to  
2 \$476,000.

3 (c) A district's second tier referendum local effort level  
4 equals the district's second tier referendum equalization  
5 revenue times the lesser of one or the ratio of the district's  
6 referendum market value per resident marginal cost pupil unit to  
7 \$270,000.

8 Sec. 7. Minnesota Statutes 2004, section 126C.17, is  
9 amended by adding a subdivision to read:

10 Subd. 6b. [LOCAL EFFORT REVENUE.] (a) For fiscal years  
11 2008 and later, a school district's local effort revenue is  
12 equal to its local effort level for that year.

13 (b) For referenda authorized under subdivision 9 prior to  
14 June 30, 2006, a school district's local effort revenue must be  
15 levied against the district's referendum market value according  
16 to subdivision 10.

17 (c) For referenda authorized or renewed under subdivision 9  
18 after June 30, 2006, that have been approved to be levied  
19 against referendum market value, the local effort revenue must  
20 be levied against the district's referendum market value  
21 according to subdivision 10.

22 (d) For referenda authorized or renewed under subdivision 9  
23 after June 30, 2006, that have been approved to be imposed as a  
24 school referendum tax according to section 290.0621, the local  
25 effort revenue must be raised as a tax against income liability  
26 according to section 290.0621.

27 Sec. 8. Minnesota Statutes 2004, section 126C.17,  
28 subdivision 7, is amended to read:

29 Subd. 7. [REFERENDUM EQUALIZATION AID.] (a) For fiscal  
30 years 2005 through 2007, a district's referendum equalization  
31 aid equals the difference between its referendum equalization  
32 revenue and levy. For fiscal years 2008 and later, a district's  
33 referendum equalization aid equals the difference between its  
34 referendum equalization revenue and its local effort revenue.

35 (b) If a district's actual levy for first or second tier  
36 referendum equalization revenue in fiscal years 2005 through

1 2007 is less than its maximum levy limit for that tier, aid  
2 shall be proportionately reduced. If a district's actual local  
3 effort revenue for first or second tier referendum equalization  
4 revenue in fiscal years 2008 and later is less than its maximum  
5 local effort revenue limit for that tier, aid shall be  
6 proportionately reduced.

7 (c) Notwithstanding paragraph (a), the referendum  
8 equalization aid for a district, where the referendum  
9 equalization aid under paragraph (a) exceeds 90 percent of the  
10 referendum revenue, must not exceed 18.6 percent of the formula  
11 allowance times the district's resident marginal cost pupil  
12 units. For fiscal years 2005 through 2007, a district's  
13 referendum levy is increased by the amount of any reduction in  
14 referendum aid under this paragraph. For fiscal years 2008 and  
15 later, a district's local effort level is increased by the  
16 amount of any reduction in referendum aid under this paragraph.

17 Sec. 9. Minnesota Statutes 2004, section 126C.17,  
18 subdivision 9, is amended to read:

19 Subd. 9. [REFERENDUM REVENUE.] (a) The revenue authorized  
20 by section 126C.10, subdivision 1, may be increased in the  
21 amount approved by the voters of the district at a referendum  
22 called for the purpose. The referendum may be called by the  
23 board or shall be called by the board upon written petition of  
24 qualified voters of the district. The referendum must be  
25 conducted one or two calendar years before the increased levy  
26 authority, if approved, first becomes payable. Only one  
27 election to approve an increase may be held in a calendar year.  
28 Unless the referendum is conducted by mail under paragraph (g),  
29 the referendum must be held on the first Tuesday after the first  
30 Monday in November. The ballot must state the maximum amount of  
31 the increased revenue per resident marginal cost pupil unit, ~~the~~  
32 ~~estimated-referendum-tax-rate-as-a-percentage-of-referendum~~  
33 ~~market-value-in-the-first-year-it-is-to-be-levied,-and-that-the~~  
34 ~~revenue-must-be-used-to-finance-school-operations.~~ The ballot  
35 may state a schedule, determined by the board, of increased  
36 revenue per resident marginal cost pupil unit that differs from

1 year to year over the number of years for which the increased  
 2 revenue is authorized. ~~If the ballot contains a schedule~~  
 3 ~~showing different amounts, it must also indicate the estimated~~  
 4 ~~referendum tax rate as a percent of referendum market value for~~  
 5 ~~the amount specified for the first year and for the maximum~~  
 6 ~~amount specified in the schedule.~~ The ballot, including a  
 7 ballot on the question to revoke or reduce the increased revenue  
 8 amount under paragraph (c), must abbreviate the term "per  
 9 resident marginal cost pupil unit" as "per pupil unit." The  
 10 ballot may state that existing referendum ~~levy~~ taxing authority  
 11 is expiring. In this case, if the referendum authority is based  
 12 on a property tax levy, the ballot may also compare the proposed  
 13 levy authority to the existing expiring levy authority, and  
 14 express the proposed increase as the amount, if any, over the  
 15 expiring referendum levy authority. The ballot must designate  
 16 the specific number of years, not to exceed ten, for which the  
 17 referendum authorization applies. The notice required under  
 18 section 275.60 may be modified to read, in cases of renewing  
 19 existing levies:

20 "BY VOTING "YES" ON THIS BALLOT QUESTION, YOU MAY BE VOTING  
 21 FOR A PROPERTY TAX INCREASE."

22 If the referendum is on a proposed income tax under section  
 23 290.0621, the notice must read:

24 "BY VOTING "YES" ON THIS BALLOT QUESTION, YOU MAY BE VOTING  
 25 FOR AN INCOME TAX INCREASE."

26 The ballot may contain a textual portion with the  
 27 information required in this subdivision and a question stating  
 28 substantially the following:

29 "Shall the increase in the revenue proposed by (petition  
 30 to) the board of ....., School District No. ..., be approved?"

31 If approved, an amount equal to the approved revenue per  
 32 resident marginal cost pupil unit times the resident marginal  
 33 cost pupil units for the school year beginning in the year after  
 34 the levy is certified or the income tax is imposed shall be  
 35 authorized for certification for the number of years approved,  
 36 if applicable, or until revoked or reduced by the voters of the



1 district at a subsequent referendum. A referendum may be  
2 conducted on the question of converting an existing referendum  
3 property tax levy to a school referendum income tax to be  
4 imposed under section 290.0621.

5 (b) The board must prepare and deliver by first class mail  
6 at least 15 days but no more than 30 days before the day of the  
7 referendum to each taxpayer a notice of the referendum and the  
8 proposed revenue increase. The board need not mail more than  
9 one notice to any taxpayer. For the purpose of giving mailed  
10 notice under this subdivision for a referendum based on a  
11 property tax levy, owners must be those shown to be owners on  
12 the records of the county auditor or, in any county where tax  
13 statements are mailed by the county treasurer, on the records of  
14 the county treasurer. Every property owner whose name does not  
15 appear on the records of the county auditor or the county  
16 treasurer is deemed to have waived this mailed notice unless the  
17 owner has requested in writing that the county auditor or county  
18 treasurer, as the case may be, include the name on the records  
19 for this purpose. The notice for a referendum based on a  
20 property tax levy must project the anticipated amount of tax  
21 increase in annual dollars ~~and annual percentage~~ for typical  
22 residential homesteads, agricultural homesteads, apartments, and  
23 commercial-industrial property within the school district. For  
24 the purpose of giving mailed notice under this subdivision, for  
25 a referendum based on an income tax under section 290.0621,  
26 taxpayers must be those shown to be domiciled in the school  
27 district as indicated on the space which must be provided for  
28 this information on the Minnesota individual income tax form for  
29 the taxable year ending before the calendar year when the  
30 referendum is conducted. Every individual whose domicile is in  
31 the school district whose name does not appear on the income tax  
32 return as having a domicile in the district is deemed to have  
33 waived this mailed notice unless the individual has requested in  
34 writing that the county auditor or county treasurer, as the case  
35 may be, include the individual's name on the records for this  
36 purpose. The notice must project the anticipated amount of tax

1 increase in annual dollars and annual percentage for typical  
2 family incomes within the school district.

3       The notice for a referendum based on a property tax levy  
4 may state that an existing referendum levy is expiring and  
5 project the anticipated amount of increase over the existing  
6 referendum levy in the first year, if any, in annual dollars and  
7 ~~annual~~-percentage for typical residential homesteads,  
8 agricultural homesteads, apartments, and commercial-industrial  
9 property within the district.

10       The notice must include the following statement: "Passage  
11 of this referendum will result in an increase in your property  
12 taxes." However, in cases of renewing existing levies, the  
13 notice may include the following statement: "Passage of this  
14 referendum may result in an increase in your property taxes."

15       The notice for a referendum based on income tax may state  
16 that an existing income tax referendum authority is expiring and  
17 project the anticipated amount of increase over the existing  
18 referendum levy in the first year, if any, in annual dollars and  
19 annual percentage for typical family incomes within the district.

20       The notice must include the following statement: "Passage  
21 of this referendum will result in an increase in your personal  
22 income taxes." However, in cases of renewing existing income  
23 tax referendum authorities, the notice may include the following  
24 statement: "Passage of this referendum may result in an  
25 increase in your personal income taxes."

26       (c) A referendum on the question of revoking or reducing  
27 the increased revenue amount authorized pursuant to paragraph  
28 (a) may be called by the board and shall be called by the board  
29 upon the written petition of qualified voters of the district.  
30 A referendum to revoke or reduce the revenue amount must state  
31 the amount per resident marginal cost pupil unit by which the  
32 authority is to be reduced. Revenue authority approved by the  
33 voters of the district pursuant to paragraph (a) must be  
34 available to the school district at least once before it is  
35 subject to a referendum on its revocation or reduction for  
36 subsequent years. Only one revocation or reduction referendum

1 may be held to revoke or reduce referendum revenue for any  
2 specific year and for years thereafter.

3 (d) A petition authorized by paragraph (a) or (c) is  
4 effective if signed by a number of qualified voters in excess of  
5 15 percent of the registered voters of the district on the day  
6 the petition is filed with the board. A referendum invoked by  
7 petition must be held on the date specified in paragraph (a).

8 (e) The approval of 50 percent plus one of those voting on  
9 the question is required to pass a referendum authorized by this  
10 subdivision.

11 (f) At least 15 days before the day of the referendum, the  
12 district must submit a copy of the notice required under  
13 paragraph (b) to the commissioner and to the county auditor of  
14 each county in which the district is located. Within 15 days  
15 after the results of the referendum have been certified by the  
16 board, or in the case of a recount, the certification of the  
17 results of the recount by the canvassing board, the district  
18 must notify the commissioner of the results of the referendum.

19 [EFFECTIVE DATE.] This section is effective for referenda  
20 conducted on or after July 1, 2005.

21 Sec. 10. Minnesota Statutes 2004, section 168A.05,  
22 subdivision 1b, is amended to read:

23 Subd. 1b. [MANUFACTURED HOME; EXEMPTION.] The provisions  
24 of subdivision 1a shall not apply to (1) a manufactured home  
25 which is sold or otherwise disposed of pursuant to section  
26 504B.271 by the owner of a manufactured home park as defined in  
27 section 327.14, subdivision 3, or (2) a manufactured home which  
28 is sold pursuant to section 504B.265 by the owner of a  
29 manufactured home park. No county auditor or treasurer shall  
30 require a manufactured home park owner to satisfy the delinquent  
31 or current year's personal property taxes owed as condition of  
32 the title transfer to the park owner.

33 [EFFECTIVE DATE.] This section is effective the day  
34 following final enactment.

35 Sec. 11. [174.11] [COMMISSIONER TO NOTIFY COUNTY AUDITOR  
36 OF PROPERTY ACQUISITIONS.]

1 Upon acquisition of any taxable real property, the  
2 commissioner must notify the county auditor of the county where  
3 the property is located that the property has been acquired.

4 Sec. 12. Minnesota Statutes 2004, section 272.02,  
5 subdivision 22, is amended to read:

6 Subd. 22. [WIND ENERGY CONVERSION SYSTEMS.] All real and  
7 personal property of a wind energy conversion system as defined  
8 in section 272.029, subdivision 2, is exempt from property tax  
9 except that the land on which the property is located remains  
10 taxable. If approved by the county where the property is  
11 located, the value of the land on which the wind energy  
12 conversion system is located shall not be increased or  
13 decreased, but shall be valued in the same manner as similar  
14 land that has not been improved with a wind energy conversion  
15 system. The land shall be classified based on the most probable  
16 use of the property if it were not improved with a wind energy  
17 conversion system.

18 [EFFECTIVE DATE.] This section is effective for assessment  
19 year 2005 and thereafter, for taxes payable in 2006 and  
20 thereafter.

21 Sec. 13. Minnesota Statutes 2004, section 272.02,  
22 subdivision 47, is amended to read:

23 Subd. 47. [POULTRY LITTER BIOMASS GENERATION FACILITY;  
24 PERSONAL PROPERTY.] Notwithstanding subdivision 9, clause (a),  
25 attached machinery and other personal property which is part of  
26 an electrical generating facility that meets the requirements of  
27 this subdivision is exempt. At the time of construction, the  
28 facility must:

29 (1) be designed to utilize poultry litter as a primary fuel  
30 source; and

31 (2) be constructed for the purpose of generating power at  
32 the facility that will be sold pursuant to a contract approved  
33 by the Public Utilities Commission in accordance with the  
34 biomass mandate imposed under section 216B.2424.

35 Construction of the facility must be commenced after  
36 January 1, 2003, and before December 31, ~~2003~~ 2004. Property

1 eligible for this exemption does not include electric  
2 transmission lines and interconnections or gas pipelines and  
3 interconnections appurtenant to the property or the facility.

4 [EFFECTIVE DATE.] This section is effective for taxes  
5 levied in 2005, payable in 2006, and thereafter.

6 Sec. 14. Minnesota Statutes 2004, section 272.02,  
7 subdivision 56, is amended to read:

8 Subd. 56. [ELECTRIC GENERATION FACILITY; PERSONAL  
9 PROPERTY.] (a) Notwithstanding subdivision 9, clause (a),  
10 attached machinery and other personal property which is part of  
11 a combined-cycle combustion-turbine electric generation facility  
12 that exceeds 550 300 megawatts of installed capacity and that  
13 meets the requirements of this subdivision is exempt. At the  
14 time of construction, the facility must:

15 (1) be designed to utilize natural gas as a primary fuel;

16 (2) not be owned by a public utility as defined in section  
17 216B.02, subdivision 4;

18 (3) be located within five miles of an existing natural gas  
19 pipeline and within four miles of an existing electrical  
20 transmission substation;

21 (4) be located outside the metropolitan area as defined  
22 under section 473.121, subdivision 2; and

23 (5) be designed to provide energy and ancillary services  
24 and have received a certificate of need under section 216B.243.

25 (b) Construction of the facility must be commenced after  
26 January 1, 2004, and before January 1, 2007, except that  
27 property eligible for this exemption includes any expansion of  
28 the facility that also meets the requirements of paragraph (a),  
29 clauses (1) to (5), without regard to the date that construction  
30 of the expansion commences. Property eligible for this  
31 exemption does not include electric transmission lines and  
32 interconnections or gas pipelines and interconnections  
33 appurtenant to the property or the facility.

34 [EFFECTIVE DATE.] This section is effective for taxes  
35 levied in 2005, payable in 2006, and thereafter.

36 Sec. 15. Minnesota Statutes 2004, section 272.02, is

1 amended by adding a subdivision to read:

2 Subd. 68. [ELECTRIC GENERATION FACILITY; PERSONAL  
3 PROPERTY.] (a) Notwithstanding subdivision 9, clause (a),  
4 attached machinery and other personal property which is part of  
5 a simple-cycle combustion-turbine electric generation facility  
6 that exceeds 290 megawatts of installed capacity and that meets  
7 the requirements of this subdivision is exempt. At the time of  
8 construction, the facility must:

9 (1) be designed to utilize natural gas as a primary fuel;

10 (2) not be owned by a public utility as defined in section  
11 216B.02, subdivision 4;

12 (3) be located within five miles of an existing natural gas  
13 pipeline and within five miles of an existing electrical  
14 transmission substation;

15 (4) be located outside the metropolitan area as defined  
16 under section 473.121, subdivision 2;

17 (5) be designed to provide peaking capacity energy and  
18 ancillary services and have satisfied all of the requirements  
19 under section 216B.243; and

20 (6) have received, by resolution, the approval from the  
21 governing body of the county, city, and school district in which  
22 the proposed facility is to be located for the exemption of  
23 personal property under this subdivision.

24 (b) Construction of the facility must be commenced after  
25 January 1, 2005, and before January 1, 2009. Property eligible  
26 for this exemption does not include electric transmission lines  
27 and interconnections or gas pipelines and interconnections  
28 appurtenant to the property or the facility.

29 [EFFECTIVE DATE.] This section is effective for assessment  
30 year 2006, taxes payable in 2007, and thereafter.

31 Sec. 16. Minnesota Statutes 2004, section 272.02, is  
32 amended by adding a subdivision to read:

33 Subd. 69. [ELECTRIC GENERATION FACILITY; PERSONAL  
34 PROPERTY.] Notwithstanding subdivision 9, clause (a), attached  
35 machinery and other personal property which is part of a  
36 simple-cycle, combustion-turbine electric generation facility

1 that exceeds 300 megawatts of installed capacity and that meets  
2 the requirements of this subdivision is exempt. At the time of  
3 the construction, the facility must:

4 (1) be designed to utilize natural gas as a primary fuel;

5 (2) be owned by a public utility as defined in section

6 216B.02, subdivision 4, and be located at or interconnected with  
7 an existing generating plant of the utility;

8 (3) be designed to provide peaking, emergency backup, or  
9 contingency services;

10 (4) satisfy a resource need identified in an approved  
11 integrated resource plan filed under section 216B.2422; and

12 (5) have received, by resolution, the approval from the  
13 governing body of the county and the city for the exemption of  
14 personal property under this subdivision.

15 Construction of the facility must be commenced after  
16 January 1, 2004, and before January 1, 2006. Property eligible  
17 for this exemption does not include electric transmission lines  
18 and interconnections or gas pipelines and interconnections  
19 appurtenant to the property or the facility.

20 [EFFECTIVE DATE.] This section is effective beginning with  
21 assessment year 2005, for taxes payable in 2006, and thereafter.

22 Sec. 17. Minnesota Statutes 2004, section 272.02, is  
23 amended by adding a subdivision to read:

24 Subd. 70. [ELECTRIC GENERATION FACILITY PERSONAL  
25 PROPERTY.] (a) Notwithstanding subdivision 9, clause (a), and  
26 section 453.54, subdivision 20, attached machinery and other  
27 personal property which is part of an electric generation  
28 facility that exceeds 150 megawatts of installed capacity and  
29 meets the requirements of this subdivision is exempt. At the  
30 time of construction, the facility must:

31 (1) be designed to utilize natural gas as a primary fuel;

32 (2) be owned and operated by a municipal power agency as  
33 defined in section 453.52, subdivision 8;

34 (3) have received the certificate of need under section  
35 216B.243;

36 (4) be located outside the metropolitan area as defined

1 under section 473.121, subdivision 2; and

2 (5) be designed to be a combined-cycle facility, although  
3 initially the facility will be operated as a simple-cycle  
4 combustion turbine.

5 (b) To qualify under this subdivision, an agreement must be  
6 negotiated between the municipal power agency and the host city,  
7 for a payment in lieu of property taxes to the host city.

8 (c) Construction of the facility must be commenced after  
9 January 1, 2004, and before January 1, 2006. Property eligible  
10 for this exemption does not include electric transmission lines  
11 and interconnections or gas pipelines and interconnections  
12 appurtenant to the property or the facility.

13 [EFFECTIVE DATE.] This section is effective for assessment  
14 year 2005, taxes payable in 2006, and thereafter.

15 Sec. 18. Minnesota Statutes 2004, section 272.02, is  
16 amended by adding a subdivision to read:

17 Subd. 71. [BIOMASS ELECTRIC GENERATION FACILITY; PERSONAL  
18 PROPERTY.] (a) Notwithstanding subdivision 9, clause (a),  
19 attached machinery and other personal property which is a part  
20 of an electric generation facility, including remote boilers  
21 that comprise part of the district heating system, generating up  
22 to 30 megawatts of installed capacity and that meets the  
23 requirements of this subdivision is exempt. At the time of  
24 construction, the facility must:

25 (1) be designed to utilize a minimum 90 percent waste  
26 biomass as a fuel;

27 (2) not be owned by a public utility as defined in section  
28 216B.02, subdivision 4;

29 (3) be located within a city of the first class and have  
30 its primary location at a former garbage transfer station; and

31 (4) be designed to have capability to provide baseload  
32 energy and district heating.

33 (b) Construction of the facility must be commenced after  
34 January 1, 2004, and before January 1, 2008. Property eligible  
35 for this exemption does not include electric transmission lines  
36 and interconnections or gas pipelines and interconnections



1 appurtenant to the property or the facility.

2 [EFFECTIVE DATE.] This section is effective for assessment  
3 year 2005, taxes payable in 2006, and thereafter.

4 Sec. 19. Minnesota Statutes 2004, section 272.02, is  
5 amended by adding a subdivision to read:

6 Subd. 72. [ELECTRIC GENERATION FACILITY; PERSONAL  
7 PROPERTY.] (a) Notwithstanding subdivision 9, clause (a),  
8 attached machinery and other personal property that is part of  
9 either a simple-cycle, combustion-turbine electric generation  
10 facility that equals or exceeds 150 megawatts of installed  
11 capacity, or a combined-cycle, combustion-turbine electric  
12 generation facility that equals or exceeds 225 megawatts of  
13 installed capacity, and that in either case meets the  
14 requirements of this subdivision, is exempt. At the time of  
15 construction, the facility must:

16 (1) be designed to utilize natural gas as a primary fuel;

17 (2) not be owned by a public utility as defined in section  
18 216B.02, subdivision 4;

19 (3) be located in a metropolitan county defined in section  
20 473.121, subdivision 4, that has a population greater than  
21 190,000 and less than 225,000 in the most recent federal  
22 decennial census, within one mile of an existing natural gas  
23 pipeline, and within one mile of an existing electrical  
24 transmission substation; and

25 (4) be designed to provide energy and ancillary services  
26 and have received a certificate of need under section 216B.243.

27 (b) Construction of the facility must be commenced after  
28 January 1, 2005, and before January 1, 2008. Property eligible  
29 for this exemption does not include electric transmission lines  
30 and interconnections or gas pipelines and interconnections  
31 appurtenant to the property or the facility.

32 [EFFECTIVE DATE.] This section is effective for taxes  
33 levied in 2005, payable in 2006, and thereafter.

34 Sec. 20. Minnesota Statutes 2004, section 272.02, is  
35 amended by adding a subdivision to read:

36 Subd. 73. [PERSONAL RAPID TRANSIT SYSTEM.] All property

1 used in the operation and support of a personal rapid transit  
2 system as defined in section 297A.61, subdivision 37, that  
3 provides service to the public on a regular and continuing  
4 basis, is exempt, provided that it is operated independent of  
5 any government subsidies.

6 [EFFECTIVE DATE.] This section is effective for taxes  
7 levied in 2005, payable in 2006, and thereafter.

8 Sec. 21. Minnesota Statutes 2004, section 272.029,  
9 subdivision 4, is amended to read:

10 Subd. 4. [REPORTS.] (a) An owner of a wind energy  
11 conversion system subject to tax under subdivision 3 shall file  
12 a report with the commissioner of revenue annually on or before  
13 ~~March-1~~ February 1 detailing the amount of electricity in  
14 kilowatt-hours that was produced by the wind energy conversion  
15 system for the previous calendar year. The commissioner shall  
16 prescribe the form of the report. The report must contain the  
17 information required by the commissioner to determine the tax  
18 due to each county under this section for the current year. If  
19 an owner of a wind energy conversion system subject to taxation  
20 under this section fails to file the report by the due date, the  
21 commissioner of revenue shall determine the tax based upon the  
22 nameplate capacity of the system multiplied by a capacity factor  
23 of 40 percent.

24 (b) On or before ~~March-31~~ February 28, the commissioner of  
25 revenue shall notify the owner of the wind energy conversion  
26 systems of the tax due to each county for the current year and  
27 shall certify to the county auditor of each county in which the  
28 systems are located the tax due from each owner for the current  
29 year.

30 [EFFECTIVE DATE.] This section is effective for taxes  
31 payable in 2006 and thereafter.

32 Sec. 22. Minnesota Statutes 2004, section 272.029,  
33 subdivision 6, is amended to read:

34 Subd. 6. [DISTRIBUTION OF REVENUES.] Revenues from the  
35 taxes imposed under subdivision 5 must be part of the settlement  
36 between the county treasurer and the county auditor under

1 section 276.09. The revenue must be distributed by the county  
 2 auditor or the county treasurer to all local taxing  
 3 jurisdictions in which the wind energy conversion system is  
 4 located, in the same proportion that each of the taxing  
 5 jurisdiction's current previous year's net tax capacity based  
 6 tax rate is to the current previous year's total local net tax  
 7 capacity based rate.

8 [EFFECTIVE DATE.] This section is effective for taxes  
 9 payable in 2005 and thereafter.

10 Sec. 23. Minnesota Statutes 2004, section 273.11,  
 11 subdivision 1a, is amended to read:

12 Subd. 1a. [LIMITED MARKET VALUE.] In the case of:

13 (1) all property classified as agricultural homestead or  
 14 nonhomestead, residential homestead or nonhomestead, timber, or  
 15 noncommercial seasonal residential recreational, or class 1c  
 16 resort property; and

17 (2) property classified as commercial-industrial that has a  
 18 total market value less than \$500,000, the assessor shall  
 19 compare the value with the taxable portion of the value  
 20 determined in the preceding assessment except that for class 1c  
 21 resort property for assessment year 2005, the assessor shall  
 22 determine the limited market value as provided in subdivision 1b.

23 ~~For assessment year 2002, the amount of the increase shall~~  
 24 ~~not exceed the greater of (1) ten percent of the value in the~~  
 25 ~~preceding assessment, or (2) 15 percent of the difference~~  
 26 ~~between the current assessment and the preceding assessment.~~

27 ~~For assessment year 2003 the amount of the increase shall~~  
 28 ~~not exceed the greater of (1) 12 percent of the value in the~~  
 29 ~~preceding assessment, or (2) 20 percent of the difference~~  
 30 ~~between the current assessment and the preceding assessment.~~

31 For assessment year 2004 and thereafter, the amount of the  
 32 increase shall not exceed the greater of (1) 15 percent of the  
 33 value in the preceding assessment, or (2) 25 percent of the  
 34 difference between the current assessment and the preceding  
 35 assessment.

36 ~~For assessment year 2005, the amount of the increase shall~~

1 ~~not exceed the greater of (1) 15 percent of the value in the~~  
2 ~~preceding assessment, or (2) 33 percent of the difference~~  
3 ~~between the current assessment and the preceding assessment.~~

4 ~~For assessment year 2006, the amount of the increase shall~~  
5 ~~not exceed the greater of (1) 15 percent of the value in the~~  
6 ~~preceding assessment, or (2) 50 percent of the difference~~  
7 ~~between the current assessment and the preceding assessment.~~

8 This limitation shall not apply to increases in value due  
9 to improvements. For purposes of this subdivision, the term  
10 "assessment" means the value prior to any exclusion under  
11 subdivision 16.

12 ~~The provisions of this subdivision shall be in effect~~  
13 ~~through assessment year 2006 as provided in this subdivision.~~

14 For purposes of this subdivision and subdivision 1b, "class  
15 1c resort property" includes the portion of the property  
16 classified class 1a or 1b homestead, the portion of the property  
17 classified 1c, plus any remaining portion of the resort that is  
18 classified 4c under section 273.13, subdivision 25, paragraph  
19 (d), clause (1).

20 For purposes of the assessment/sales ratio study conducted  
21 under section 127A.48, and the computation of state aids paid  
22 under chapters 122A, 123A, 123B, 124D, 125A, 126C, 127A, and  
23 477A, market values and net tax capacities determined under this  
24 subdivision and subdivision 16, shall be used.

25 In the case of commercial-industrial property that  
26 qualifies under clause (2) of the first paragraph of this  
27 subdivision, for the first assessment year when the total market  
28 value of the property exceeds \$500,000, 33 percent of the  
29 difference between the current assessment and the preceding  
30 assessment must be added to the limited market value. For the  
31 next assessment year, 50 percent of the difference between the  
32 current assessment and the preceding assessment must be added to  
33 the limited market value. In the third assessment year after  
34 the total market value of the property initially exceeds  
35 \$500,000, this subdivision will no longer apply to the property.

36 [EFFECTIVE DATE.] This section is effective the day

1 following final enactment for assessment year 2005, and  
2 thereafter.

3 Sec. 24. Minnesota Statutes 2004, section 273.11, is  
4 amended by adding a subdivision to read:

5 Subd. 1b. [CLASS 1C RESORTS; 2005 ASSESSMENT ONLY.] For  
6 assessment year 2005, the valuation increase on class 1c resort  
7 property shall not exceed the greater of (1) 15 percent of the  
8 value of its 2003 assessment, or (2) 25 percent of the  
9 difference in value between its 2005 assessment and its 2003  
10 assessment. The valuation increase on class 1c resort property  
11 for the 2006 and 2007 assessment years shall be determined based  
12 upon the schedule contained in subdivision 1a.

13 [EFFECTIVE DATE.] This section is effective the day  
14 following final enactment.

15 Sec. 25. Minnesota Statutes 2004, section 273.11, is  
16 amended by adding a subdivision to read:

17 Subd. 21. [VALUATION EXCLUSION FOR SEWAGE TREATMENT SYSTEM  
18 IMPROVEMENTS.] Owners of property classified as class 1a, 1b,  
19 1c, 2a, 4b, 4bb, or noncommercial 4c under section 273.13 may  
20 apply for a valuation exclusion under this subdivision, provided  
21 that the property is located in a county which has authorized  
22 valuation exclusions under this subdivision, and provided that  
23 the following conditions are met:

24 (1) a notice of noncompliance has been issued by a licensed  
25 compliance inspector with regard to the individual sewage  
26 treatment system serving the property under section 115.55,  
27 subdivision 5b;

28 (2) the owner of the property furnishes documentation to  
29 the satisfaction of the assessor that the property's individual  
30 sewage treatment system has been replaced or refurbished,  
31 including replacement of the individual system with a community  
32 or cluster system, between May 1, 2005, and December 31, 2007;  
33 and

34 (3) a certificate of compliance has been issued for the new  
35 or refurbished system under section 115.55, subdivision 5.

36 Application must be made to the assessor on a form

1 prescribed by the commissioner of revenue. Property meeting the  
2 requirements of this subdivision is eligible for a valuation  
3 exclusion equal to 50 percent of the actual costs incurred, to a  
4 maximum exclusion of \$7,500, for a period of five years, after  
5 which the amount of the exclusion will be added to the estimated  
6 market value of the property. The valuation exclusion  
7 terminates upon the sale of the property. If a property owner  
8 applies for exclusion under this subdivision between January 1  
9 and June 30 of any year, the exclusion first applies for taxes  
10 payable in the following year. If a property owner applies for  
11 exclusion under this subdivision between July 1 and December 31  
12 of any year, the exclusion first applies for taxes payable in  
13 the second following year.

14 [EFFECTIVE DATE.] This section is effective for taxes  
15 payable in 2006 and subsequent years.

16 Sec. 26. Minnesota Statutes 2004, section 273.11, is  
17 amended by adding a subdivision to read:

18 Subd. 22. [VALUATION EXCLUSION FOR LEAD HAZARD REDUCTION.]  
19 Owners of property classified as class 1a, 1b, 1c, 2a, 4b, or  
20 4bb under section 273.13 may apply for a valuation exclusion for  
21 lead hazard reduction, provided that the property is located in  
22 a city which has authorized valuation exclusions under this  
23 subdivision. A city which authorizes valuation exclusions under  
24 this subdivision must establish guidelines for qualifying lead  
25 hazard reduction projects and must designate an agency within  
26 the city to issue certificates of completion of qualifying  
27 projects. For purposes of this subdivision, "lead hazard  
28 reduction" has the same meaning as in section 144.9501,  
29 subdivision 17.

30 The property owner must obtain a certificate from the city  
31 stating that the project has been completed and stating the cost  
32 incurred by the owner in completing the project. Only projects  
33 originating after April 30, 2005, may qualify for exclusion  
34 under this subdivision. The property owner shall apply for a  
35 valuation exclusion to the assessor on a form prescribed by the  
36 commissioner of revenue.

1 A qualifying property is eligible for a valuation exclusion  
2 equal to 50 percent of the actual costs incurred, to a maximum  
3 exclusion of \$15,000, for a period of five years, after which  
4 the amount of the exclusion will be added to the estimated  
5 market value of the property. The valuation exclusion shall  
6 terminate upon the sale of the property. If a property owner  
7 applies for exclusion under this subdivision between January 1  
8 and June 30 of any year, the exclusion shall first apply for  
9 taxes payable in the following year. If a property owner  
10 applies for exclusion under this subdivision between July 1 and  
11 December 31 of any year, the exclusion shall first apply for  
12 taxes payable in the second following year.

13 [EFFECTIVE DATE.] This section is effective for taxes  
14 payable in 2006 and subsequent years.

15 Sec. 27. [273.1115] [AGGREGATE RESOURCE PRESERVATION  
16 PROPERTY TAX LAW.]

17 Subdivision 1. [REQUIREMENTS.] Real estate is entitled to  
18 valuation under this section only if all of the following  
19 requirements are met:

20 (1) the property is classified 1a, 1b, 2a, or 2b property  
21 under section 273.13, subdivisions 22 and 23;

22 (2) the property is at least ten contiguous acres, when the  
23 application is filed under subdivision 2;

24 (3) the owner has filed a completed application for  
25 deferment as specified in subdivision 2 with the county assessor  
26 in the county in which the property is located;

27 (4) there are no delinquent taxes on the property; and

28 (5) a covenant on the land restricts its use as provided in  
29 subdivision 2, clause (4).

30 Subd. 2. [APPLICATION.] Application for valuation  
31 deferment under this section must be filed by May 1 of the  
32 assessment year. Any application filed and granted continues in  
33 effect for subsequent years until the property no longer  
34 qualifies, provided that supplemental affidavits under  
35 subdivision 6 are timely filed. The application must be filed  
36 with the assessor of the county in which the real property is

1 located on such form as may be prescribed by the commissioner of  
2 revenue. The application must be executed and acknowledged in  
3 the manner required by law to execute and acknowledge a deed and  
4 must contain at least the following information and any other  
5 information the commissioner deems necessary:

6 (1) the legal description of the area;

7 (2) the name and address of owner;

8 (3) a copy of the affidavit filed under section 273.13,

9 subdivision 23, paragraph (h), in the case of property  
10 classified class 2b, clause (5); or in the case of property

11 classified 1a, 1b, 2a, and 2b, clauses (1) to (3), the

12 application must include a similar document with the same

13 information as contained in the affidavit under section 273.13,

14 subdivision 23, paragraph (h); and

15 (4) a statement of proof from the owner that the land

16 contains a restrictive covenant limiting its use for the

17 property's surface to that which exists on the date of the

18 application and limiting its future use to the preparation and

19 removal of the aggregate commercial deposit under its surface.

20 To qualify under this clause, the covenant must be binding

21 on the owner or the owner's successor or assignee, and run with

22 the land, except as provided in subdivision 4 allowing for the

23 cancellation of the covenant under certain conditions.

24 Subd. 3. [DETERMINATION OF VALUE.] Upon timely application

25 by the owner as provided in subdivision 2, notwithstanding

26 sections 272.03, subdivision 8, and 273.11, the value of any

27 qualifying land described in subdivision 2 must be valued as if

28 it were agricultural property, using a per acre valuation equal

29 to the current year's per acre valuation of agricultural land in

30 the county. The assessor shall not consider any additional

31 value resulting from potential alternative and future uses of

32 the property. The buildings located on the land shall be valued

33 by the assessor in the normal manner.

34 Subd. 4. [CANCELLATION OF COVENANT.] The covenant required

35 under subdivision 2 may be canceled in two ways:

36 (1) by the owner beginning with the next subsequent



1 assessment year provided that the additional taxes as determined  
2 under subdivision 5 are paid by the owner at the time of  
3 cancellation; and

4 (2) by the city or town in which the property is located  
5 beginning with the next subsequent assessment year, if the city  
6 council or town board:

- 7 (i) changes the conditional use of the property;
- 8 (ii) revokes the mining permit; or
- 9 (iii) changes the zoning to disallow mining.

10 No additional taxes are imposed on the property under this  
11 clause.

12 Subd. 4a. [COUNTY TERMINATION.] Within two years of the  
13 effective date of this section, a county may, following notice  
14 and public hearing, terminate application of this section in the  
15 county. The termination is effective upon adoption of a  
16 resolution of the county board. A termination applies  
17 prospectively and does not affect property enrolled under this  
18 section prior to the termination date. A county may reauthorize  
19 application of this section by a resolution of the county board  
20 revoking the termination.

21 Subd. 5. [ADDITIONAL TAXES.] When real property which has  
22 been valued and assessed under this section no longer qualifies,  
23 the portion of the land classified under subdivision 1, clause  
24 (1), is subject to additional taxes. The additional tax amount  
25 is determined by:

26 (1) computing the difference between (i) the current year's  
27 taxes determined in accordance with subdivision 5, and (ii) an  
28 amount as determined by the assessor based upon the property's  
29 current year's estimated market value of like real estate at its  
30 highest and best use and the appropriate local tax rate; and

31 (2) multiplying the amount determined in clause (1) by the  
32 number of years the land was in the program under this section.

33 The current year's estimated market value as determined by  
34 the assessor must not exceed the market value that would result  
35 if the property was sold in an arms-length transaction and must  
36 not be greater than it would have been had the actual bona fide

1 sale price of the property been used in lieu of that market  
2 value. The additional taxes must be extended against the  
3 property on the tax list for the current year, except that  
4 interest or penalties must not be levied on such additional  
5 taxes if timely paid.

6 The additional tax under this subdivision must not be  
7 imposed on that portion of the property which has actively been  
8 mined and has been removed from the program based upon the  
9 supplemental affidavits filed under subdivision 6.

10 Subd. 6. [SUPPLEMENTAL AFFIDAVITS; MINING ACTIVITY ON  
11 LAND.] When any portion of the property begins to be actively  
12 mined, the owner must file a supplemental affidavit within 60  
13 days from the day any aggregate is removed stating the number of  
14 acres of the property that is actively being mined. The acres  
15 actively being mined shall be (1) valued and classified under  
16 section 273.13, subdivision 24, in the next subsequent  
17 assessment year, and (2) removed from the aggregate resource  
18 preservation property tax program under this section. The  
19 additional taxes under subdivision 5 must not be imposed on the  
20 acres that are actively being mined and have been removed from  
21 the program under this section.

22 Copies of the original affidavit and all supplemental  
23 affidavits must be filed with the county assessor, the local  
24 zoning administrator, and the Department of Natural Resources,  
25 Division of Land and Minerals. A supplemental affidavit must be  
26 filed each time a subsequent portion of the property is actively  
27 mined, provided that the minimum acreage change is five acres,  
28 even if the actual mining activity constitutes less than five  
29 acres. Failure to file the affidavits timely shall result in  
30 the property losing its valuation deferment under this section,  
31 and additional taxes must be imposed as calculated under  
32 subdivision 5.

33 Subd. 7. [LIEN.] The additional tax imposed by this  
34 section is a lien upon the property assessed to the same extent  
35 and for the same duration as other taxes imposed upon property  
36 within this state and, when collected, must be distributed in

1 the manner provided by law for the collection and distribution  
2 of other property taxes.

3 Subd. 8. [CONTINUATION OF TAX TREATMENT UPON SALE.] When  
4 real property qualifying under subdivision 1 is sold, additional  
5 taxes must not be extended against the property if the property  
6 continues to qualify under subdivision 1, and the new owner  
7 files an application with the assessor for continued deferment  
8 within 30 days after the sale.

9 Subd. 9. [DEFINITIONS.] For purposes of this section,  
10 "commercial aggregate deposit" and "actively mined" have the  
11 meanings given them in section 273.13, subdivision 23, paragraph  
12 (h).

13 [EFFECTIVE DATE.] This section is effective for taxes  
14 levied in 2005, payable in 2006, and thereafter, except that for  
15 the 2005 assessment year, the application date under subdivision  
16 4 shall be September 1, 2005, and subdivision 4a is effective  
17 the day following final enactment.

18 Sec. 28. [273.1116] [HOMESTEAD RESORTS; VALUATION AND  
19 DEFERMENT.]

20 Subdivision 1. [REQUIREMENTS.] Real property qualifying  
21 for classification as class 1c under section 273.13, subdivision  
22 22, paragraph (c), is entitled to valuation and tax deferment  
23 under this section, provided that if part of a resort is not  
24 classified as class 1c, only that portion of the value of the  
25 property that is classified as class 1c property qualifies under  
26 this section.

27 Subd. 2. [DETERMINATION OF VALUE.] Upon timely application  
28 by the owner, as provided in subdivision 4, the value of real  
29 property described in subdivision 1 must be determined by the  
30 assessor solely with reference to its classification value as  
31 class 1c property, notwithstanding sections 272.03, subdivision  
32 8, and 273.11. The owner must furnish information on the income  
33 generated by the property and other information required by the  
34 assessor to determine the value of the property. The assessor  
35 shall not consider any added values resulting from other factors.

36 Subd. 3. [SEPARATE DETERMINATION OF MARKET VALUE AND TAX.]

1 The assessor shall, however, make a separate determination of  
2 the market value of the real estate. The assessor shall record  
3 on the property assessment records the tax based upon the  
4 appropriate local tax rate applicable to the property in the  
5 taxing district.

6 Subd. 4. [APPLICATION.] Application for deferment of taxes  
7 and assessment under this section must be filed by May 1 of the  
8 year prior to the year in which the taxes are payable. The  
9 application must be filed with the assessor of the taxing  
10 district in which the real property is located on a form  
11 prescribed by the commissioner of revenue. The assessor may  
12 require proof by affidavit or otherwise that the property  
13 qualifies under subdivision 1. An application approved by the  
14 assessor continues in effect for subsequent years until the  
15 property no longer qualifies under subdivision 1.

16 Subd. 5. [ADDITIONAL TAXES.] When real property valued and  
17 assessed under this section no longer qualifies under  
18 subdivision 1, the portion no longer qualifying is subject to  
19 additional taxes, in the amount equal to the difference between  
20 the taxes determined in accordance with subdivision 2, and the  
21 amount determined under subdivision 3, provided, however, that  
22 the amount determined under subdivision 3 must not be greater  
23 than it would have been had the actual bona fide sale price of  
24 the real property at an arms-length transaction been used in  
25 lieu of the market value determined under subdivision 3. The  
26 additional taxes must be extended against the property on the  
27 tax list for the current year, except that no interest or  
28 penalties may be levied on the additional taxes if timely paid,  
29 and except that the additional taxes must only be levied with  
30 respect to the last seven years that the property has been  
31 valued and assessed under this section.

32 Subd. 6. [LIEN.] The tax imposed by this section is a lien  
33 on the property assessed to the same extent and for the same  
34 duration as other taxes imposed on property within this state.  
35 The tax must be annually extended by the county auditor and when  
36 payable must be collected and distributed in the manner provided

1 by law for the collection and distribution of other property  
2 taxes.

3 Subd. 7. [SPECIAL LOCAL ASSESSMENTS.] The payment of  
4 special local assessments levied after June 30, 2005, for  
5 improvements made to any real property described in subdivision  
6 2, together with the interest thereon must, on timely  
7 application under subdivision 4, be deferred as long as the  
8 property qualifies under subdivision 1. If special assessments  
9 against the property have been deferred under this subdivision,  
10 the governmental unit shall file with the county recorder in the  
11 county in which the property is located a certificate containing  
12 the legal description of the affected property and of the amount  
13 deferred. When the property no longer qualifies under  
14 subdivision 1, all deferred special assessments plus interest  
15 are payable in equal installments spread over the time remaining  
16 until the last maturity date of the bonds issued to finance the  
17 improvement for which the assessments were levied. If the bonds  
18 have matured, the deferred special assessments plus interest are  
19 payable within 90 days. The provisions of section 429.061,  
20 subdivision 2, apply to the collection of these installments.  
21 Penalty must not be levied on the special assessments if timely  
22 paid.

23 Subd. 8. [CONTINUATION OF TAX TREATMENT UPON SALE.] When  
24 real property qualifying under subdivision 1 is sold, no  
25 additional taxes or deferred special assessments plus interest  
26 may be extended against the property if:

27 (1) the property continues to qualify pursuant to  
28 subdivision 1; and

29 (2) the new owner files an application for continued  
30 deferment within 30 days after the sale.

31 Subd. 9. [APPLICABILITY OF SPECIAL ASSESSMENT PROVISIONS.]  
32 This section applies to special local assessments levied after  
33 June 30, 2005, and payable in the years thereafter, but shall  
34 not apply to any special assessments levied at any time by a  
35 county or district court under the provisions of chapter 116A.

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

1 levied in 2005, payable in 2006, and thereafter. For  
2 applications for taxes payable in 2006 only, the application  
3 deadline in subdivision 4 is extended to August 1, 2005.

4 Sec. 29. Minnesota Statutes 2004, section 273.112,  
5 subdivision 3, is amended to read:

6 Subd. 3. [REQUIREMENTS.] Real estate shall be entitled to  
7 valuation and tax deferment under this section only if it is:

8 (a) actively and exclusively devoted to golf, skiing, lawn  
9 bowling, croquet, polo, or archery or firearms range  
10 recreational use or other recreational uses carried on at the  
11 establishment;

12 (b) five acres in size or more, except in the case of a  
13 lawn bowling or croquet green or an archery or firearms range;

14 (c) (1) operated by private individuals or, in the case of a  
15 lawn bowling or croquet green, by private individuals or  
16 corporations, and open to the public; or

17 (2) operated by firms or corporations for the benefit of  
18 employees or guests; or

19 (3) operated by private clubs having a membership of 50 or  
20 more or open to the public, provided that the club does not  
21 discriminate in membership requirements or selection on the  
22 basis of sex or marital status; and

23 (d) made available for use in the case of real estate  
24 devoted to golf without discrimination on the basis of sex  
25 during the time when the facility is open to use by the public  
26 or by members, except that use for golf may be restricted on the  
27 basis of sex no more frequently than one, or part of one,  
28 weekend each calendar month for each sex and no more than two,  
29 or part of two, weekdays each week for each sex.

30 If a golf club membership allows use of golf course  
31 facilities by more than one adult per membership, the use must  
32 be equally available to all adults entitled to use of the golf  
33 course under the membership, except that use may be restricted  
34 on the basis of sex as permitted in this section. Memberships  
35 that permit play during restricted times may be allowed only if  
36 the restricted times apply to all adults using the membership.

1 A golf club may not offer a membership or golfing privileges to  
2 a spouse of a member that provides greater or less access to the  
3 golf course than is provided to that person's spouse under the  
4 same or a separate membership in that club, except that the  
5 terms of a membership may provide that one spouse may have no  
6 right to use the golf course at any time while the other spouse  
7 may have either limited or unlimited access to the golf course.

8 A golf club may have or create an individual membership  
9 category which entitles a member for a reduced rate to play  
10 during restricted hours as established by the club. The club  
11 must have on record a written request by the member for such  
12 membership.

13 A golf club that has food or beverage facilities or  
14 services must allow equal access to those facilities and  
15 services for both men and women members in all membership  
16 categories at all times. Nothing in this paragraph shall be  
17 construed to require service or access to facilities to persons  
18 under the age of 21 years or require any act that would violate  
19 law or ordinance regarding sale, consumption, or regulation of  
20 alcoholic beverages.

21 For purposes of this subdivision and subdivision 7a,  
22 discrimination means a pattern or course of conduct and not  
23 linked to an isolated incident.

24 [EFFECTIVE DATE.] This section is effective for taxes  
25 levied in 2005, payable in 2006, and thereafter.

26 Sec. 30. Minnesota Statutes 2004, section 273.124,  
27 subdivision 1, is amended to read:

28 Subdivision 1. [GENERAL RULE.] (a) Residential real estate  
29 that is occupied and used for the purposes of a homestead by its  
30 owner, who must be a Minnesota resident, is a residential  
31 homestead.

32 Agricultural land, as defined in section 273.13,  
33 subdivision 23, that is occupied and used as a homestead by its  
34 owner, who must be a Minnesota resident, is an agricultural  
35 homestead.

36 Dates for establishment of a homestead and homestead

1 treatment provided to particular types of property are as  
2 provided in this section.

3 Property held by a trustee under a trust is eligible for  
4 homestead classification if the requirements under this chapter  
5 are satisfied.

6 The assessor shall require proof, as provided in  
7 subdivision 13, of the facts upon which classification as a  
8 homestead may be determined. Notwithstanding any other law, the  
9 assessor may at any time require a homestead application to be  
10 filed in order to verify that any property classified as a  
11 homestead continues to be eligible for homestead status.  
12 Notwithstanding any other law to the contrary, the Department of  
13 Revenue may, upon request from an assessor, verify whether an  
14 individual who is requesting or receiving homestead  
15 classification has filed a Minnesota income tax return as a  
16 resident for the most recent taxable year for which the  
17 information is available.

18 When there is a name change or a transfer of homestead  
19 property, the assessor may reclassify the property in the next  
20 assessment unless a homestead application is filed to verify  
21 that the property continues to qualify for homestead  
22 classification.

23 (b) For purposes of this section, homestead property shall  
24 include property which is used for purposes of the homestead but  
25 is separated from the homestead by a road, street, lot,  
26 waterway, or other similar intervening property. The term "used  
27 for purposes of the homestead" shall include but not be limited  
28 to uses for gardens, garages, or other outbuildings commonly  
29 associated with a homestead, but shall not include vacant land  
30 held primarily for future development. In order to receive  
31 homestead treatment for the noncontiguous property, the owner  
32 must use the property for the purposes of the homestead, and  
33 must apply to the assessor, both by the deadlines given in  
34 subdivision 9. After initial qualification for the homestead  
35 treatment, additional applications for subsequent years are not  
36 required.



1 (c) Residential real estate that is occupied and used for  
2 purposes of a homestead by a relative of the owner is a  
3 homestead but only to the extent of the homestead treatment that  
4 would be provided if the related owner occupied the property.  
5 For purposes of this paragraph and paragraph (g), "relative"  
6 means a parent, stepparent, child, stepchild, grandparent,  
7 grandchild, brother, sister, uncle, aunt, nephew, or niece.  
8 This relationship may be by blood or marriage. Property that  
9 has been classified as seasonal residential recreational  
10 property at any time during which it has been owned by the  
11 current owner or spouse of the current owner will not be  
12 reclassified as a homestead unless it is occupied as a homestead  
13 by the owner; this prohibition also applies to property that, in  
14 the absence of this paragraph, would have been classified as  
15 seasonal residential recreational property at the time when the  
16 residence was constructed. Neither the related occupant nor the  
17 owner of the property may claim a property tax refund under  
18 chapter 290A for a homestead occupied by a relative. In the  
19 case of a residence located on agricultural land, only the  
20 house, garage, and immediately surrounding one acre of land  
21 shall be classified as a homestead under this paragraph, except  
22 as provided in paragraph (d).

23 (d) Agricultural property that is occupied and used for  
24 purposes of a homestead by a relative of the owner, is a  
25 homestead, only to the extent of the homestead treatment that  
26 would be provided if the related owner occupied the property,  
27 and only if all of the following criteria are met:

28 (1) the relative who is occupying the agricultural property  
29 is a son, daughter, grandson, granddaughter, father, or mother  
30 of the owner of the agricultural property or a son, daughter,  
31 grandson, or granddaughter of the spouse of the owner of the  
32 agricultural property;

33 (2) the owner of the agricultural property must be a  
34 Minnesota resident;

35 (3) the owner of the agricultural property must not receive  
36 homestead treatment on any other agricultural property in

1 Minnesota; and

2 (4) the owner of the agricultural property is limited to  
3 only one agricultural homestead per family under this paragraph.

4 Neither the related occupant nor the owner of the property  
5 may claim a property tax refund under chapter 290A for a  
6 homestead occupied by a relative qualifying under this  
7 paragraph. For purposes of this paragraph, "agricultural  
8 property" means the house, garage, other farm buildings and  
9 structures, and agricultural land.

10 Application must be made to the assessor by the owner of  
11 the agricultural property to receive homestead benefits under  
12 this paragraph. The assessor may require the necessary proof  
13 that the requirements under this paragraph have been met.

14 (e) In the case of property owned by a property owner who  
15 is married, the assessor must not deny homestead treatment in  
16 whole or in part if only one of the spouses occupies the  
17 property and the other spouse is absent due to: (1) marriage  
18 dissolution proceedings, (2) legal separation, (3) employment or  
19 self-employment in another location, or (4) other personal  
20 circumstances causing the spouses to live separately, not  
21 including an intent to obtain two homestead classifications for  
22 property tax purposes. To qualify under clause (3), the  
23 spouse's place of employment or self-employment must be at least  
24 50 miles distant from the other spouse's place of employment,  
25 and the homesteads must be at least 50 miles distant from each  
26 other. Homestead treatment, in whole or in part, shall not be  
27 denied to the owner's spouse who previously occupied the  
28 residence with the owner if the absence of the owner is due to  
29 one of the exceptions provided in this paragraph.

30 (f) The assessor must not deny homestead treatment in whole  
31 or in part if:

32 (1) in the case of a property owner who is not married, the  
33 owner is absent due to residence in a nursing home, boarding  
34 care facility, or an elderly assisted living facility property  
35 as defined in section 273.13, subdivision 25a, and the property  
36 is not otherwise occupied; or

1 (2) in the case of a property owner who is married, the  
2 owner or the owner's spouse or both are absent due to residence  
3 in a nursing home, boarding care facility, or an elderly  
4 assisted living facility property as defined in section 273.13,  
5 subdivision 25a, and the property is not occupied or is occupied  
6 only by the owner's spouse.

7 (g) If an individual is purchasing property with the intent  
8 of claiming it as a homestead and is required by the terms of  
9 the financing agreement to have a relative shown on the deed as  
10 a co-owner, the assessor shall allow a full homestead  
11 classification. This provision only applies to first-time  
12 purchasers, whether married or single, or to a person who had  
13 previously been married and is purchasing as a single individual  
14 for the first time. The application for homestead benefits must  
15 be on a form prescribed by the commissioner and must contain the  
16 data necessary for the assessor to determine if full homestead  
17 benefits are warranted.

18 (h) If residential or agricultural real estate is occupied  
19 and used for purposes of a homestead by a child of a deceased  
20 owner and the property is subject to jurisdiction of probate  
21 court, the child shall receive relative homestead classification  
22 under paragraph (c) or (d) to the same extent they would be  
23 entitled to it if the owner was still living, until the probate  
24 is completed. For purposes of this paragraph, "child" includes  
25 a relationship by blood or by marriage.

26 (i) If a single family home, duplex, or triplex classified  
27 as either residential homestead or agricultural homestead is  
28 also used to provide licensed child care, the portion of the  
29 property used for licensed child care must be classified as  
30 homestead property.

31 [EFFECTIVE DATE.] This section is effective in assessment  
32 year 2005 and thereafter, for taxes payable in 2006, and  
33 thereafter.

34 Sec. 31. Minnesota Statutes 2004, section 273.13,  
35 subdivision 23, is amended to read:

36 Subd. 23. [CLASS 2.] (a) Class 2a property is agricultural

1 land including any improvements that is homesteaded. The market  
2 value of the house and garage and immediately surrounding one  
3 acre of land has the same class rates as class 1a property under  
4 subdivision 22. The value of the remaining land including  
5 improvements up to and including \$600,000 market value has a net  
6 class rate of 0.55 percent of market value. The remaining  
7 property over \$600,000 market value has a class rate of one  
8 percent of market value.

9 (b) Class 2b property is (1) real estate, rural in  
10 character and used exclusively for growing trees for timber,  
11 lumber, and wood and wood products; (2) real estate that is not  
12 improved with a structure and is used exclusively for growing  
13 trees for timber, lumber, and wood and wood products, if the  
14 owner has participated or is participating in a cost-sharing  
15 program for afforestation, reforestation, or timber stand  
16 improvement on that particular property, administered or  
17 coordinated by the commissioner of natural resources; (3) real  
18 estate that is nonhomestead agricultural land; or (4) a landing  
19 area or public access area of a privately owned public use  
20 airport; or (5) land with a commercial aggregate deposit that is  
21 not actively being mined and is not otherwise classified as  
22 class 2a or 2b, clauses (1) to (3). Class 2b property has a net  
23 class rate of one percent of market value.

24 (c) Agricultural land as used in this section means  
25 contiguous acreage of ten acres or more, used during the  
26 preceding year for agricultural purposes. "Agricultural  
27 purposes" as used in this section means the raising or  
28 cultivation of agricultural products. "Agricultural purposes"  
29 also includes enrollment in the Reinvest in Minnesota program  
30 under sections 103F.501 to 103F.535 or the federal Conservation  
31 Reserve Program as contained in Public Law 99-198 if the  
32 property was classified as agricultural (i) under this  
33 subdivision for the assessment year 2002 or (ii) in the year  
34 prior to its enrollment. Contiguous acreage on the same parcel,  
35 or contiguous acreage on an immediately adjacent parcel under  
36 the same ownership, may also qualify as agricultural land, but

1 only if it is pasture, timber, waste, unusable wild land, or  
2 land included in state or federal farm programs. Agricultural  
3 classification for property shall be determined excluding the  
4 house, garage, and immediately surrounding one acre of land, and  
5 shall not be based upon the market value of any residential  
6 structures on the parcel or contiguous parcels under the same  
7 ownership.

8 (d) Real estate, excluding the house, garage, and  
9 immediately surrounding one acre of land, of less than ten acres  
10 which is exclusively and intensively used for raising or  
11 cultivating agricultural products, shall be considered as  
12 agricultural land.

13 Land shall be classified as agricultural even if all or a  
14 portion of the agricultural use of that property is the leasing  
15 to, or use by another person for agricultural purposes.

16 Classification under this subdivision is not determinative  
17 for qualifying under section 273.111.

18 The property classification under this section supersedes,  
19 for property tax purposes only, any locally administered  
20 agricultural policies or land use restrictions that define  
21 minimum or maximum farm acreage.

22 (e) The term "agricultural products" as used in this  
23 subdivision includes production for sale of:

24 (1) livestock, dairy animals, dairy products, poultry and  
25 poultry products, fur-bearing animals, horticultural and nursery  
26 stock, fruit of all kinds, vegetables, forage, grains, bees, and  
27 apiary products by the owner;

28 (2) fish bred for sale and consumption if the fish breeding  
29 occurs on land zoned for agricultural use;

30 (3) the commercial boarding of horses if the boarding is  
31 done in conjunction with raising or cultivating agricultural  
32 products as defined in clause (1);

33 (4) property which is owned and operated by nonprofit  
34 organizations used for equestrian activities, excluding racing;

35 (5) game birds and waterfowl bred and raised for use on a  
36 shooting preserve licensed under section 97A.115;

1 (6) insects primarily bred to be used as food for animals;

2 (7) trees, grown for sale as a crop, and not sold for

3 timber, lumber, wood, or wood products; and

4 (8) maple syrup taken from trees grown by a person licensed

5 by the Minnesota Department of Agriculture under chapter 28A as

6 a food processor.

7 (f) If a parcel used for agricultural purposes is also used

8 for commercial or industrial purposes, including but not limited

9 to:

10 (1) wholesale and retail sales;

11 (2) processing of raw agricultural products or other goods;

12 (3) warehousing or storage of processed goods; and

13 (4) office facilities for the support of the activities

14 enumerated in clauses (1), (2), and (3),

15 the assessor shall classify the part of the parcel used for

16 agricultural purposes as class 1b, 2a, or 2b, whichever is

17 appropriate, and the remainder in the class appropriate to its

18 use. The grading, sorting, and packaging of raw agricultural

19 products for first sale is considered an agricultural purpose.

20 A greenhouse or other building where horticultural or nursery

21 products are grown that is also used for the conduct of retail

22 sales must be classified as agricultural if it is primarily used

23 for the growing of horticultural or nursery products from seed,

24 cuttings, or roots and occasionally as a showroom for the retail

25 sale of those products. Use of a greenhouse or building only

26 for the display of already grown horticultural or nursery

27 products does not qualify as an agricultural purpose.

28 The assessor shall determine and list separately on the

29 records the market value of the homestead dwelling and the one

30 acre of land on which that dwelling is located. If any farm

31 buildings or structures are located on this homesteaded acre of

32 land, their market value shall not be included in this separate

33 determination.

34 (g) To qualify for classification under paragraph (b),

35 clause (4), a privately owned public use airport must be

36 licensed as a public airport under section 360.018. For

1 purposes of paragraph (b), clause (4), "landing area" means that  
2 part of a privately owned public use airport properly cleared,  
3 regularly maintained, and made available to the public for use  
4 by aircraft and includes runways, taxiways, aprons, and sites  
5 upon which are situated landing or navigational aids. A landing  
6 area also includes land underlying both the primary surface and  
7 the approach surfaces that comply with all of the following:

8 (i) the land is properly cleared and regularly maintained  
9 for the primary purposes of the landing, taking off, and taxiing  
10 of aircraft; but that portion of the land that contains  
11 facilities for servicing, repair, or maintenance of aircraft is  
12 not included as a landing area;

13 (ii) the land is part of the airport property; and

14 (iii) the land is not used for commercial or residential  
15 purposes.

16 The land contained in a landing area under paragraph (b), clause  
17 (4), must be described and certified by the commissioner of  
18 transportation. The certification is effective until it is  
19 modified, or until the airport or landing area no longer meets  
20 the requirements of paragraph (b), clause (4). For purposes of  
21 paragraph (b), clause (4), "public access area" means property  
22 used as an aircraft parking ramp, apron, or storage hangar, or  
23 an arrival and departure building in connection with the airport.

24 (h) To qualify for classification under paragraph (b),  
25 clause (5), the property must be at least ten contiguous acres  
26 in size and the owner of the property must record with the  
27 county recorder of the county in which the property is located  
28 an affidavit containing:

29 (1) a legal description of the property;

30 (2) a disclosure that the property contains a commercial  
31 aggregate deposit that is not actively being mined;

32 (3) documentation that the conditional use under the county  
33 or local zoning ordinance of this property is for mining; and

34 (4) documentation that a permit has been issued by the  
35 local unit of government or the mining activity is allowed under  
36 local ordinance. The disclosure must include a statement from a

1 registered professional geologist, engineer, or soil scientist  
2 delineating the deposit and certifying that it is a commercial  
3 aggregate deposit.

4 For purposes of this section and section 273.1115,  
5 "commercial aggregate deposit" means a deposit that will yield  
6 crushed stone or sand and gravel that is suitable for use as a  
7 construction aggregate; and "actively mined" means the removal  
8 of top soil and overburden in preparation for excavation or  
9 excavation of a commercial deposit.

10 (i) When any portion of the property under this subdivision  
11 or section 273.13, subdivision 22, begins to be actively mined,  
12 the owner must file a supplemental affidavit within 60 days from  
13 the day any aggregate is removed stating the number of acres of  
14 the property that is actively being mined. The acres actively  
15 being mined must be (1) valued and classified under section  
16 273.13, subdivision 24, in the next subsequent assessment year,  
17 and (2) removed from the aggregate resource preservation  
18 property tax program under section 273.1115, if the land was  
19 enrolled in that program. Copies of the original affidavit and  
20 all supplemental affidavits must be filed with the county  
21 assessor, the local zoning administrator, and the Department of  
22 Natural Resources, Division of Land and Minerals. A  
23 supplemental affidavit must be filed each time a subsequent  
24 portion of the property is actively mined, provided that the  
25 minimum acreage change is five acres, even if the actual mining  
26 activity constitutes less than five acres.

27 [EFFECTIVE DATE.] This section is effective for taxes  
28 levied in 2005, payable in 2006, and thereafter.

29 Sec. 32. Minnesota Statutes 2004, section 273.13,  
30 subdivision 25, is amended to read:

31 Subd. 25. [CLASS 4.] (a) Class 4a is residential real  
32 estate containing four or more units and used or held for use by  
33 the owner or by the tenants or lessees of the owner as a  
34 residence for rental periods of 30 days or more. Class 4a also  
35 includes hospitals licensed under sections 144.50 to 144.56,  
36 other than hospitals exempt under section 272.02, and contiguous



1 property used for hospital purposes, without regard to whether  
2 the property has been platted or subdivided. The market value  
3 of class 4a property has a class rate of 1.8 percent for taxes  
4 payable in 2002, 1.5 percent for taxes payable in 2003, and 1.25  
5 percent for taxes payable in 2004 and thereafter, except that  
6 class 4a property consisting of a structure for which  
7 construction commenced after June 30, 2001, has a class rate of  
8 1.25 percent of market value for taxes payable in 2003 and  
9 subsequent years.

10 (b) Class 4b includes:

11 (1) residential real estate containing less than four units  
12 that does not qualify as class 4bb, other than seasonal  
13 residential recreational property;

14 (2) manufactured homes not classified under any other  
15 provision;

16 (3) a dwelling, garage, and surrounding one acre of  
17 property on a nonhomestead farm classified under subdivision 23,  
18 paragraph (b) containing two or three units; and

19 (4) unimproved property that is classified residential as  
20 determined under subdivision 33.

21 The market value of class 4b property has a class rate of  
22 1.5 percent for taxes payable in 2002, and 1.25 percent for  
23 taxes payable in 2003 and thereafter.

24 (c) Class 4bb includes:

25 (1) nonhomestead residential real estate containing one  
26 unit, other than seasonal residential recreational property; and

27 (2) a single family dwelling, garage, and surrounding one  
28 acre of property on a nonhomestead farm classified under  
29 subdivision 23, paragraph (b).

30 Class 4bb property has the same class rates as class 1a  
31 property under subdivision 22.

32 Property that has been classified as seasonal residential  
33 recreational property at any time during which it has been owned  
34 by the current owner or spouse of the current owner does not  
35 qualify for class 4bb.

36 (d) Class 4c property includes:

1 (1) except as provided in subdivision 22, paragraph (c),  
2 real property devoted to temporary and seasonal residential  
3 occupancy for recreation purposes, including real property  
4 devoted to temporary and seasonal residential occupancy for  
5 recreation purposes and not devoted to commercial purposes for  
6 more than 250 days in the year preceding the year of  
7 assessment. For purposes of this clause, property is devoted to  
8 a commercial purpose on a specific day if any portion of the  
9 property is used for residential occupancy, and a fee is charged  
10 for residential occupancy. In order for a property to be  
11 classified as class 4c, seasonal residential recreational for  
12 commercial purposes, at least 40 percent of the annual gross  
13 lodging receipts related to the property must be from business  
14 conducted during 90 consecutive days and either (i) at least 60  
15 percent of all paid bookings by lodging guests during the year  
16 must be for periods of at least two consecutive nights; or (ii)  
17 at least 20 percent of the annual gross receipts must be from  
18 charges for rental of fish houses, boats and motors,  
19 snowmobiles, downhill or cross-country ski equipment, or charges  
20 for marina services, launch services, and guide services, or the  
21 sale of bait and fishing tackle. For purposes of this  
22 determination, a paid booking of five or more nights shall be  
23 counted as two bookings. Class 4c also includes commercial use  
24 real property used exclusively for recreational purposes in  
25 conjunction with class 4c property devoted to temporary and  
26 seasonal residential occupancy for recreational purposes, up to  
27 a total of two acres, provided the property is not devoted to  
28 commercial recreational use for more than 250 days in the year  
29 preceding the year of assessment and is located within two miles  
30 of the class 4c property with which it is used. Class 4c  
31 property classified in this clause also includes the remainder  
32 of class 1c resorts provided that the entire property including  
33 that portion of the property classified as class 1c also meets  
34 the requirements for class 4c under this clause; otherwise the  
35 entire property is classified as class 3. Owners of real  
36 property devoted to temporary and seasonal residential occupancy

1 for recreation purposes and all or a portion of which was  
2 devoted to commercial purposes for not more than 250 days in the  
3 year preceding the year of assessment desiring classification as  
4 class 1c or 4c, must submit a declaration to the assessor  
5 designating the cabins or units occupied for 250 days or less in  
6 the year preceding the year of assessment by January 15 of the  
7 assessment year. Those cabins or units and a proportionate  
8 share of the land on which they are located will be designated  
9 class 1c or 4c as otherwise provided. The remainder of the  
10 cabins or units and a proportionate share of the land on which  
11 they are located will be designated as class 3a. The owner of  
12 property desiring designation as class 1c or 4c property must  
13 provide guest registers or other records demonstrating that the  
14 units for which class 1c or 4c designation is sought were not  
15 occupied for more than 250 days in the year preceding the  
16 assessment if so requested. The portion of a property operated  
17 as a (1) restaurant, (2) bar, (3) gift shop, and (4) other  
18 nonresidential facility operated on a commercial basis not  
19 directly related to temporary and seasonal residential occupancy  
20 for recreation purposes shall not qualify for class 1c or 4c;

21 (2) qualified property used as a golf course if:

22 (i) it is open to the public on a daily fee basis. It may  
23 charge membership fees or dues, but a membership fee may not be  
24 required in order to use the property for golfing, and its green  
25 fees for golfing must be comparable to green fees typically  
26 charged by municipal courses; and

27 (ii) it meets the requirements of section 273.112,  
28 subdivision 3, paragraph (d).

29 A structure used as a clubhouse, restaurant, or place of  
30 refreshment in conjunction with the golf course is classified as  
31 class 3a property;

32 (3) real property up to a maximum of one acre of land owned  
33 by a nonprofit community service oriented organization; provided  
34 that the property is not used for a revenue-producing activity  
35 for more than six days in the calendar year preceding the year  
36 of assessment and the property is not used for residential

1 purposes on either a temporary or permanent basis. For purposes  
2 of this clause, a "nonprofit community service oriented  
3 organization" means any corporation, society, association,  
4 foundation, or institution organized and operated exclusively  
5 for charitable, religious, fraternal, civic, or educational  
6 purposes, and which is exempt from federal income taxation  
7 pursuant to section 501(c)(3), (10), or (19) of the Internal  
8 Revenue Code of 1986, as amended through December 31, 1990. For  
9 purposes of this clause, "revenue-producing activities" shall  
10 include but not be limited to property or that portion of the  
11 property that is used as an on-sale intoxicating liquor or 3.2  
12 percent malt liquor establishment licensed under chapter 340A, a  
13 restaurant open to the public, bowling alley, a retail store,  
14 gambling conducted by organizations licensed under chapter 349,  
15 an insurance business, or office or other space leased or rented  
16 to a lessee who conducts a for-profit enterprise on the  
17 premises. Any portion of the property which is used for  
18 revenue-producing activities for more than six days in the  
19 calendar year preceding the year of assessment shall be assessed  
20 as class 3a. The use of the property for social events open  
21 exclusively to members and their guests for periods of less than  
22 24 hours, when an admission is not charged nor any revenues are  
23 received by the organization shall not be considered a  
24 revenue-producing activity;

25 (4) postsecondary student housing of not more than one acre  
26 of land that is owned by a nonprofit corporation organized under  
27 chapter 317A and is used exclusively by a student cooperative,  
28 sorority, or fraternity for on-campus housing or housing located  
29 within two miles of the border of a college campus;

30 (5) manufactured home parks as defined in section 327.14,  
31 subdivision 3;

32 (6) real property that is actively and exclusively devoted  
33 to indoor fitness, health, social, recreational, and related  
34 uses, is owned and operated by a not-for-profit corporation, and  
35 is located within the metropolitan area as defined in section  
36 473.121, subdivision 2;

1 (7) a leased or privately owned noncommercial aircraft  
2 storage hangar not exempt under section 272.01, subdivision 2,  
3 and the land on which it is located, provided that:

4 (i) the land is on an airport owned or operated by a city,  
5 town, county, Metropolitan Airports Commission, or group  
6 thereof; and

7 (ii) the land lease, or any ordinance or signed agreement  
8 restricting the use of the leased premise, prohibits commercial  
9 activity performed at the hangar.

10 If a hangar classified under this clause is sold after June  
11 30, 2000, a bill of sale must be filed by the new owner with the  
12 assessor of the county where the property is located within 60  
13 days of the sale; and

14 (8) residential real estate, a portion of which is used by  
15 the owner for homestead purposes, and that is also a place of  
16 lodging, if all of the following criteria are met:

17 (i) rooms are provided for rent to transient guests that  
18 generally stay for periods of 14 or fewer days;

19 (ii) meals are provided to persons who rent rooms, the cost  
20 of which is incorporated in the basic room rate;

21 (iii) meals are not provided to the general public except  
22 for special events on fewer than seven days in the calendar year  
23 preceding the year of the assessment; and

24 (iv) the owner is the operator of the property.

25 The market value subject to the 4c classification under this  
26 clause is limited to five rental units. Any rental units on the  
27 property in excess of five, must be valued and assessed as class  
28 3a. The portion of the property used for purposes of a  
29 homestead by the owner must be classified as class 1a property  
30 under subdivision 22.

31 Class 4c property has a class rate of 1.5 percent of market  
32 value, except that (i) each parcel of seasonal residential  
33 recreational property not used for commercial purposes has the  
34 same class rates as class 4bb property, (ii) manufactured home  
35 parks assessed under clause (5) have the same class rate as  
36 class 4b property, (iii) commercial-use seasonal residential

1 recreational property has a class rate of one percent for the  
2 first \$500,000 of market value, which includes any market value  
3 receiving the one percent rate under subdivision 22, and 1.25  
4 percent for the remaining market value, (iv) the market value of  
5 property described in clause (4) has a class rate of one  
6 percent, (v) the market value of property described in clauses  
7 (2) and (6) has a class rate of 1.25 percent, and (vi) that  
8 portion of the market value of property in clause (8) qualifying  
9 for class 4c property has a class rate of 1.25 percent.

10 (e) Class 4d property is qualifying low-income rental  
11 housing certified to the assessor by the Housing Finance Agency  
12 under sections 273.126 and 462A.071. Class 4d includes land in  
13 proportion to the total market value of the building that is  
14 qualifying low-income rental housing.

15 Class 4d property has a class rate of 0.55 percent for  
16 taxes payable in 2007 and thereafter.

17 Sec. 33. [273.1321] [VALUATION OF LOW-INCOME RENTAL  
18 PROPERTY; CAPITALIZED VALUE OF NET OPERATING INCOME.]

19 Subdivision 1. [REQUIREMENT.] Low-income rental property  
20 classified as class 4d under section 273.13, subdivision 25, is  
21 entitled to valuation under this section if at least 75 percent  
22 of the units in the rental housing property meet any of the  
23 following qualifications:

24 (1) the units are subject to a housing assistance payments  
25 contract under section 8 of the United States Housing Act of  
26 1937, as amended;

27 (2) the units are rent-restricted and income-restricted  
28 units of a qualified low-income housing project receiving tax  
29 credits under section 42(g) of the Internal Revenue Code of  
30 1986, as amended;

31 (3) the units are financed by the Rural Housing Service of  
32 the United States Department of Agriculture and receive payments  
33 under the rental assistance program pursuant to section 521(a)  
34 of the Housing Act of 1949, as amended; or

35 (4) the units are subject to rent and income restrictions  
36 under the terms of financial assistance provided to the rental

1 housing property by a federal, state, or local unit of  
2 government as evidenced by a document recorded against the  
3 property.

4 The restrictions must require assisted units to be occupied  
5 by residents whose household income at the time of initial  
6 occupancy does not exceed 60 percent of the greater of area or  
7 state median income, adjusted for family size, as determined by  
8 the United States Department of Housing and Urban Development.  
9 The restriction must also require the rents for assisted units  
10 to not exceed 30 percent of 60 percent of the greater of area or  
11 state median income, adjusted for family size, as determined by  
12 the United States Department of Housing and Urban Development.

13 Subd. 2. [DETERMINATION OF VALUE.] (a) The value of any  
14 rental housing property meeting the qualifications of  
15 subdivision 1 shall be determined, upon timely application by  
16 the owner in the manner provided in subdivision 3, on the basis  
17 of the restricted use of the property, notwithstanding sections  
18 272.03, subdivision 8, and 273.11, by capitalizing the net  
19 operating income prior to the payment of debt service.

20 (b) Net operating income prior to payment of debt service  
21 must be the amounts shown in a financial statement prepared by  
22 an independent certified public accountant or firm. The  
23 financial statement must show the revenues, expenses, cash  
24 flows, assets, liabilities, and net assets for the property for  
25 which an application is made under this section.

26 (c) The capitalization rate applied to net operating income  
27 shall be established jointly by the commissioner and the Housing  
28 Finance Agency based on market data and industry standards. The  
29 commissioner and the Housing Finance Agency shall jointly  
30 establish separate rates based on types of rental housing  
31 properties and their locations.

32 Subd. 3. [APPLICATION.] (a) Application for assessment  
33 under this section must be filed by February 28 of the levy  
34 year, or at a later date the Housing Finance Agency deems  
35 practicable. The application must be filed with the Housing  
36 Finance Agency, on a form prescribed by the agency, and must

1 contain the information required by the Housing Finance Agency.

2 (b) Each application must include:

3 (1) the property tax identification number;

4 (2) evidence that the property meets the requirements of  
5 subdivision 1; and

6 (3) a true and correct copy of the financial statement  
7 related to the property.

8 (c) The applicant must pay an application fee to be set by  
9 the Housing Finance Agency. The application fee charged by the  
10 agency must approximately equal the costs of processing and  
11 reviewing the applications. The fee must be deposited in the  
12 housing development fund.

13 Subd. 4. [CERTIFICATION.] By June 1 of each levy year, the  
14 Housing Finance Agency must certify to local assessors the  
15 valuation, as determined under this section, of rental  
16 properties that apply and are qualified for valuation under this  
17 section. In making the certification, the Housing Finance  
18 Agency may rely on the application and supporting information  
19 supplied by the property owner.

20 [EFFECTIVE DATE.] This section is effective for taxes  
21 levied in 2006, payable in 2007, and thereafter.

22 Sec. 34. [273.1322] [VACANT COMMERCIAL INDUSTRIAL  
23 PROPERTIES.]

24 Subdivision 1. [AUTHORITY.] A city may establish, by  
25 ordinance, a program to encourage redevelopment, provide for  
26 better utilization of commercial industrial property, and  
27 eliminate blighting influences by revoking the eligibility of  
28 individual commercial industrial properties to receive the  
29 credit authorized under section 273.1398, subdivision 4. The  
30 program may revoke eligibility only if the property has been  
31 vacant, as defined in subdivision 3, clauses (1) to (3), for  
32 three or more consecutive years prior to the current assessment  
33 year, or under subdivision 3, clause (4), for five or more  
34 consecutive years prior to the current assessment year.

35 Subd. 2. [MINIMUM REQUIREMENTS.] The program must provide:

36 (1) standards for determining whether a property is vacant;



1 (2) written assessment notice by the city or county to the  
2 property owner informing the owner that the property's  
3 eligibility will be revoked;

4 (3) opportunity for the property owner to appeal the  
5 revocation at the board of equalization;

6 (4) timely notice to the county assessor of the property's  
7 eligibility revocation, if the city has a city assessor and the  
8 city assessor has revoked the property's eligibility; and

9 (5) any other provisions the city determines are necessary  
10 or appropriate to the operation of the program to achieve its  
11 purposes.

12 Subd. 3. [DEFINITION OF VACANT.] A program established  
13 under this section may provide that a property is vacant if the  
14 property is:

15 (1) condemned, dangerous, or having multiple building code  
16 violations;

17 (2) condemned and illegally occupied;

18 (3) either occupied or unoccupied, during which time the  
19 enforcement officer for the municipality has issued multiple  
20 orders to correct nuisance conditions; or

21 (4) unoccupied and not utilized for a commercial or  
22 industrial purpose.

23 Subd. 4. [NOTICE TO PROPERTY OWNER.] The municipality  
24 shall give notice to the property owner requiring that any  
25 conditions in subdivision 3, clauses (1) to (3), be remedied,  
26 and that the property be occupied and used for a commercial or  
27 industrial purpose for at least 180 days during the next  
28 12-month period, or else the property may cease to be eligible  
29 for the credit under section 273.1398, subdivision 4.

30 [EFFECTIVE DATE.] This section is effective for taxes  
31 payable in 2007 and thereafter.

32 Sec. 35. Minnesota Statutes 2004, section 273.1384,  
33 subdivision 3, is amended to read:

34 Subd. 3. [CREDIT REIMBURSEMENTS.] (a) The county auditor  
35 shall determine the tax reductions allowed under this section  
36 within the county for each taxes payable year and shall certify

1 that amount to the commissioner of revenue as a part of the  
2 abstracts of tax lists submitted by the county auditors under  
3 section 275.29.

4 (b) In the case of class 1a, class 1c, or class 2a  
5 homestead property which is located within a city, the county  
6 auditor shall determine whether the net tax on each parcel is  
7 less than the applicable percentage of its taxable market value  
8 provided in this paragraph for the year. For taxes payable in  
9 2007 and 2008, if the net tax on the property is less than 0.7  
10 percent of its taxable market value, the county auditor shall  
11 reduce the reimbursement to the county and the city for the  
12 credit allowed under subdivision 1 by the amount of the  
13 difference. For taxes payable in 2009 and 2010, if the net tax  
14 on the property is less than 0.8 percent of its taxable market  
15 value, the county auditor shall reduce the reimbursement to the  
16 county and the city for the credit allowed under subdivision 1  
17 by the amount of the difference. For taxes payable in 2011 and  
18 2012, if the net tax on the property is less than 0.9 percent of  
19 its taxable market value, the county auditor shall reduce the  
20 reimbursement to the county and the city for the credit allowed  
21 under subdivision 1 by the amount of the difference. For taxes  
22 payable in 2013 and thereafter, if the net tax on the property  
23 is less than one percent of its taxable market value, the county  
24 auditor shall reduce the reimbursement to the county and the  
25 city for the credit allowed under subdivision 1 by the amount of  
26 the difference. The market value credit reimbursement cannot be  
27 less than zero.

28 (c) Any prior year adjustments shall also be certified on  
29 the abstracts of tax lists. The commissioner shall review the  
30 certifications for accuracy, and may make such changes as are  
31 deemed necessary, or return the certification to the county  
32 auditor for correction. If there is no reduction of the  
33 reimbursements under paragraph (b), the credits under this  
34 section must be used to proportionately reduce the net tax  
35 capacity-based property tax payable to each local taxing  
36 jurisdiction as provided in section 273.1393. If there is a

1 reduction under paragraph (b), the reimbursements paid to the  
2 city and county must be reduced in proportion to the amount of  
3 their levies.

4 [EFFECTIVE DATE.] This section is effective for taxes  
5 levied in 2006, payable in 2007, and thereafter.

6 Sec. 36. [273.323] [EFFECTIVE DATE FOR RULES FOR VALUATION  
7 OF ELECTRIC AND TRANSMISSION PIPELINE UTILITY PROPERTY.]

8 Rules adopted by the commissioner that prescribe the method  
9 of valuing property of electric and transmission pipeline  
10 utilities may not take effect before the end of the regular  
11 legislative session in the calendar year following adoption of  
12 the rules.

13 [EFFECTIVE DATE.] This section is effective the day  
14 following final enactment.

15 Sec. 37. Minnesota Statutes 2004, section 275.025,  
16 subdivision 1, is amended to read:

17 Subdivision 1. [LEVY AMOUNT.] (a) The state general levy  
18 is levied against commercial-industrial property and seasonal  
19 residential recreational property, as defined in this section.  
20 The state general levy base amount is \$592,000,000 for taxes  
21 payable in 2002. For taxes payable in subsequent years on  
22 seasonal residential recreational property, the levy base amount  
23 is increased each year by multiplying the levy base amount  
24 for that class of property for the prior year by the sum of one  
25 plus the rate of increase, if any, in the implicit price  
26 deflator for government consumption expenditures and gross  
27 investment for state and local governments prepared by the  
28 Bureau of Economic Analysts of the United States Department of  
29 Commerce for the 12-month period ending March 31 of the year  
30 prior to the year the taxes are payable. For taxes payable in  
31 2006 and subsequent years on commercial-industrial property, the  
32 tax is imposed under this subdivision at the rate of the tax  
33 imposed under this subdivision for taxes payable in 2002. The  
34 tax under this section is not treated as a local tax rate under  
35 section 469.177 and is not the levy of a governmental unit under  
36 chapters 276A and 473F.

1        (b) Beginning with taxes payable in 2008, and in each year  
2 thereafter, the commissioner of finance shall deposit in the  
3 education reserve account established in section 52, the  
4 increased amount of the state general levy for that year over  
5 the state general levy base amount for taxes payable in 2002.

6        (c) The commissioner shall increase or decrease the  
7 preliminary or final rate for a year as necessary to account for  
8 errors and tax base changes that affected a preliminary or final  
9 rate for either of the two preceding years. Adjustments are  
10 allowed to the extent that the necessary information is  
11 available to the commissioner at the time the rates for a year  
12 must be certified, and for the following reasons:

13            (1) an erroneous report of taxable value by a local  
14 official;

15            (2) an erroneous calculation by the commissioner; and

16            (3) an increase or decrease in taxable value for  
17 commercial-industrial or seasonal residential recreational  
18 property reported on the abstracts of tax lists submitted under  
19 section 275.29 that was not reported on the abstracts of  
20 assessment submitted under section 270.11, subdivision 2, for  
21 the same year.

22 The commissioner may, but need not, make adjustments if the  
23 total difference in the tax levied for the year would be less  
24 than \$100,000.

25        [EFFECTIVE DATE.] This section is effective for taxes  
26 payable in 2006 and subsequent years.

27        Sec. 38. Minnesota Statutes 2004, section 275.065,  
28 subdivision 3, is amended to read:

29        Subd. 3. [NOTICE OF PROPOSED PROPERTY TAXES.] (a) The  
30 county auditor shall prepare and the county treasurer shall  
31 deliver after November 10 and on or before November 24 each  
32 year, by first class mail to each taxpayer at the address listed  
33 on the county's current year's assessment roll, a notice of  
34 proposed property taxes.

35        (b) The commissioner of revenue shall prescribe the form of  
36 the notice.

1 (c) The notice must inform taxpayers that it contains the  
2 amount of property taxes each taxing authority proposes to  
3 collect for taxes payable the following year. In the case of a  
4 town, or in the case of the state general tax, the final tax  
5 amount will be its proposed tax. In the case of taxing  
6 authorities required to hold a public meeting under subdivision  
7 6, the notice must clearly state that each taxing authority,  
8 including regional library districts established under section  
9 134.201, and including the metropolitan taxing districts as  
10 defined in paragraph (i), but excluding all other special taxing  
11 districts and towns, will hold a public meeting to receive  
12 public testimony on the proposed budget and proposed or final  
13 property tax levy, or, in case of a school district, on the  
14 current budget and proposed property tax levy. It must clearly  
15 state the time and place of each taxing authority's meeting, a  
16 telephone number for the taxing authority that taxpayers may  
17 call if they have questions related to the notice, and an  
18 address where comments will be received by mail.

19 (d) The notice must state for each parcel:

20 (1) the market value of the property as determined under  
21 section 273.11, and used for computing property taxes payable in  
22 the following year and for taxes payable in the current year as  
23 each appears in the records of the county assessor on November 1  
24 of the current year; and, in the case of residential property,  
25 whether the property is classified as homestead or  
26 nonhomestead. The notice must clearly inform taxpayers of the  
27 years to which the market values apply and that the values are  
28 final values;

29 (2) the items listed below, shown separately by county,  
30 city or town, and state general tax, net of the residential and  
31 agricultural homestead credit under section 273.1384, voter  
32 approved school levy, other local school levy, and the sum of  
33 the special taxing districts, and as a total of all taxing  
34 authorities:

35 (i) the actual tax for taxes payable in the current year;  
36 and

1 (ii) the proposed tax amount.

2 If the county levy under clause (2) includes an amount for  
3 a lake improvement district as defined under sections 103B.501  
4 to 103B.581, the amount attributable for that purpose must be  
5 separately stated from the remaining county levy amount.

6 In the case of a town or the state general tax, the final  
7 tax shall also be its proposed tax unless the town changes its  
8 levy at a special town meeting under section 365.52. If a  
9 school district has certified under section 126C.17, subdivision  
10 9, that a referendum will be held in the school district at the  
11 November general election, the county auditor must note next to  
12 the school district's proposed amount that a referendum is  
13 pending and that, if approved by the voters, the tax amount may  
14 be higher than shown on the notice. In the case of the city of  
15 Minneapolis, the levy for the Minneapolis Library Board and the  
16 levy for Minneapolis Park and Recreation shall be listed  
17 separately from the remaining amount of the city's levy. In the  
18 case of the city of St. Paul, the levy for the St. Paul Library  
19 Agency must be listed separately from the remaining amount of  
20 the city's levy. In the case of Ramsey County, any amount  
21 levied under section 134.07 may be listed separately from the  
22 remaining amount of the county's levy. In the case of a parcel  
23 where tax increment or the fiscal disparities areawide tax under  
24 chapter 276A or 473F applies, the proposed tax levy on the  
25 captured value or the proposed tax levy on the tax capacity  
26 subject to the areawide tax must each be stated separately and  
27 not included in the sum of the special taxing districts; and  
28 (3) the increase or decrease between the total taxes  
29 payable in the current year and the total proposed taxes,  
30 expressed as a percentage.

31 For purposes of this section, the amount of the tax on  
32 homesteads qualifying under the senior citizens' property tax  
33 deferral program under chapter 290B is the total amount of  
34 property tax before subtraction of the deferred property tax  
35 amount.

36 (e) The notice must clearly state that the proposed or

1 final taxes do not include the following:

2 (1) special assessments;

3 (2) levies approved by the voters after the date the  
4 proposed taxes are certified, including bond referenda and  
5 school district levy referenda;

6 (3) a levy limit increase approved by the voters by the  
7 first Tuesday after the first Monday in November of the levy  
8 year as provided under section 275.73;

9 (4) amounts necessary to pay cleanup or other costs due to  
10 a natural disaster occurring after the date the proposed taxes  
11 are certified;

12 (5) amounts necessary to pay tort judgments against the  
13 taxing authority that become final after the date the proposed  
14 taxes are certified; and

15 (6) the contamination tax imposed on properties which  
16 received market value reductions for contamination.

17 (f) Except as provided in subdivision 7, failure of the  
18 county auditor to prepare or the county treasurer to deliver the  
19 notice as required in this section does not invalidate the  
20 proposed or final tax levy or the taxes payable pursuant to the  
21 tax levy.

22 (g) If the notice the taxpayer receives under this section  
23 lists the property as nonhomestead, and satisfactory  
24 documentation is provided to the county assessor by the  
25 applicable deadline, and the property qualifies for the  
26 homestead classification in that assessment year, the assessor  
27 shall reclassify the property to homestead for taxes payable in  
28 the following year.

29 (h) In the case of class 4 residential property used as a  
30 residence for lease or rental periods of 30 days or more, the  
31 taxpayer must either:

32 (1) mail or deliver a copy of the notice of proposed  
33 property taxes to each tenant, renter, or lessee; or

34 (2) post a copy of the notice in a conspicuous place on the  
35 premises of the property.

36 The notice must be mailed or posted by the taxpayer by

1 November 27 or within three days of receipt of the notice,  
2 whichever is later. A taxpayer may notify the county treasurer  
3 of the address of the taxpayer, agent, caretaker, or manager of  
4 the premises to which the notice must be mailed in order to  
5 fulfill the requirements of this paragraph.

6 (i) For purposes of this subdivision, subdivisions 5a and  
7 6, "metropolitan special taxing districts" means the following  
8 taxing districts in the seven-county metropolitan area that levy  
9 a property tax for any of the specified purposes listed below:

10 (1) Metropolitan Council under section 473.132, 473.167,  
11 473.249, 473.325, 473.446, 473.521, 473.547, or 473.834;

12 (2) Metropolitan Airports Commission under section 473.667,  
13 473.671, or 473.672; and

14 (3) Metropolitan Mosquito Control Commission under section  
15 473.711.

16 For purposes of this section, any levies made by the  
17 regional rail authorities in the county of Anoka, Carver,  
18 Dakota, Hennepin, Ramsey, Scott, or Washington under chapter  
19 398A shall be included with the appropriate county's levy and  
20 shall be discussed at that county's public hearing.

21 [EFFECTIVE DATE.] This section is effective for notices for  
22 property taxes levied in 2005, payable in 2006, and thereafter.

23 Sec. 39. Minnesota Statutes 2004, section 276.04,  
24 subdivision 2, is amended to read:

25 Subd. 2. [CONTENTS OF TAX STATEMENTS.] (a) The treasurer  
26 shall provide for the printing of the tax statements. The  
27 commissioner of revenue shall prescribe the form of the property  
28 tax statement and its contents. The statement must contain a  
29 tabulated statement of the dollar amount due to each taxing  
30 authority and the amount of the state tax from the parcel of  
31 real property for which a particular tax statement is prepared.  
32 The dollar amounts attributable to the county, the state tax,  
33 the voter approved school tax, the other local school tax, the  
34 township or municipality, and the total of the metropolitan  
35 special taxing districts as defined in section 275.065,  
36 subdivision 3, paragraph (i), must be separately stated. The



1 amounts due all other special taxing districts, if any, may be  
2 aggregated. If the county levy under this paragraph includes an  
3 amount for a lake improvement district as defined under sections  
4 103B.501 to 103B.581, the amount attributable for that purpose  
5 must be separately stated from the remaining county levy  
6 amount. In the case of Ramsey County, if the county levy under  
7 this paragraph includes an amount for public library service  
8 under section 134.07, the amount attributable for that purpose  
9 may be separately stated from the remaining county levy amount.  
10 The amount of the tax on homesteads qualifying under the senior  
11 citizens' property tax deferral program under chapter 290B is  
12 the total amount of property tax before subtraction of the  
13 deferred property tax amount. The amount of the tax on  
14 contamination value imposed under sections 270.91 to 270.98, if  
15 any, must also be separately stated. The dollar amounts,  
16 including the dollar amount of any special assessments, may be  
17 rounded to the nearest even whole dollar. For purposes of this  
18 section whole odd-numbered dollars may be adjusted to the next  
19 higher even-numbered dollar. The amount of market value  
20 excluded under section 273.11, subdivision 16, if any, must also  
21 be listed on the tax statement.

22 (b) The property tax statements for manufactured homes and  
23 sectional structures taxed as personal property shall contain  
24 the same information that is required on the tax statements for  
25 real property.

26 (c) Real and personal property tax statements must contain  
27 the following information in the order given in this paragraph.  
28 The information must contain the current year tax information in  
29 the right column with the corresponding information for the  
30 previous year in a column on the left:

31 (1) the property's estimated market value under section  
32 273.11, subdivision 1;

33 (2) the property's taxable market value after reductions  
34 under section 273.11, subdivisions 1a and 16;

35 (3) the property's gross tax, calculated by adding the  
36 property's total property tax to the sum of the aids enumerated

1 in clause (4);

2 (4) a total of the following aids:

3 (i) education aids payable under chapters 122A, 123A, 123B,  
4 124D, 125A, 126C, and 127A;

5 (ii) local government aids for cities, towns, and counties  
6 under chapter 477A;

7 (iii) disparity reduction aid under section 273.1398; and

8 (iv) homestead and agricultural credit aid under section  
9 273.1398;

10 (5) for homestead residential and agricultural properties,  
11 the credits under section 273.1384;

12 (6) any credits received under sections 273.119; 273.123;  
13 273.135; 273.1391; 273.1398, subdivision 4; 469.171; and  
14 473H.10, except that the amount of credit received under section  
15 273.135 must be separately stated and identified as "taconite  
16 tax relief"; and

17 (7) the net tax payable in the manner required in paragraph  
18 (a).

19 (d) If the county uses envelopes for mailing property tax  
20 statements and if the county agrees, a taxing district may  
21 include a notice with the property tax statement notifying  
22 taxpayers when the taxing district will begin its budget  
23 deliberations for the current year, and encouraging taxpayers to  
24 attend the hearings. If the county allows notices to be  
25 included in the envelope containing the property tax statement,  
26 and if more than one taxing district relative to a given  
27 property decides to include a notice with the tax statement, the  
28 county treasurer or auditor must coordinate the process and may  
29 combine the information on a single announcement.

30 The commissioner of revenue shall certify to the county  
31 auditor the actual or estimated aids enumerated in clause (4)  
32 that local governments will receive in the following year. The  
33 commissioner must certify this amount by January 1 of each year.

34 [EFFECTIVE DATE.] This section is effective for property  
35 tax statements for taxes payable in 2006 and thereafter.

36 Sec. 40. [278.021] [PETITIONS INVOLVING LOW-INCOME RENTAL

1 HOUSING PROPERTY.]

2 Notwithstanding section 278.02, in the case of real  
3 property that meets the definition of qualifying low-income  
4 housing rental property established in section 273.126, the  
5 petition may include any and all such parcels of real property  
6 in which the petitioner has an estate, right, title, interest,  
7 or lien, except that all such parcels included in the petition  
8 must be located in the same county. Contiguous qualifying  
9 low-income rental housing property overlapping county boundaries  
10 may be included in the same petition.

11 Sec. 41. Minnesota Statutes 2004, section 278.03,  
12 subdivision 1, is amended to read:

13 Subdivision 1. [REAL PROPERTY.] ~~In-the-case-of-real~~  
14 ~~property,~~ If the proceedings instituted by the filing of the  
15 petition have not been completed before the 16th day of May next  
16 following the filing or, in the case of class 1c property or  
17 class 4c resort property before the 16th day of June for taxes  
18 payable in 2006 and 2007 only, the petitioner shall pay to the  
19 county treasurer 50 percent of the tax levied for such year  
20 against the property involved, unless permission to continue  
21 prosecution of the petition without such payment is obtained as  
22 herein provided. If the proceedings instituted by the filing of  
23 the petition have not been completed by the next October 16, or,  
24 in the case of class 1b agricultural homestead, class 2a  
25 agricultural homestead, and class 2b(2) agricultural  
26 nonhomestead property, November 16, the petitioner shall pay to  
27 the county treasurer 50 percent of the unpaid balance of the  
28 taxes levied for the year against the property involved if the  
29 unpaid balance is \$2,000 or less and 80 percent of the unpaid  
30 balance if the unpaid balance is over \$2,000, unless permission  
31 to continue prosecution of the petition without payment is  
32 obtained as herein provided. The petitioner, upon ten days'  
33 notice to the county attorney and to the county auditor, given  
34 at least ten days prior to the 16th day of May or, in the case  
35 of class 1c or class 4c resort property, the 16th day of June  
36 for taxes payable in 2006 and 2007 only, or the 16th day of

1 October, or, in the case of class 1b agricultural homestead,  
2 class 2a agricultural homestead, and class 2b(2) agricultural  
3 nonhomestead property, the 16th day of November, may apply to  
4 the court for permission to continue prosecution of the petition  
5 without payment; and, if it is made to appear

6 (1) that the proposed review is to be taken in good faith;

7 (2) that there is probable cause to believe that the  
8 property may be held exempt from the tax levied or that the tax  
9 may be determined to be less than 50 percent of the amount  
10 levied; and

11 (3) that it would work a hardship upon petitioner to pay  
12 the taxes due,

13 the court may permit the petitioner to continue prosecution  
14 of the petition without payment, or may fix a lesser amount to  
15 be paid as a condition of continuing the prosecution of the  
16 petition.

17 Failure to make payment of the amount required when due  
18 shall operate automatically to dismiss the petition and all  
19 proceedings thereunder unless the payment is waived by an order  
20 of the court permitting the petitioner to continue prosecution  
21 of the petition without payment. The petition shall be  
22 automatically reinstated upon payment of the entire tax plus  
23 interest and penalty if the payment is made within one year of  
24 the dismissal. The county treasurer shall, upon request of the  
25 petitioner, issue duplicate receipts for the tax payment, one of  
26 which shall be filed by the petitioner in the proceeding.

27 Sec. 42. Minnesota Statutes 2004, section 279.01,  
28 subdivision 1, is amended to read:

29 Subdivision 1. [DUE DATES; PENALTIES.] Except as provided  
30 in ~~subdivision 3 or 4~~ this section, on May 16 or 21 days after  
31 the postmark date on the envelope containing the property tax  
32 statement, whichever is later, a penalty shall accrue and  
33 thereafter be charged upon all unpaid taxes on real estate on  
34 the current lists in the hands of the county treasurer. The  
35 penalty shall be at a rate of two percent on homestead property  
36 until May 31 and four percent on June 1. The penalty on

1 nonhomestead property shall be at a rate of four percent until  
2 May 31 and eight percent on June 1. This penalty shall not  
3 accrue until June 1 of each year, or 21 days after the postmark  
4 date on the envelope containing the property tax statements,  
5 whichever is later, on commercial use real property used for  
6 seasonal residential recreational purposes and classified as  
7 class 1c or 4c, and on other commercial use real property  
8 classified as class 3a, provided that over 60 percent of the  
9 gross income earned by the enterprise on the class 3a property  
10 is earned during the months of May, June, July, and August. Any  
11 property owner of such class 3a property who pays the first half  
12 of the tax due on the property after May 15 and before June 1,  
13 or 21 days after the postmark date on the envelope containing  
14 the property tax statement, whichever is later, shall attach an  
15 affidavit to the payment attesting to compliance with the income  
16 provision of this subdivision. Thereafter, for both homestead  
17 and nonhomestead property, on the first day of each month  
18 beginning July 1, up to and including October 1 following, an  
19 additional penalty of one percent for each month shall accrue  
20 and be charged on all such unpaid taxes provided that if the due  
21 date was extended beyond May 15 as the result of any delay in  
22 mailing property tax statements no additional penalty shall  
23 accrue if the tax is paid by the extended due date. If the tax  
24 is not paid by the extended due date, then all penalties that  
25 would have accrued if the due date had been May 15 shall be  
26 charged. When the taxes against any tract or lot exceed \$50,  
27 one-half thereof may be paid prior to May 16 or 21 days after  
28 the postmark date on the envelope containing the property tax  
29 statement, whichever is later; and, if so paid, no penalty shall  
30 attach; the remaining one-half shall be paid at any time prior  
31 to October 16 following, without penalty; but, if not so paid,  
32 then a penalty of two percent shall accrue thereon for homestead  
33 property and a penalty of four percent on nonhomestead  
34 property. Thereafter, for homestead property, on the first day  
35 of November an additional penalty of four percent shall accrue  
36 and on the first day of December following, an additional

1 penalty of two percent shall accrue and be charged on all such  
2 unpaid taxes. Thereafter, for nonhomestead property, on the  
3 first day of November and December following, an additional  
4 penalty of four percent for each month shall accrue and be  
5 charged on all such unpaid taxes. If one-half of such taxes  
6 shall not be paid prior to May 16 or 21 days after the postmark  
7 date on the envelope containing the property tax statement,  
8 whichever is later, the same may be paid at any time prior to  
9 October 16, with accrued penalties to the date of payment added,  
10 and thereupon no penalty shall attach to the remaining one-half  
11 until October 16 following.

12 This section applies to payment of personal property taxes  
13 assessed against improvements to leased property, except as  
14 provided by section 277.01, subdivision 3.

15 A county may provide by resolution that in the case of a  
16 property owner that has multiple tracts or parcels with  
17 aggregate taxes exceeding \$50, payments may be made in  
18 installments as provided in this subdivision.

19 The county treasurer may accept payments of more or less  
20 than the exact amount of a tax installment due. If the accepted  
21 payment is less than the amount due, payments must be applied  
22 first to the penalty accrued for the year the payment is made.  
23 Acceptance of partial payment of tax does not constitute a  
24 waiver of the minimum payment required as a condition for filing  
25 an appeal under section 278.03 or any other law, nor does it  
26 affect the order of payment of delinquent taxes under section  
27 280.39.

28 Sec. 43. Minnesota Statutes 2004, section 279.01, is  
29 amended by adding a subdivision to read:

30 Subd. 5. [SEASONAL RESIDENTIAL RECREATIONAL PROPERTY USED  
31 FOR COMMERCIAL PURPOSES.] For taxes payable in 2006 and 2007  
32 only, in the case of class 1c property and class 4c seasonal  
33 residential recreational property used for commercial purposes,  
34 no penalties shall accrue to the first one-half property tax  
35 payment as provided in this section if paid by June 15. On June  
36 16, a penalty shall accrue and thereafter be charged upon all

1 unpaid taxes. On class 1c property the penalty is at a rate of  
2 two percent until June 31, and four percent on July 1. On class  
3 4c seasonal residential recreational property used for  
4 commercial purposes, the penalty is four percent until June 31  
5 and eight percent on July 1. Thereafter, for both class 1c and  
6 class 4c seasonal residential recreational property used for  
7 commercial purposes, on the first day of September and on the  
8 first day of October, an additional penalty of one percent shall  
9 accrue and be charged on unpaid taxes. The remaining one-half  
10 property taxes must be paid and penalties accrue as provided in  
11 subdivision 1.

12 Sec. 44. [290.0621] [SCHOOL REFERENDUM TAX.]

13 Subdivision 1. [IMPOSITION.] In addition to all other  
14 taxes imposed by this chapter, a tax is imposed on individuals  
15 who are domiciled on the last day of the taxable year within the  
16 territory of a school district in which the voters approved an  
17 income tax increase at a referendum conducted under section  
18 126C.17, subdivision 9, for that purpose in 2006 or a subsequent  
19 year. This tax does not apply to referendums on bond issues.  
20 Individuals domiciled in the district on the last day of the  
21 taxable year are subject to the tax.

22 Subd. 2. [RATE.] The commissioner of revenue shall  
23 annually determine the rate of the tax imposed under this  
24 section as a percentage of the state income tax liability of  
25 individuals subject to the tax by each district. The school  
26 referendum tax rate is equal to the ratio of (i) the district's  
27 local effort revenue under section 126C.17, subdivision 6b, to  
28 (ii) the state income tax liability of all individuals domiciled  
29 in the district on the last day of the previous taxable year.

30 Subd. 3. [REVENUE DISTRIBUTION.] Revenue raised in  
31 subdivision 1 must be placed in a special account in the general  
32 fund. The amount necessary to make payments to school districts  
33 under this section is annually appropriated from the general  
34 fund to the commissioner of education and must be paid to school  
35 districts according to section 127A.45.

36 Sec. 45. Minnesota Statutes 2004, section 462A.071,

1 subdivision 6, is amended to read:

2 Subd. 6. [SECTION 8, TAX CREDIT, AND RURAL HOUSING SERVICE  
3 UNITS.] (a) The agency may deem units as meeting the

4 requirements of section 273.126 and this section, if the units:

5 ~~(1)-are-subject-to-a-housing-assistance-payments-contract~~  
6 ~~under-section-8-of-the-United-States-Housing-Act-of-1937,-as~~  
7 ~~amended;~~

8 ~~(2)-are-rent-and-income-restricted-units-of-a-qualified~~  
9 ~~low-income-housing-project-receiving-tax-credits-under-section~~  
10 ~~42(g)-of-the-Internal-Revenue-Code-of-1986,-as-amended;-or~~

11 ~~(3)-are-financed-by-the-Rural-Housing-Service-of-the-United~~  
12 ~~States-Department-of-Agriculture-and-receive-payments-under-the~~  
13 ~~rental-assistance-program-pursuant-to-section-521(a)-of-the~~  
14 ~~Housing-Act-of-1949,-as-amended~~ meet the requirements provided  
15 in section 273.1321, subdivision 1.

16 (b) The agency may certify these deemed units under  
17 subdivision 1 based on a simplified application procedure that  
18 verifies the unit's qualifications under paragraph (a).

19 Sec. 46. Minnesota Statutes 2004, section 473F.08, is  
20 amended by adding a subdivision to read:

21 Subd. 3c. [UNCOMPENSATED CARE REIMBURSEMENT.] (a) As used  
22 in this subdivision, the following terms have the meanings given  
23 in this paragraph.

24 (1) "Uncompensated care" means the sum of (i) the amount  
25 that would have been charged by a facility for rendering free or  
26 discounted care to persons who cannot afford to pay and for  
27 which the facility did not expect payment and (ii) the amount  
28 that had been charged by a facility for rendering care to  
29 persons and billed to that person or a third-party payer for  
30 which the facility expected but did not receive payment.  
31 Uncompensated care does not include contractual write-offs.

32 (2) A "qualifying hospital" means a hospital in the area  
33 that is:

34 (i) owned or operated by a local unit of government, or  
35 formerly owned by a university or is a private nonprofit  
36 hospital that leases its building from the county in which it is



1 located; and

2 (ii) has a licensed bed capacity greater than 400.

3 (b) A county that contains a qualifying hospital is  
4 eligible for reimbursement of that portion of gross charges for  
5 uncompensated care determined by multiplying the hospital's  
6 gross charges during the base year by the percentage of  
7 uncompensated care provided by the hospital during the base year  
8 minus one-half of one percent of those gross charges, dividing  
9 the result by two, and adjusting to cost by multiplying that  
10 result by the hospital's cost-to-charge ratio during the base  
11 year. By July 15, 2006, and each subsequent year, the county  
12 shall notify its county auditor, as well as the administrative  
13 auditor, of the amount of qualifying uncompensated care  
14 provided, adjusted to cost using the hospital's cost-to-charge  
15 ratio, during the 12-month period ending on June 30 of the  
16 current year.

17 (c) The amount certified under paragraph (b) shall be  
18 certified annually by the county auditor to the administrative  
19 auditor as an addition to the county's areawide levy under  
20 subdivision 5.

21 (d) The administrative auditor shall pay one-half of the  
22 reimbursement to the county auditor of the county that contains  
23 the qualifying hospital on or before June 15 and the remaining  
24 one-half of the reimbursement on or before November 15. The  
25 county auditor receiving the payment shall disburse the  
26 reimbursement to the qualifying hospital within 15 days of  
27 receipt of the reimbursement.

28 (e) Prior to the reporting specified in paragraph (b)  
29 above, all qualifying hospitals that participate in this program  
30 shall agree upon and implement a common standard for reporting  
31 uncompensated care, and a common standard for determining  
32 eligibility for uncompensated care for all participating  
33 hospitals.

34 [EFFECTIVE DATE.] This section is effective for fiscal  
35 disparities contribution and distribution tax capacities for  
36 taxes payable in 2007 and 2008 only.

1 Sec. 47. Minnesota Statutes 2004, section 473F.08, is  
2 amended by adding a subdivision to read:

3 Subd. 3d. [HENNEPIN COUNTY PUBLIC DEFENDER COST  
4 REIMBURSEMENT.] (a) Hennepin County is eligible for  
5 reimbursement of costs incurred by the county under section  
6 611.26, subdivision 3a, paragraph (c). By July 15, 2006, and  
7 each subsequent year, the county shall notify the county auditor  
8 and the administrative auditor, of the amount of that cost  
9 incurred by the county during the 12-month period ending on June  
10 30 of the current year.

11 (b) The reimbursement under this subdivision for costs  
12 incurred during the 12-month period ending June 30, 2006, is  
13 equal to 25 percent of those costs. The reimbursement under  
14 this subdivision for costs incurred during the 12-month period  
15 ending June 30, 2007, is equal to 50 percent of those costs.

16 (c) The amount certified under paragraph (b) shall be  
17 certified annually by the Hennepin County auditor to the  
18 administrative auditor as an addition to the county's areawide  
19 levy under subdivision 5.

20 (d) The administrative auditor shall pay one-half of the  
21 reimbursement to the Hennepin County auditor on or before June  
22 15 and the remaining one-half of the reimbursement on or before  
23 November 15.

24 [EFFECTIVE DATE.] This section is effective for fiscal  
25 disparities contribution and distribution tax capacities for  
26 taxes payable in 2007 and 2008 only.

27 Sec. 48. Laws 1998, chapter 389, article 3, section 41, is  
28 amended to read:

29 Sec. 41. [SPECIAL ASSESSMENT DEFERRAL AUTHORIZED.]

30 Notwithstanding Minnesota Statutes, chapter 429, a city may  
31 defer the payment of any special assessment levied against a  
32 property qualifying under section 38 as determined by the city.  
33 Any special assessment, the payment of which has been deferred  
34 by the city, must be paid in full or a payment agreement may be  
35 approved by the city if the ownership of property is transferred  
36 to anyone or any entity. Payment or a payment agreement must be

1 made within 60 days of the transfer of ownership.

2 [EFFECTIVE DATE.] This section is effective the day  
3 following final enactment.

4 Sec. 49. Laws 1998, chapter 389, article 3, section 42,  
5 subdivision 2, as amended by Laws 2002, chapter 377, article 4,  
6 section 24, is amended to read:

7 Subd. 2. [RECAPTURE.] (a) Property or any portion thereof  
8 qualifying under section 38 is subject to additional taxes if:

9 (1) ownership of the property is transferred to anyone  
10 other than the spouse or child of the current owner;

11 (2) the current owner or the spouse or child of the current  
12 owner has not conveyed or entered into a contract before July 1,  
13 2007, to convey for ownership or public easement rights, (i) a  
14 portion of the property to a one or more nonprofit foundation  
15 foundations or corporation-operating corporations; and (ii) a  
16 portion of the property to one or more local governments; and  
17 those entities shall separately or jointly operate the property  
18 as an art park providing the services included in section 38,  
19 clauses (2) to (5), and may also use some of the property for  
20 other public purposes as determined by the local governments; or

21 (3) the nonprofit foundation or corporation to which a  
22 portion of the property was transferred ceases to provide the  
23 services included in section 38, clauses (2) to (5), earlier  
24 than ten years following the effective date of the conveyance  
25 conveyances or of the execution of the ~~contract~~ contracts to  
26 convey.

27 (b) The additional taxes are imposed at the earlier of (1)  
28 the year following transfer of ownership to anyone other than  
29 the spouse or child of the current owner or a nonprofit  
30 foundation or corporation or local government operating the  
31 property as an art park and used for other public purposes, or  
32 (2) for taxes payable in 2008, or (3) in the event the nonprofit  
33 foundation or corporation to which a portion of the property was  
34 conveyed ceases to provide the required services within ten  
35 years after the conveyance, for taxes payable in the year  
36 following the year when it ceased to do so.

1        The county board, with the approval of the city council,  
 2 shall determine the amount of the additional taxes due on the  
 3 portion of property which is no longer utilized as an art park;  
 4 provided, however, that the additional taxes are equal to must  
 5 not be greater than the difference between the taxes determined  
 6 on that portion of the property utilized as an art park under  
 7 sections 39 and 40 and the amount determined under subdivision 1  
 8 for all years that the property qualified under section 38. The  
 9 ~~additional taxes must be extended against the property on the~~  
 10 ~~tax list for the current year; provided, however, that~~ No  
 11 interest or penalties may be levied on the additional taxes if  
 12 ~~timely paid~~ amount provided that it is paid within 30 days of  
 13 the county's notice.

14        [EFFECTIVE DATE.] This section is effective the day  
 15 following final enactment.

16        Sec. 50. Laws 2003, chapter 127, article 12, section 38,  
 17 is amended to read:

18        Sec. 38. [MEMBERS-MUST AUTHORITY TO LEVY TAXES FOR  
 19 AUTHORITY.]

20        ~~(a)-A member shall, at the request of the authority, levy a~~  
 21 ~~tax in any year for the benefit of the authority. The authority~~  
 22 is a special taxing district as defined in Minnesota Statutes,  
 23 section 275.066, clause (13), with the power to adopt and  
 24 certify a property tax levy to the county auditor. The  
 25 authority may levy a tax in any year for the benefit of the  
 26 authority. The tax is, for each member, is a pro rata portion  
 27 of the total amount of tax requested by the authority based on  
 28 the taxable market value within a the member's jurisdiction, but  
 29 in no event may the tax in any year exceed 0.01813 percent of  
 30 taxable market value. For purposes of this section, "taxable  
 31 market value" has the meaning as given in Minnesota Statutes,  
 32 section 273.032.

33        ~~(b)-The treasurer of each member city or town shall, within~~  
 34 ~~15 days after receiving the property tax settlements from the~~  
 35 ~~county treasurer, pay to the treasurer of the authority the~~  
 36 ~~amount collected for this purpose.---The money must be used by~~

1 ~~the authority for the purposes provided by sections 35 to 41~~  
 2 [EFFECTIVE DATE.] This section is effective for taxes  
 3 levied in 2005, payable in 2006, and thereafter.

4 Sec. 51. Laws 2003, First Special Session chapter 21,  
 5 article 4, section 12, subdivision 11, is amended to read:

6 Subd. 11. [EFFECTIVE DATE; LOCAL APPROVAL.] This section  
 7 is effective the day after the governing body of St. Louis  
 8 county and its chief clerical officer timely complete their  
 9 compliance with Minnesota Statutes, section 645.021,  
 10 subdivisions 2 and 3, provided that the certificate of approval  
 11 is filed with the secretary of state before January 1, 2006.

12 ~~If effective before September 17, 2003, the first levy is~~  
 13 ~~the payable 2004 levy; if effective between September 17, 2003,~~  
 14 ~~and September 17, 2004, the first levy is the payable 2005 levy;~~  
 15 If effective after August 31, 2004, before September 1, 2005,  
 16 the first levy is the payable 2006 levy; and if effective after  
 17 August 31, 2005, the first levy is the payable 2007 levy.

18 Sec. 52. [EDUCATION RESERVE ACCOUNT; APPROPRIATION.]

19 (a) There is created in the state treasury an education  
 20 reserve account as a special revenue fund for deposit of  
 21 appropriations and other receipts as provided by law.

22 (b) \$..... is appropriated from the general fund to the  
 23 education reserve account in fiscal year 2006. This is a  
 24 onetime appropriation. Of this amount, the following amounts  
 25 are appropriated to the commissioner of education in the fiscal  
 26 years indicated to supplement the general education aid program  
 27 under Minnesota Statutes, section 126C.13, subdivision 4:

28 (1) \$..... in fiscal year 2006; and

29 (2) \$..... in fiscal year 2007.

30 (c) As provided in Minnesota Statutes, section 275.025,  
 31 subdivision 1, beginning with taxes payable in 2008, the  
 32 commissioner of finance shall deposit in the education reserve  
 33 account the increased amount of the state general levy for that  
 34 year over the state general levy base amount for taxes payable  
 35 in 2002.

36 (d) Each year, one-half of the annual amount will be

1 deposited in the education reserve account in the state fiscal  
2 year corresponding to the first six months of the calendar year,  
3 and the other half will be deposited in the state fiscal year  
4 corresponding to the last six months of the calendar year. The  
5 amounts in the education reserve account do not lapse or cancel  
6 each year, but remain until appropriated by law for education  
7 aid or higher education funding.

8 Sec. 53. [STUDY OF POLLUTION CONTROL EXEMPTION.]

9 The commissioner of revenue must study the application of  
10 the property tax exemption provided under Minnesota Statutes,  
11 section 272.02, subdivision 10, to personal property used for  
12 pollution control as part of an electric generation system. The  
13 commissioner must present a recommendation to the legislature by  
14 January 15, 2006, that would limit the exemption to property  
15 that is directly and exclusively used for pollution control  
16 purposes.

17 Sec. 54. [PRINSBURG; SPECIAL LEVY AUTHORITY.]

18 Subdivision 1. [BOARD APPROVAL.] Notwithstanding any law  
19 to the contrary, the board of Common School District No. 815,  
20 Prinsburg, may continue to operate as a common school district  
21 provided that:

22 (1) the district adopts an annual resolution by May 1 of  
23 each year declaring that it will be operating for the following  
24 school year;

25 (2) for fiscal years 2006 and later, the district's  
26 proposed budget for the following year shows that the district  
27 will not return to statutory operating debt under Minnesota  
28 Statutes, section 123B.81; and

29 (3) the district has passed a referendum under subdivision  
30 4 authorizing levy authority for the coming school year.

31 Subd. 2. [DETERMINATION OF OUTSTANDING OBLIGATIONS.] Prior  
32 to exercising the authority to levy under this section, the  
33 boards of Common School District No. 815 and Independent School  
34 District No. 2180, MACCRAY, must mutually agree to the amount of  
35 the outstanding tuition owed by the Prinsburg School District to  
36 the MACCRAY School District. If the districts cannot agree to

1 the amount of the tuition owed, the districts may submit all  
2 relevant information to the commissioner of education who shall  
3 determine the amount of the obligation owed to the MACCRAY  
4 School District.

5 Subd. 3. [STATUTORY OPERATING DEBT.] For taxes payable in  
6 2005, 2006, and 2007, Common School District No. 815, Prinsburg,  
7 may levy the amount necessary to eliminate a deficit in the net  
8 unappropriated balance in the operating funds of the district,  
9 determined as of June 30, 2004, and certified and adjusted by  
10 the commissioner. This levy may also include the amount  
11 necessary to eliminate the estimated deficit for fiscal year  
12 2005.

13 Subd. 4. [ANNUAL LEVY AUTHORITY.] (a) Common School  
14 District No. 815, Prinsburg, may levy the amount necessary to  
15 eliminate any projected deficit in the district's operating  
16 budget for the preceding school year, excluding the amounts  
17 raised by this subdivision, if the district's voters approve a  
18 referendum according to the provisions of this subdivision.

19 (b) The referendum shall be called by the school board.  
20 The ballot must state that the annual levy will be the estimated  
21 amount necessary to eliminate the previous year's estimated  
22 operating deficit. The ballot must designate the specific  
23 number of years, not to exceed five, for which the referendum  
24 authorization applies. The ballot shall state substantially the  
25 following:

26 "Shall the increase in the levy proposed by the Board of  
27 Prinsburg, Common School District No. 815, be approved?"

28 If approved, the amount necessary to eliminate the previous  
29 year's estimated operating deficit may be authorized for  
30 certification for the number of years approved.

31 (c) The board must follow the notice provisions of  
32 Minnesota Statutes, section 126C.17.

33 (d) This levy is not subject to the property tax  
34 recognition shift under Minnesota Statutes, sections 123B.75,  
35 subdivision 5, and 127A.441.

36 Subd. 5. [FISCAL YEAR 2005 ONLY.] Notwithstanding the

1 provisions of this section, for fiscal year 2005 only, Common  
2 School District No. 815, Prinsburg, may continue to operate as a  
3 common school district upon approval of a referendum under  
4 subdivision 4.

5 [EFFECTIVE DATE.] This section is effective the day  
6 following final enactment.

7 Sec. 55. [SAUK RIVER WATERSHED DISTRICT.]  
8 Notwithstanding Minnesota Statutes, section 103D.905,  
9 subdivision 3, the Sauk River Watershed District may annually  
10 levy up to 0.01 percent of taxable market value for its  
11 administrative fund.

12 [EFFECTIVE DATE.] This section is effective, without local  
13 approval, for taxes levied in 2005, payable in 2006, and  
14 thereafter.

15 Sec. 56. [COMMERCIAL-INDUSTRIAL LAND VALUE TAXATION; LOCAL  
16 OPTION.]

17 The governing body of any municipality that has a  
18 population in excess of 70,000, or any municipality located in  
19 the taconite tax relief area defined in Minnesota Statutes,  
20 section 273.134, may by resolution adopt a system of valuing  
21 commercial-industrial property in its jurisdiction that is based  
22 on the value of the land, not including improvements. The  
23 governing body may make the election under this section if it  
24 finds that implementation of the land value system will enhance  
25 economic development in the city. An election under this  
26 section must be made by December 31, 2005. If any municipality  
27 makes the election, it must notify the commissioner of revenue  
28 of the election and the legislature must enact during the 2006  
29 legislative session the legislation necessary to implement the  
30 system for taxes levied in 2006, payable in 2007, and thereafter.

31 Sec. 57. [STUDY REQUIRED.]

32 By February 1, 2006, the fiscal staff of the house of  
33 representatives and senate shall conduct a study of the  
34 metropolitan revenue distribution program contained in Minnesota  
35 Statutes, chapter 473F, commonly known as the fiscal disparities  
36 program, and shall make a report by March 1, 2006, to the chairs



1 of the house and senate tax committees consisting of the  
2 findings of the study and any recommendations resulting from the  
3 study.

4 The study shall primarily address the question of whether  
5 the program is achieving the purposes for which it was created.  
6 Additionally, the study shall address the following questions:

7 (1) How has the program affected property tax disparities  
8 across the Twin Cities metropolitan area?

9 (2) Is the formula for contributing tax base to the  
10 areawide pool reasonable? Should certain commercial-industrial  
11 tax base continue to be exempt from contribution to the areawide  
12 pool, such as tax base in existence prior to 1979, tax base in  
13 tax increment financing districts established before 1979, and  
14 tax base located at the Minneapolis-St. Paul International  
15 Airport? Should contribution amounts be adjusted for  
16 differences in sales ratios between communities?

17 (3) Is the formula for distributing tax base from the  
18 areawide pool reasonable? Should the formula reflect measures  
19 of need in addition to population? Should the distribution  
20 formula be based on tax capacity rather than market value?

21 (4) Does the program help promote orderly growth and  
22 encourage environmentally sound land use?

23 (5) Does the program reduce competition for  
24 commercial-industrial tax base between communities? Is reduced  
25 competition for commercial-industrial tax base desirable?

26 (6) Do local governments derive sufficient tax revenues  
27 from commercial-industrial property to cover the costs of  
28 providing services to the property, considering the tax base  
29 that must be contributed to the areawide pool?

30 (7) Could improvements be made in the administration of the  
31 program?

32 [EFFECTIVE DATE.] This section is effective July 1, 2005.

33 Sec. 58. [TOWNSHIP LEVY ADJUSTMENT FOR WIND ENERGY  
34 PRODUCTION TAX; PAYABLE 2004 ONLY.]

35 Notwithstanding the deadlines in Minnesota Statutes,  
36 section 275.07, towns located in Lincoln or Pipestone County are

1 authorized to adjust their payable 2004 levy for all or a  
2 portion of their estimated wind energy production tax amounts  
3 for 2004, as computed by the commissioner of revenue from  
4 reports filed under Minnesota Statutes, section 272.029,  
5 subdivision 4. The Lincoln and Pipestone county auditors may  
6 adjust the payable 2004 levy certifications under Minnesota  
7 Statutes, section 275.07, subdivision 1, based upon the towns  
8 that have recertified their levies under this section by March  
9 15, 2004.

10 [EFFECTIVE DATE.] This section is effective for taxes  
11 levied in 2003, payable in 2004 only.

12 Sec. 59. [FEE STUDIES.]

13 Subdivision 1. [STATE AGENCY FEES.] The commissioner of  
14 each state agency that imposes any fee on individuals or  
15 businesses in this state must report to the commissioner of  
16 revenue by January 15, 2006, on the type and amount of fees  
17 imposed, amount and type of fee increases since January 1, 2003,  
18 the revenues derived from each fee for each of the most recent  
19 four fiscal years, and the use of the revenues from the fees.  
20 The commissioner of revenue shall compile this information and  
21 provide a comprehensive report on all state agency fees to the  
22 finance and tax committees of the senate and the appropriations  
23 and tax committees of the house of representatives by February  
24 15, 2006.

25 Subd. 2. [SCHOOL FEES.] By January 15, 2006, the  
26 Department of Education shall provide the house and senate  
27 education finance divisions and tax committees with a report  
28 that examines the total annual fees collected under Minnesota  
29 Public School Fee Law, Minnesota Statutes, sections 123B.34 to  
30 123B.39, in fiscal years 2002 to 2005. The report must detail  
31 all different types of fees charged to Minnesota students under  
32 the law. The report must report total fees statewide as well as  
33 by school district and charter school.

34 Subd. 3. [CITY FEES.] Each home rule charter or statutory  
35 city must report to the commissioner of revenue by January 15,  
36 2006, on the type and amount of fees it imposes, amount and type

1 of fee increases since January 1, 2003, the revenues derived  
2 from each fee for each of the most recent four calendar years,  
3 and the use of the revenues from the fees. The commissioner of  
4 revenue shall compile this information and provide a  
5 comprehensive report on all city fees to the finance and tax  
6 committees of the senate and the appropriations and tax  
7 committees of the house of representatives by February 15, 2006.

8 ARTICLE 4

9 AIDS TO LOCAL GOVERNMENTS

10 Section 1. Minnesota Statutes 2004, section 477A.011,  
11 subdivision 34, is amended to read:

12 Subd. 34. [CITY REVENUE NEED.] (a) For a city with a  
13 population equal to or greater than 2,500, "city revenue need"  
14 is the sum of (1) 5.0734098 times the pre-1940 housing  
15 percentage; plus (2) 19.141678 times the population decline  
16 percentage; plus (3) 2504.06334 times the road accidents factor;  
17 plus (4) 355.0547; minus (5) the metropolitan area factor; minus  
18 (6) 49.10638 times the household size.

19 (b) For a city with a population less than 2,500, "city  
20 revenue need" is the sum of (1) 2.387 times the pre-1940 housing  
21 percentage; plus (2) 2.67591 times the commercial industrial  
22 percentage; plus (3) 3.16042 times the population decline  
23 percentage; plus (4) 1.206 times the transformed population;  
24 minus (5) 62.772.

25 (c) The city revenue need cannot be less than zero.

26 (d) For calendar year 2005 and subsequent years, the city  
27 revenue need for a city, as determined in paragraphs (a) to (c),  
28 is multiplied by the ratio of the annual most recently available  
29 first quarter implicit price deflator for government consumption  
30 expenditures and gross investment for state and local  
31 governments as prepared by the United States Department of  
32 Commerce, ~~for-the-most-recently-available-year~~ to the 2003 first  
33 quarter 2000 implicit price deflator for state and local  
34 government purchases.

35 Sec. 2. Minnesota Statutes 2004, section 477A.011,  
36 subdivision 36, is amended to read:

1 Subd. 36. [CITY AID BASE.] (a) Except as otherwise  
2 provided in this subdivision, "city aid base" is zero.

3 (b) The city aid base for any city with a population less  
4 than 500 is increased by \$40,000 for aids payable in calendar  
5 year 1995 and thereafter, and the maximum amount of total aid it  
6 may receive under section 477A.013, subdivision 9, paragraph  
7 (c), is also increased by \$40,000 for aids payable in calendar  
8 year 1995 only, provided that:

9 (i) the average total tax capacity rate for taxes payable  
10 in 1995 exceeds 200 percent;

11 (ii) the city portion of the tax capacity rate exceeds 100  
12 percent; and

13 (iii) its city aid base is less than \$60 per capita.

14 (c) The city aid base for a city is increased by \$20,000 in  
15 1998 and thereafter and the maximum amount of total aid it may  
16 receive under section 477A.013, subdivision 9, paragraph (c), is  
17 also increased by \$20,000 in calendar year 1998 only, provided  
18 that:

19 (i) the city has a population in 1994 of 2,500 or more;

20 (ii) the city is located in a county, outside of the  
21 metropolitan area, which contains a city of the first class;

22 (iii) the city's net tax capacity used in calculating its  
23 1996 aid under section 477A.013 is less than \$400 per capita;  
24 and

25 (iv) at least four percent of the total net tax capacity,  
26 for taxes payable in 1996, of property located in the city is  
27 classified as railroad property.

28 (d) The city aid base for a city is increased by \$200,000  
29 in 1999 and thereafter and the maximum amount of total aid it  
30 may receive under section 477A.013, subdivision 9, paragraph  
31 (c), is also increased by \$200,000 in calendar year 1999 only,  
32 provided that:

33 (i) the city was incorporated as a statutory city after  
34 December 1, 1993;

35 (ii) its city aid base does not exceed \$5,600; and

36 (iii) the city had a population in 1996 of 5,000 or more.

1 (e) The city aid base for a city is increased by \$450,000  
 2 in 1999 to 2008 and the maximum amount of total aid it may  
 3 receive under section 477A.013, subdivision 9, paragraph (c), is  
 4 also increased by \$450,000 in calendar year 1999 only, provided  
 5 that:

- 6 (i) the city had a population in 1996 of at least 50,000;
- 7 (ii) its population had increased by at least 40 percent in  
 8 the ten-year period ending in 1996; and
- 9 (iii) its city's net tax capacity for aids payable in 1998  
 10 is less than \$700 per capita.

11 ~~(f) Beginning in 2004, the city aid base for a city is~~  
 12 ~~equal to the sum of its city aid base in 2003 and the amount of~~  
 13 ~~additional aid it was certified to receive under section 477A.06~~  
 14 ~~in 2003. For 2004 only, the maximum amount of total aid a city~~  
 15 ~~may receive under section 477A.013, subdivision 9, paragraph~~  
 16 ~~(e), is also increased by the amount it was certified to receive~~  
 17 ~~under section 477A.06 in 2003.~~

18 ~~(g)~~ The city aid base for a city is increased by \$150,000  
 19 for aids payable in 2000 and thereafter, and the maximum amount  
 20 of total aid it may receive under section 477A.013, subdivision  
 21 9, paragraph (c), is also increased by \$150,000 in calendar year  
 22 2000 only, provided that:

- 23 (1) the city has a population that is greater than 1,000  
 24 and less than 2,500;
- 25 (2) its commercial and industrial percentage for aids  
 26 payable in 1999 is greater than 45 percent; and
- 27 (3) the total market value of all commercial and industrial  
 28 property in the city for assessment year 1999 is at least 15  
 29 percent less than the total market value of all commercial and  
 30 industrial property in the city for assessment year 1998.

31 ~~(h)~~ (g) The city aid base for a city is increased by  
 32 \$200,000 in 2000 and thereafter, and the maximum amount of total  
 33 aid it may receive under section 477A.013, subdivision 9,  
 34 paragraph (c), is also increased by \$200,000 in calendar year  
 35 2000 only, provided that:

- 36 (1) the city had a population in 1997 of 2,500 or more;

1 (2) the net tax capacity of the city used in calculating  
2 its 1999 aid under section 477A.013 is less than \$650 per  
3 capita;

4 (3) the pre-1940 housing percentage of the city used in  
5 calculating 1999 aid under section 477A.013 is greater than 12  
6 percent;

7 (4) the 1999 local government aid of the city under section  
8 477A.013 is less than 20 percent of the amount that the formula  
9 aid of the city would have been if the need increase percentage  
10 was 100 percent; and

11 (5) the city aid base of the city used in calculating aid  
12 under section 477A.013 is less than \$7 per capita.

13 ~~(f)~~ (h) The city aid base for a city is increased by  
14 \$102,000 in 2000 and thereafter, and the maximum amount of total  
15 aid it may receive under section 477A.013, subdivision 9,  
16 paragraph (c), is also increased by \$102,000 in calendar year  
17 2000 only, provided that:

18 (1) the city has a population in 1997 of 2,000 or more;

19 (2) the net tax capacity of the city used in calculating  
20 its 1999 aid under section 477A.013 is less than \$455 per  
21 capita;

22 (3) the net levy of the city used in calculating 1999 aid  
23 under section 477A.013 is greater than \$195 per capita; and

24 (4) the 1999 local government aid of the city under section  
25 477A.013 is less than 38 percent of the amount that the formula  
26 aid of the city would have been if the need increase percentage  
27 was 100 percent.

28 ~~(g)~~ (i) The city aid base for a city is increased by  
29 \$32,000 in 2001 and thereafter, and the maximum amount of total  
30 aid it may receive under section 477A.013, subdivision 9,  
31 paragraph (c), is also increased by \$32,000 in calendar year  
32 2001 only, provided that:

33 (1) the city has a population in 1998 that is greater than  
34 200 but less than 500;

35 (2) the city's revenue need used in calculating aids  
36 payable in 2000 was greater than \$200 per capita;

1 (3) the city net tax capacity for the city used in  
2 calculating aids available in 2000 was equal to or less than  
3 \$200 per capita;

4 (4) the city aid base of the city used in calculating aid  
5 under section 477A.013 is less than \$65 per capita; and

6 (5) the city's formula aid for aids payable in 2000 was  
7 greater than zero.

8 ~~(k)~~ (j) The city aid base for a city is increased by \$7,200  
9 in 2001 and thereafter, and the maximum amount of total aid it  
10 may receive under section 477A.013, subdivision 9, paragraph  
11 (c), is also increased by \$7,200 in calendar year 2001 only,  
12 provided that:

13 (1) the city had a population in 1998 that is greater than  
14 200 but less than 500;

15 (2) the city's commercial industrial percentage used in  
16 calculating aids payable in 2000 was less than ten percent;

17 (3) more than 25 percent of the city's population was 60  
18 years old or older according to the 1990 census;

19 (4) the city aid base of the city used in calculating aid  
20 under section 477A.013 is less than \$15 per capita; and

21 (5) the city's formula aid for aids payable in 2000 was  
22 greater than zero.

23 ~~(l)~~ (k) The city aid base for a city is increased by  
24 \$45,000 in 2001 and thereafter and by an additional \$50,000 in  
25 calendar years 2002 to 2011, and the maximum amount of total aid  
26 it may receive under section 477A.013, subdivision 9, paragraph  
27 (c), is also increased by \$45,000 in calendar year 2001 only,  
28 and by \$50,000 in calendar year 2002 only, provided that:

29 (1) the net tax capacity of the city used in calculating  
30 its 2000 aid under section 477A.013 is less than \$810 per  
31 capita;

32 (2) the population of the city declined more than two  
33 percent between 1988 and 1998;

34 (3) the net levy of the city used in calculating 2000 aid  
35 under section 477A.013 is greater than \$240 per capita; and

36 (4) the city received less than \$36 per capita in aid under

1 section 477A.013, subdivision 9, for aids payable in 2000.  
2 The city aid base for a city described in this paragraph is also  
3 increased by \$250,000 in calendar years 2006 to 2015, and the  
4 maximum amount of total aid it may receive under section  
5 477A.013, subdivision 9, paragraph (c), is also increased by  
6 \$250,000 in calendar year 2006 only.

7 ~~(m)~~ (l) The city aid base for a city with a population of  
8 10,000 or more which is located outside of the seven-county  
9 metropolitan area is increased in 2002 and thereafter, and the  
10 maximum amount of total aid it may receive under section  
11 477A.013, subdivision 9, paragraph (b) or (c), is also increased  
12 in calendar year 2002 only, by an amount equal to the lesser of:

13 (1) (i) the total population of the city, ~~as-determined-by~~  
14 ~~the-United-States-Bureau-of-the-Census,-in-the-2000-census,~~ (ii)  
15 minus 5,000, (iii) times 60; or

16 (2) \$2,500,000.

17 ~~(n)~~ (m) The city aid base is increased by \$50,000 in 2002  
18 and thereafter, and the maximum amount of total aid it may  
19 receive under section 477A.013, subdivision 9, paragraph (c), is  
20 also increased by \$50,000 in calendar year 2002 only, provided  
21 that:

22 (1) the city is located in the seven-county metropolitan  
23 area;

24 (2) its population in 2000 is between 10,000 and 20,000;  
25 and

26 (3) its commercial industrial percentage, as calculated for  
27 city aid payable in 2001, was greater than 25 percent.

28 ~~(o)~~ (n) The city aid base for a city is increased by  
29 \$150,000 in calendar years 2002 to 2011 and the maximum amount  
30 of total aid it may receive under section 477A.013, subdivision  
31 9, paragraph (c), is also increased by \$150,000 in calendar year  
32 2002 only, provided that:

33 (1) the city had a population of at least 3,000 but no more  
34 than 4,000 in 1999;

35 (2) its home county is located within the seven-county  
36 metropolitan area;



1 (3) its pre-1940 housing percentage is less than 15  
2 percent; and

3 (4) its city net tax capacity per capita for taxes payable  
4 in 2000 is less than \$900 per capita.

5 ~~(p)~~ (o) The city aid base for a city is increased by  
6 \$200,000 beginning in calendar year 2003 and the maximum amount  
7 of total aid it may receive under section 477A.013, subdivision  
8 9, paragraph (c), is also increased by \$200,000 in calendar year  
9 2003 only, provided that the city qualified for an increase in  
10 homestead and agricultural credit aid under Laws 1995, chapter  
11 264, article 8, section 18.

12 ~~(q)~~ (p) The city aid base for a city is increased by  
13 \$200,000 in 2004 only and the maximum amount of total aid it may  
14 receive under section 477A.013, subdivision 9, is also increased  
15 by \$200,000 in calendar year 2004 only, if the city is the site  
16 of a nuclear dry cask storage facility.

17 ~~(r)~~ (q) The city aid base for a city is increased by  
18 \$10,000 in 2004 and thereafter and the maximum total aid it may  
19 receive under section 477A.013, subdivision 9, is also increased  
20 by \$10,000 in calendar year 2004 only, if the city was included  
21 in a federal major disaster designation issued on April 1, 1998,  
22 and its pre-1940 housing stock was decreased by more than 40  
23 percent between 1990 and 2000.

24 (r) The city aid base for a city is increased by \$25,000 in  
25 2006 only and the maximum total aid it may receive under section  
26 477A.013, subdivision 9, is also increased by \$25,000 in 2006  
27 only, if the city (1) received no aid under section 477A.013 in  
28 2004; (2) had a population in 2002 greater than 20,000 and less  
29 than 50,000; and (3) had an adjusted net tax capacity of less  
30 than \$750 per capita for aids payable in 2004.

31 [EFFECTIVE DATE.] Except as provided otherwise, this  
32 section is effective for aids payable in 2004 and thereafter.

33 Sec. 3. Minnesota Statutes 2004, section 477A.013,  
34 subdivision 8, is amended to read:

35 Subd. 8. [CITY FORMULA AID.] In calendar year 2004 and  
36 subsequent years, the formula aid for a city is equal to the

1 need increase percentage multiplied by the difference between  
 2 (1) the city's revenue need multiplied by its population, and  
 3 (2) ~~the sum of~~ the city's net tax capacity multiplied by the tax  
 4 effort rate, ~~and the state aids under sections 298.28 and~~  
 5 ~~298.282, multiplied by the following percentages:~~  
 6 ~~(i) zero percent for aids payable in 2004,~~  
 7 ~~(ii) 25 percent for aids payable in 2005,~~  
 8 ~~(iii) 50 percent for aids payable in 2006,~~  
 9 ~~(iv) 75 percent for aids payable in 2007, and~~  
 10 ~~(v) 100 percent for aids payable in 2008 and thereafter.~~

11 No city may have a formula aid amount less than zero. The need  
 12 increase percentage must be the same for all cities.

13 The applicable need increase percentage must be calculated  
 14 by the Department of Revenue so that the total of the aid under  
 15 subdivision 9 equals the total amount available for aid under  
 16 section 477A.03 after the subtraction under section 477A.014,  
 17 subdivisions 4 and 5.

18 [EFFECTIVE DATE.] This section is effective for aids  
 19 payable in 2006 and thereafter.

20 Sec. 4. Minnesota Statutes 2004, section 477A.013,  
 21 subdivision 9, is amended to read:

22 Subd. 9. [CITY AID DISTRIBUTION.] (a) In calendar year  
 23 2002 and thereafter, each city shall receive an aid distribution  
 24 equal to the sum of (1) the city formula aid under subdivision  
 25 8, and (2) its city aid base.

26 ~~(b) The aid for a city in calendar year 2004 shall not~~  
 27 ~~exceed the amount of its aid in calendar year 2003 after the~~  
 28 ~~reductions under Laws 2003, First Special Session chapter 21,~~  
 29 ~~article 5.~~

30 ~~(c) For aids payable in 2005 and thereafter, the total aid~~  
 31 ~~for any city shall not exceed the sum of (1) ten percent of the~~  
 32 ~~city's net levy for the year prior to the aid distribution plus~~  
 33 ~~(2) its total aid in the previous year.~~ For aids payable in  
 34 2005 and thereafter, the total aid for any city with a  
 35 population of 2,500 or more may not decrease from its total aid  
 36 under this section in the previous year by an amount greater

1 than ten percent of its net levy in the year prior to the aid  
2 distribution.

3 ~~(d)-For-aids-payable-in-2004-only,-the-total-aid-for-a-city~~  
4 ~~with-a-population-less-than-2,500-may-not-be-less-than-the~~  
5 ~~amount-it-was-certified-to-receive-in-2003-minus-the-greater-of~~  
6 ~~(1)-the-reduction-to-this-aid-payment-in-2003-under-Laws-2003,~~  
7 ~~First-Special-Session-chapter-21,-article-5,-or-(2)-five-percent~~  
8 ~~of-its-2003-aid-amount.~~ (c) For aids payable in 2005 and  
9 thereafter, the total aid for a city with a population less than  
10 2,500 must not be less than the amount it was certified to  
11 receive in the previous year minus five percent of its 2003  
12 certified aid amount.

13 [EFFECTIVE DATE.] This section is effective for aids  
14 payable in 2006 and thereafter.

15 Sec. 5. Minnesota Statutes 2004, section 477A.03,  
16 subdivision 2a, is amended to read:

17 Subd. 2a. [CITIES.] ~~For-aids-payable-in-2004,-the-total~~  
18 ~~aids-paid-under-section-477A-013,-subdivision-9,-are-limited-to~~  
19 ~~\$429,000,000.~~ For aids payable in 2005-and-thereafter 2006, the  
20 total aids paid under section 477A.013, subdivision 9, are  
21 increased to ~~\$437,052,000~~ \$497,052,000. For aids payable in  
22 2007 and subsequent years, the total aids paid under section  
23 477A.013, subdivision 9, are increased by \$6,000,000 each year  
24 until the need increase percentage equals one.

25 [EFFECTIVE DATE.] This section is effective for aids  
26 payable in 2006 and thereafter.

27 Sec. 6. Minnesota Statutes 2004, section 477A.11,  
28 subdivision 4, is amended to read:

29 Subd. 4. [OTHER NATURAL RESOURCES LAND.] "Other natural  
30 resources land" means:

31 ~~(1)~~ any other land presently owned in fee title by the  
32 state and administered by the commissioner, or any tax-forfeited  
33 land, other than platted lots within a city or those lands  
34 described under subdivision 3, clause (2), which is owned by the  
35 state and administered by the commissioner or by the county in  
36 which it is located, ~~and~~

1       ~~{2}-land-leased-by-the-state-from-the-United-States-of~~  
2 ~~America-through-the-United-States-Secretary-of-Agriculture~~  
3 ~~pursuant-to-Title-III-of-the-Bankhead-Jones-Farm-Tenant-Act,~~  
4 ~~which-land-is-commonly-referred-to-as-land-utilization-project~~  
5 ~~land-that-is-administered-by-the-commissioner.~~

6       [EFFECTIVE DATE.] This section is effective for aids  
7 payable in 2006 and thereafter.

8       Sec. 7. Minnesota Statutes 2004, section 477A.11, is  
9 amended by adding a subdivision to read:

10       Subd. 5. [LAND UTILIZATION PROJECT LAND.] "Land  
11 utilization project land" means land that is leased by the state  
12 from the United States through the United States Secretary of  
13 Agriculture according to Title III of the Bankhead Jones Farm  
14 Tenant Act and that is administered by the commissioner.

15       Sec. 8. Minnesota Statutes 2004, section 477A.12,  
16 subdivision 1, is amended to read:

17       Subdivision 1. [TYPES OF LAND; PAYMENTS.] (a) As an offset  
18 for expenses incurred by counties and towns in support of  
19 natural resources lands, the following amounts are annually  
20 appropriated to the commissioner of natural resources from the  
21 general fund for transfer to the commissioner of revenue. The  
22 commissioner of revenue shall pay the transferred funds to  
23 counties as required by sections 477A.11 to 477A.145. The  
24 amounts are:

25       (1) for acquired natural resources land, \$3, as adjusted  
26 for inflation under section 477A.145, multiplied by the total  
27 number of acres of acquired natural resources land or, at the  
28 county's option three-fourths of one percent of the appraised  
29 value of all acquired natural resources land in the county,  
30 whichever is greater;

31       (2) \$3, as adjusted for inflation under section 477A.145,  
32 multiplied by the total number of acres of land utilization  
33 project land;

34       (3) 75 cents, as adjusted for inflation under section  
35 477A.145, multiplied by the number of acres of  
36 county-administered other natural resources land; and

1       ~~(3)~~ (4) 37.5 cents, as adjusted for inflation under section  
2 477A.145, multiplied by the number of acres of  
3 commissioner-administered other natural resources land located  
4 in each county as of July 1 of each year prior to the payment  
5 year.

6       (b) The amount determined under paragraph (a), clause (1),  
7 is payable for land that is acquired from a private owner and  
8 owned by the Department of Transportation for the purpose of  
9 replacing wetland losses caused by transportation projects, but  
10 only if the county contains more than 500 acres of such land at  
11 the time the certification is made under subdivision 2.

12       [EFFECTIVE DATE.] This section is effective for aids  
13 payable in 2006 and thereafter.

14       Sec. 9. Minnesota Statutes 2004, section 477A.12,  
15 subdivision 2, is amended to read:

16       Subd. 2. [PROCEDURE.] Lands for which payments in lieu are  
17 made pursuant to section 97A.061, subdivision 3, and Laws 1973,  
18 chapter 567, shall not be eligible for payments under this  
19 section. Each county auditor shall certify to the Department of  
20 Natural Resources during July of each year prior to the payment  
21 year the number of acres of county-administered other natural  
22 resources land within the county. The Department of Natural  
23 resources may, in addition to the certification of acreage,  
24 require descriptive lists of land so certified. The  
25 commissioner of natural resources shall determine and certify to  
26 the commissioner of revenue by March 1 of the payment year:

27       (1) the number of acres and most recent appraised value of  
28 acquired natural resources land within each county;

29       (2) the number of acres of commissioner-administered  
30 natural resources land within each county; and

31       (3) the number of acres of county-administered other  
32 natural resources land within each county, based on the reports  
33 filed by each county auditor with the commissioner of natural  
34 resources; and

35       (4) the number of acres of land utilization project land  
36 within each county and the net proceeds from timber sales on

1 land utilization project lands in each county.

2 The commissioner of transportation shall determine and  
3 certify to the commissioner of revenue by March 1 of the payment  
4 year the number of acres of land and the appraised value of the  
5 land described in subdivision 1, paragraph (b), but only if it  
6 exceeds 500 acres.

7 The commissioner of revenue shall determine the  
8 distributions provided for in this section using the number of  
9 acres and appraised values certified by the commissioner of  
10 natural resources and the commissioner of transportation by  
11 March 1 of the payment year.

12 [EFFECTIVE DATE.] This section is effective for aids  
13 payable in 2006 and thereafter.

14 Sec. 10. Minnesota Statutes 2004, section 477A.14,  
15 subdivision 1, is amended to read:

16 Subdivision 1. [GENERAL DISTRIBUTION.] Except as provided  
17 in subdivision 2 or in section 97A.061, subdivision 5, 40  
18 percent of the total payment to the county shall be deposited in  
19 the county general revenue fund to be used to provide property  
20 tax levy reduction. The remainder shall be distributed by the  
21 county in the following priority:

22 (a) 37.5 cents, as adjusted for inflation under section  
23 477A.145, for each acre of county-administered other natural  
24 resources land shall be deposited in a resource development fund  
25 to be created within the county treasury for use in resource  
26 development, forest management, game and fish habitat  
27 improvement, and recreational development and maintenance of  
28 county-administered other natural resources land. Any county  
29 receiving less than \$5,000 annually for the resource development  
30 fund may elect to deposit that amount in the county general  
31 revenue fund;

32 (b) From the funds remaining, within 30 days of receipt of  
33 the payment to the county, the county treasurer shall pay each  
34 organized township 30 cents, as adjusted for inflation under  
35 section 477A.145, for each acre of acquired natural resources  
36 land, each acre of land utilization project land, and each acre

1 of land described in section 477A.12, subdivision 1, paragraph  
2 (b), and 7.5 cents, as adjusted for inflation under section  
3 477A.145, for each acre of other natural resources land located  
4 within its boundaries. Payments for natural resources lands not  
5 located in an organized township shall be deposited in the  
6 county general revenue fund. Payments to counties and townships  
7 pursuant to this paragraph shall be used to provide property tax  
8 levy reduction, except that of the payments for natural  
9 resources lands not located in an organized township, the county  
10 may allocate the amount determined to be necessary for  
11 maintenance of roads in unorganized townships. Provided that,  
12 if the total payment to the county pursuant to section 477A.12  
13 is not sufficient to fully fund the distribution provided for in  
14 this clause, the amount available shall be distributed to each  
15 township and the county general revenue fund on a pro rata  
16 basis; and

17 (c) Any remaining funds shall be deposited in the county  
18 general revenue fund. Provided that, if the distribution to the  
19 county general revenue fund exceeds \$35,000, the excess shall be  
20 used to provide property tax levy reduction.

21 [EFFECTIVE DATE.] This section is effective for aids  
22 payable in 2006 and thereafter.

23 Sec. 11. Laws 2003, First Special Session chapter 21,  
24 article 5, section 13, is amended to read:

25 Sec. 13. [2004 CITY AID REDUCTIONS.]

26 The commissioner of revenue shall compute an aid reduction  
27 amount for 2004 for each city as provided in this section.

28 The initial aid reduction amount for each city is the  
29 amount by which the city's aid distribution under Minnesota  
30 Statutes, section 477A.013, and related provisions payable in  
31 2003 exceeds the city's 2004 distribution under those provisions.

32 The minimum aid reduction amount for a city is the amount  
33 of its reduction in 2003 under section 12. If a city receives  
34 an increase to its city aid base under Minnesota Statutes,  
35 section 477A.011, subdivision 36, its minimum aid reduction is  
36 reduced by an equal amount.

1           The maximum aid reduction amount for a city is an amount  
2 equal to 14 percent of the city's total 2004 levy plus aid  
3 revenue base, except that if the city has a city net tax  
4 capacity for aids payable in 2004, as defined in Minnesota  
5 Statutes, section 477A.011, subdivision 20, of \$700 per capita  
6 or less, the maximum aid reduction shall not exceed an amount  
7 equal to 13 percent of the city's total 2004 levy plus aid  
8 revenue base.

9           If the initial aid reduction amount for a city is less than  
10 the minimum aid reduction amount for that city, the final aid  
11 reduction amount for the city is the sum of the initial aid  
12 reduction amount and the lesser of the amount of the city's  
13 payable 2004 reimbursement under Minnesota Statutes, section  
14 273.1384, or the difference between the minimum and initial aid  
15 reduction amounts for the city, and the amount of the final aid  
16 reduction in excess of the initial aid reduction is deducted  
17 from the city's reimbursements pursuant to Minnesota Statutes,  
18 section 273.1384.

19           If the initial aid reduction amount for a city is greater  
20 than the maximum aid reduction amount for the city, the city  
21 receives an additional distribution under this section equal to  
22 the result of subtracting the maximum aid reduction amount from  
23 the initial aid reduction amount. This distribution shall be  
24 paid in equal installments in 2004 on the dates specified in  
25 Minnesota Statutes, section 477A.015. The amount necessary for  
26 these additional distributions is appropriated to the  
27 commissioner of revenue from the general fund in fiscal year  
28 2005.

29           ~~The initial aid reduction is applied to the city's~~  
30 ~~distribution pursuant to Minnesota Statutes, section 477A.013,~~  
31 ~~and any aid reduction in excess of the initial aid reduction is~~  
32 ~~applied to the city's reimbursements pursuant to Minnesota~~  
33 ~~Statutes, section 273.1384.~~

34           To the extent that sufficient information is available on  
35 each payment date in 2004, the commissioner of revenue shall pay  
36 the reimbursements reduced under this section in equal



1 installments on the payment dates provided in law.

2 [EFFECTIVE DATE.] This section is effective for aids  
3 payable in 2004.

4 ARTICLE 5

5 LOCAL DEVELOPMENT

6 Section 1. Minnesota Statutes 2004, section 116J.993,  
7 subdivision 3, is amended to read:

8 Subd. 3. [BUSINESS SUBSIDY.] "Business subsidy" or  
9 "subsidy" means a state or local government agency grant,  
10 contribution of personal property, real property,  
11 infrastructure, the principal amount of a loan at rates below  
12 those commercially available to the recipient, any reduction or  
13 deferral of any tax or any fee, any guarantee of any payment  
14 under any loan, lease, or other obligation, or any preferential  
15 use of government facilities given to a business.

16 The following forms of financial assistance are not a  
17 business subsidy:

- 18 (1) a business subsidy of less than \$25,000;
- 19 (2) assistance that is generally available to all  
20 businesses or to a general class of similar businesses, such as  
21 a line of business, size, location, or similar general criteria;
- 22 (3) public improvements to buildings or lands owned by the  
23 state or local government that serve a public purpose and do not  
24 principally benefit a single business or defined group of  
25 businesses at the time the improvements are made;
- 26 (4) redevelopment property polluted by contaminants as  
27 defined in section 116J.552, subdivision 3;
- 28 (5) assistance provided for the sole purpose of renovating  
29 old or decaying building stock or bringing it up to code and  
30 assistance provided for designated historic preservation  
31 districts, provided that the assistance is equal to or less than  
32 50 percent of the total cost;
- 33 (6) assistance to provide job readiness and training  
34 services if the sole purpose of the assistance is to provide  
35 those services, except when such assistance is paid for by  
36 expenditures of tax increments under section 469.176,

1 subdivision 4m;

2 (7) assistance for housing;

3 (8) assistance for pollution control or abatement,

4 including assistance for a tax increment financing hazardous

5 substance subdistrict as defined under section 469.174,

6 subdivision 23;

7 (9) assistance for energy conservation;

8 (10) tax reductions resulting from conformity with federal

9 tax law;

10 (11) workers' compensation and unemployment compensation;

11 (12) benefits derived from regulation;

12 (13) indirect benefits derived from assistance to

13 educational institutions;

14 (14) funds from bonds allocated under chapter 474A, bonds

15 issued to refund outstanding bonds, and bonds issued for the

16 benefit of an organization described in section 501(c)(3) of the

17 Internal Revenue Code of 1986, as amended through December 31,

18 1999;

19 (15) assistance for a collaboration between a Minnesota

20 higher education institution and a business;

21 (16) assistance for a tax increment financing soils

22 condition district as defined under section 469.174, subdivision

23 19;

24 (17) redevelopment when the recipient's investment in the

25 purchase of the site and in site preparation is 70 percent or

26 more of the assessor's current year's estimated market value;

27 (18) general changes in tax increment financing law and

28 other general tax law changes of a principally technical nature;

29 (19) federal assistance until the assistance has been

30 repaid to, and reinvested by, the state or local government

31 agency;

32 (20) funds from dock and wharf bonds issued by a seaway

33 port authority;

34 (21) business loans and loan guarantees of \$75,000 or less;

35 and

36 (22) federal loan funds provided through the United States

1 Department of Commerce, Economic Development Administration.

2 Sec. 2. Minnesota Statutes 2004, section 116J.993, is  
3 amended by adding a subdivision to read:

4 Subd. 8. [RESIDENCE.] "Residence" means the place where an  
5 individual has established a permanent home from which the  
6 individual has no present intention of moving.

7 Sec. 3. Minnesota Statutes 2004, section 116J.994,  
8 subdivision 4, is amended to read:

9 Subd. 4. [WAGE AND JOB GOALS.] The subsidy agreement, in  
10 addition to any other goals, must include: (1) goals for the  
11 number of jobs created, which may include separate goals for the  
12 number of part-time or full-time jobs, or, in cases where job  
13 loss is specific and demonstrable, goals for the number of jobs  
14 retained; (2) wage goals for any jobs created or retained; and  
15 (3) wage goals for any jobs to be enhanced through increased  
16 wages. After a public hearing, if the creation or retention of  
17 jobs is determined not to be a goal, the wage and job goals may  
18 be set at zero. The goals for the number of jobs to be created  
19 or retained must result in job creation or retention by the  
20 recipient within the granting jurisdiction overall.

21 In addition to other specific goal time frames, the wage  
22 and job goals must contain specific goals to be attained within  
23 two years of the benefit date.

24 [EFFECTIVE DATE.] This section is effective August 1, 2005,  
25 and applies to subsidy agreements entered into on or after that  
26 date.

27 Sec. 4. Minnesota Statutes 2004, section 116J.994,  
28 subdivision 5, is amended to read:

29 Subd. 5. [PUBLIC NOTICE AND HEARING.] (a) Before granting  
30 a business subsidy that exceeds \$500,000 for a state government  
31 grantor and \$100,000 for a local government grantor, the grantor  
32 must provide public notice and a hearing on the subsidy. A  
33 public hearing and notice under this subdivision is not required  
34 if a hearing and notice on the subsidy is otherwise required by  
35 law.

36 (b) Public notice of a proposed business subsidy under this

1 subdivision by a state government grantor, other than the Iron  
2 Range Resources and Rehabilitation Board, must be published in  
3 the State Register. Public notice of a proposed business  
4 subsidy under this subdivision by a local government grantor or  
5 the Iron Range Resources and Rehabilitation Board must be  
6 published in a local newspaper of general circulation. The  
7 public notice must identify the location at which information  
8 about the business subsidy, including a summary of the terms of  
9 the subsidy, is available. Published notice should be  
10 sufficiently conspicuous in size and placement to distinguish  
11 the notice from the surrounding text. The grantor must make the  
12 information available in printed paper copies and, if possible,  
13 on the Internet. The government agency must provide at least a  
14 ten-day notice for the public hearing.

15 (c) The public notice must include the date, time, and  
16 place of the hearing.

17 (d) The public hearing by a state government grantor other  
18 than the Iron Range Resources and Rehabilitation Board must be  
19 held in St. Paul.

20 (e) If more than one nonstate grantor provides a business  
21 subsidy to the same recipient, the nonstate grantors may  
22 designate one nonstate grantor to hold a single public hearing  
23 regarding the business subsidies provided by all nonstate  
24 grantors. For the purposes of this paragraph, "nonstate  
25 grantor" includes the iron range resources and rehabilitation  
26 board.

27 (f) The public notice of any public meeting about a  
28 business subsidy agreement, including those required by this  
29 subdivision and by subdivision 4, must include notice that a  
30 person with residence in or the owner of taxable property in the  
31 granting jurisdiction may file a written complaint with the  
32 grantor if the grantor fails to comply with sections 116J.993 to  
33 116J.995, and that no action may be filed against the grantor  
34 for such failure to comply unless a written complaint is filed.

35 Sec. 5. Minnesota Statutes 2004, section 116J.994,  
36 subdivision 9, is amended to read:

1 Subd. 9. [COMPILATION AND SUMMARY REPORT.] The Department  
2 of Employment and Economic Development must publish a  
3 compilation and summary of the results of the reports for the  
4 previous two calendar years by December 1 of 2004 and every  
5 other year thereafter. The reports of the government agencies  
6 to the department and the compilation and summary report of the  
7 department must be made available to the public. The  
8 commissioner must make copies of all business subsidy reports  
9 submitted by local and state granting agencies available on the  
10 department's Web site by October 1 of the year in which they  
11 were submitted.

12 The commissioner must coordinate the production of reports  
13 so that useful comparisons across time periods and across  
14 grantors can be made. The commissioner may add other  
15 information to the report as the commissioner deems necessary to  
16 evaluate business subsidies. Among the information in the  
17 summary and compilation report, the commissioner must include:

- 18 (1) total amount of subsidies awarded in each development  
19 region of the state;
- 20 (2) distribution of business subsidy amounts by size of the  
21 business subsidy;
- 22 (3) distribution of business subsidy amounts by time  
23 category;
- 24 (4) distribution of subsidies by type and by public  
25 purpose;
- 26 (5) percent of all business subsidies that reached their  
27 goals;
- 28 (6) percent of business subsidies that did not reach their  
29 goals by two years from the benefit date;
- 30 (7) total dollar amount of business subsidies that did not  
31 meet their goals after two years from the benefit date;
- 32 (8) percent of subsidies that did not meet their goals and  
33 that did not receive repayment;
- 34 (9) list of recipients that have failed to meet the terms  
35 of a subsidy agreement in the past five years and have not  
36 satisfied their repayment obligations;

1 (10) number of part-time and full-time jobs within separate  
2 bands of wages; and

3 (11) benefits paid within separate bands of wages.

4 Sec. 6. Minnesota Statutes 2004, section 116J.994, is  
5 amended by adding a subdivision to read:

6 Subd. 11. [ENFORCEMENT.] (a) A person with residence in or  
7 an owner of taxable property located in the jurisdiction of the  
8 grantor may bring an action for equitable relief arising out of  
9 the failure of the grantor to comply with sections 116J.993 to  
10 116J.995. The court may award a prevailing party in an action  
11 under this subdivision costs and reasonable attorney fees.

12 (b) Prior to bringing an action, the party must file a  
13 written complaint with the grantor stating the alleged violation  
14 and proposing a remedy. The grantor has up to 30 days to reply  
15 to the complaint in writing and may take action to comply with  
16 sections 116J.993 to 116J.995.

17 (c) The written complaint under this subdivision for  
18 failure to comply with subdivisions 1 to 5, must be filed with  
19 the grantor within 180 days after approval of the subsidy  
20 agreement under subdivision 3, paragraph (d). An action under  
21 this subdivision must be commenced within 30 days following  
22 receipt of the grantor's reply, or within 180 days after  
23 approval of the subsidy agreement under subdivision 3, paragraph  
24 (d), whichever is later.

25 [EFFECTIVE DATE.] This section is effective August 1, 2005,  
26 and applies to subsidy agreements entered into on or after that  
27 date.

28 Sec. 7. Minnesota Statutes 2004, section 161.1231, is  
29 amended by adding a subdivision to read:

30 Subd. 11. [TRANSFER OF OWNERSHIP.] The commissioner shall,  
31 at the earliest feasible date after receiving payment, transfer  
32 ownership of the parking facilities to the city of Minneapolis.  
33 The payment must be equal to the amount of state funds spent by  
34 the commissioner for construction of the facilities. Upon  
35 assuming ownership of the facilities, the city shall operate the  
36 facilities in accordance with the rules adopted by the

1 commissioner under subdivision 2. Upon assumption of ownership,  
2 the city shall assume the authority to collect fees for use of  
3 the facilities under subdivision 5. The commissioner shall take  
4 no action under this section that would result in federal  
5 sanctions against Minnesota or require the repayment of any  
6 state funds to the federal government. The commissioner shall  
7 deposit all money received under this subdivision in the trunk  
8 highway fund.

9 **[EFFECTIVE DATE.]** This section is effective the day after  
10 the governing body of the city of Minneapolis and its chief  
11 clerical officer comply with Minnesota Statutes, section  
12 645.021, subdivisions 2 and 3.

13 Sec. 8. Minnesota Statutes 2004, section 469.034,  
14 subdivision 2, is amended to read:

15 Subd. 2. **[GENERAL OBLIGATION REVENUE BONDS.]** (a) An  
16 authority may pledge the general obligation of the general  
17 jurisdiction governmental unit as additional security for bonds  
18 payable from income or revenues of the project or the  
19 authority. The authority must find that the pledged revenues  
20 will equal or exceed 110 percent of the principal and interest  
21 due on the bonds for each year. The proceeds of the bonds must  
22 be used for a qualified housing development project or  
23 projects. The obligations must be issued and sold in the manner  
24 and following the procedures provided by chapter 475, except the  
25 obligations are not subject to approval by the electors and the  
26 maturities may extend to not more than 30 years from the  
27 estimated date of completion of the project. The authority is  
28 the municipality for purposes of chapter 475.

29 (b) The principal amount of the issue must be approved by  
30 the governing body of the general jurisdiction governmental unit  
31 whose general obligation is pledged. Public hearings must be  
32 held on issuance of the obligations by both the authority and  
33 the general jurisdiction governmental unit. The hearings must  
34 be held at least 15 days, but not more than 120 days, before the  
35 sale of the obligations.

36 (c) The maximum amount of general obligation bonds that may

1 be issued and outstanding under this section equals the greater  
2 of (1) one-half of one percent of the taxable market value of  
3 the general jurisdiction governmental unit whose general  
4 obligation which includes a tax on property is pledged, or (2)  
5 \$3,000,000. In the case of county or multicounty general  
6 obligation bonds, the outstanding general obligation bonds of  
7 all cities in the county or counties issued under this  
8 subdivision must be added in calculating the limit under clause  
9 (1).

10 (d) "General jurisdiction governmental unit" means the city  
11 in which the housing development project is located. In the  
12 case of a county or multicounty authority, the county or  
13 counties may act as the general jurisdiction governmental unit.  
14 In the case of a multicounty authority, the pledge of the  
15 general obligation is a pledge of a tax on the taxable property  
16 in each of the counties.

17 (e) "Qualified housing development project" means a housing  
18 development project providing housing either for the elderly or  
19 for individuals and families with incomes not greater than 80  
20 percent of the median family income as estimated by the United  
21 States Department of Housing and Urban Development for the  
22 standard metropolitan statistical area or the nonmetropolitan  
23 county in which the project is located, ~~and will~~. The project  
24 must be owned for the term of the bonds either by the authority  
25 for the term of the bonds or by a limited partnership or other  
26 entity in which the authority or another entity under the sole  
27 control of the authority is the sole general partner. The  
28 partnership or other entity must receive either: (1) an  
29 allocation from the Department of Finance or an entitlement  
30 issuer of tax-exempt bonding authority for the project and a  
31 preliminary determination by the Minnesota Housing Finance  
32 Agency or the applicable suballocator of tax credits that the  
33 project will qualify for four percent low-income housing tax  
34 credits; or (2) a reservation of nine percent low-income housing  
35 tax credits from the Minnesota Housing Finance Agency or a  
36 suballocator of tax credits for the project. A qualified



1 housing development project may admit nonelderly individuals and  
2 families with higher incomes if:

3 (1) three years have passed since initial occupancy;

4 (2) the authority finds the project is experiencing  
5 unanticipated vacancies resulting in insufficient revenues,  
6 because of changes in population or other unforeseen  
7 circumstances that occurred after the initial finding of  
8 adequate revenues; and

9 (3) the authority finds a tax levy or payment from general  
10 assets of the general jurisdiction governmental unit will be  
11 necessary to pay debt service on the bonds if higher income  
12 individuals or families are not admitted.

13 [EFFECTIVE DATE.] This section is effective for bonds  
14 issued after the day following final enactment.

15 Sec. 9. Minnesota Statutes 2004, section 469.174,  
16 subdivision 10, is amended to read:

17 Subd. 10. [REDEVELOPMENT DISTRICT.] (a) "Redevelopment  
18 district" means a type of tax increment financing district  
19 consisting of a project, or portions of a project, within which  
20 the authority finds by resolution that one or more of the  
21 following conditions, reasonably distributed throughout the  
22 district, exists:

23 (1) parcels consisting of 70 percent of the area of the  
24 district are occupied by buildings, streets, utilities, paved or  
25 gravel parking lots, or other similar structures and more than  
26 50 percent of the buildings, not including outbuildings, are  
27 structurally substandard to a degree requiring substantial  
28 renovation or clearance;

29 (2) the property consists of vacant, unused, underused,  
30 inappropriately used, or infrequently used railyards, rail  
31 storage facilities, or excessive or vacated railroad  
32 rights-of-way;

33 (3) tank facilities, or property whose immediately previous  
34 use was for tank facilities, as defined in section 115C.02,  
35 subdivision 15, if the tank facilities:

36 (i) have or had a capacity of more than 1,000,000 gallons;

1 (ii) are located adjacent to rail facilities; and

2 (iii) have been removed or are unused, underused,

3 inappropriately used, or infrequently used; or

4 (4) a qualifying disaster area, as defined in subdivision

5 10b.

6 (b) For purposes of this subdivision, "structurally

7 substandard" shall mean containing defects in structural

8 elements or a combination of deficiencies in essential utilities

9 and facilities, light and ventilation, fire protection including

10 adequate egress, layout and condition of interior partitions, or

11 similar factors, which defects or deficiencies are of sufficient

12 total significance to justify substantial renovation or

13 clearance. A building originally constructed for use as a

14 public or private school, 50 percent or more of the square

15 footage of which was constructed 30 or more years before

16 approval of the plan, is deemed to be structurally substandard

17 for purposes of this subdivision, notwithstanding paragraph (c),

18 if the tax increment financing plan provides for demolition or

19 substantial renovation of the building.

20 (c) A building is not structurally substandard if it is in

21 compliance with the building code applicable to new buildings or

22 could be modified to (1) satisfy the building code, plus (2) if

23 the tax increment financing plan provides for demolition or

24 substantial renovation of the building, abate or remove asbestos

25 and lead, at a cost of less than 15 percent of the cost of

26 constructing a new structure of the same square footage and type

27 on the site. The municipality may find that a building is not

28 disqualified as structurally substandard under the preceding

29 sentence on the basis of reasonably available evidence, such as

30 the size, type, and age of the building, the average cost of

31 plumbing, electrical, or structural repairs, or other similar

32 reliable evidence. The municipality may not make such a

33 determination without an interior inspection of the property,

34 but need not have an independent, expert appraisal prepared of

35 the cost of repair and rehabilitation of the building. An

36 interior inspection of the property is not required, if the

1 municipality finds that (1) the municipality or authority is  
2 unable to gain access to the property after using its best  
3 efforts to obtain permission from the party that owns or  
4 controls the property; and (2) the evidence otherwise supports a  
5 reasonable conclusion that the building is structurally  
6 substandard. Items of evidence that support such a conclusion  
7 include recent fire or police inspections, on-site property tax  
8 appraisals or housing inspections, exterior evidence of  
9 deterioration, or other similar reliable evidence. Written  
10 documentation of the findings and reasons why an interior  
11 inspection was not conducted must be made and retained under  
12 section 469.175, subdivision 3, clause (1). Failure of a  
13 building to be disqualified under the provisions of this  
14 paragraph is a necessary, but not a sufficient, condition to  
15 determining that the building is substandard.

16 (d) A parcel is deemed to be occupied by a structurally  
17 substandard building for purposes of the finding under paragraph  
18 (a) if all of the following conditions are met:

19 (1) the parcel was occupied by a substandard building  
20 within three years of the filing of the request for  
21 certification of the parcel as part of the district with the  
22 county auditor;

23 (2) the substandard building was demolished or removed by  
24 the authority or the demolition or removal was financed by the  
25 authority or was done by a developer under a development  
26 agreement with the authority;

27 (3) the authority found by resolution before the demolition  
28 or removal that the parcel was occupied by a structurally  
29 substandard building and that after demolition and clearance the  
30 authority intended to include the parcel within a district; and

31 (4) upon filing the request for certification of the tax  
32 capacity of the parcel as part of a district, the authority  
33 notifies the county auditor that the original tax capacity of  
34 the parcel must be adjusted as provided by section 469.177,  
35 subdivision 1, paragraph (f).

36 (e) For purposes of this subdivision, a parcel is not

1 occupied by buildings, streets, utilities, paved or gravel  
2 parking lots, or other similar structures unless 15 percent of  
3 the area of the parcel contains buildings, streets, utilities,  
4 paved or gravel parking lots, or other similar structures.

5 (f) For districts consisting of two or more noncontiguous  
6 areas, each area must qualify as a redevelopment district under  
7 paragraph (a) to be included in the district, and the entire  
8 area of the district must satisfy paragraph (a).

9 [EFFECTIVE DATE.] This section is effective for districts  
10 for which the request for certification was made after June 30,  
11 2005.

12 Sec. 10. Minnesota Statutes 2004, section 469.174, is  
13 amended by adding a subdivision to read:

14 Subd. 30. [URBAN RENEWAL AREA.] "Urban renewal area" means  
15 a contiguous geographic area designated within a project and  
16 within which all parcels must be eligible for inclusion in a  
17 redevelopment, renewal and renovation, or soils condition  
18 district or are currently located within a redevelopment,  
19 renewal and renovation, or soils condition district certified  
20 within ten years before or after the date of approval of the  
21 urban renewal area by the city or county, whichever is later.  
22 In determining eligibility for inclusion in a district, each  
23 parcel may only be considered as a part of one district.

24 [EFFECTIVE DATE.] This section is effective for urban  
25 renewal areas established on or after the date of final  
26 enactment.

27 Sec. 11. Minnesota Statutes 2004, section 469.175,  
28 subdivision 1, is amended to read:

29 Subdivision 1. [TAX INCREMENT FINANCING PLAN.] A tax  
30 increment financing plan shall contain:

31 (1) a statement of objectives of an authority for the  
32 improvement of a project;

33 (2) a statement as to the development program for the  
34 project, including the property within the project, if any, that  
35 the authority intends to acquire;

36 (3) a list of any development activities that the plan

1 proposes to take place within the project, for which contracts  
2 have been entered into at the time of the preparation of the  
3 plan, including the names of the parties to the contract, the  
4 activity governed by the contract, the cost stated in the  
5 contract, and the expected date of completion of that activity;

6 (4) identification or description of the type of any other  
7 specific development reasonably expected to take place within  
8 the project, and the date when the development is likely to  
9 occur;

10 (5) estimates of the following:

11 (i) cost of the project, including administrative expenses,  
12 except that if part of the cost of the project is paid or  
13 financed with increment from the tax increment financing  
14 district, the tax increment financing plan for the district must  
15 contain an estimate of the amount of the cost of the project,  
16 including administrative expenses, that will be paid or financed  
17 with tax increments from the district;

18 (ii) amount of bonded indebtedness to be incurred;

19 (iii) sources of revenue to finance or otherwise pay public  
20 costs;

21 (iv) the most recent net tax capacity of taxable real  
22 property within the tax increment financing district and within  
23 any subdistrict;

24 (v) the estimated captured net tax capacity of the tax  
25 increment financing district at completion; and

26 (vi) the duration of the tax increment financing district's  
27 and any subdistrict's existence;

28 (6) statements of the authority's alternate estimates of  
29 the impact of tax increment financing on the net tax capacities  
30 of all taxing jurisdictions in which the tax increment financing  
31 district is located in whole or in part. For purposes of one  
32 statement, the authority shall assume that the estimated  
33 captured net tax capacity would be available to the taxing  
34 jurisdictions without creation of the district, and for purposes  
35 of the second statement, the authority shall assume that none of  
36 the estimated captured net tax capacity would be available to

1 the taxing jurisdictions without creation of the district or  
2 subdistrict;

3 (7) identification and description of studies and analyses  
4 used to make the determination set forth in subdivision 3,  
5 clause (2); and

6 (8) identification of all parcels to be included in the  
7 district or any subdistrict; and

8 (9) identification of any job training costs intended to be  
9 paid by use of tax increments, including the name of the  
10 employer whose employees will be trained and the nature and cost  
11 of the training. The plan is not required to identify the  
12 provider of the job training.

13 [EFFECTIVE DATE.] This section applies to districts for  
14 which the request for certification was made after July 31,  
15 1979, and is effective for tax increment financing plans  
16 approved after June 30, 2005.

17 Sec. 12. Minnesota Statutes 2004, section 469.175,  
18 subdivision 4, is amended to read:

19 Subd. 4. [MODIFICATION OF PLAN.] (a) A tax increment  
20 financing plan may be modified by an authority.

21 (b) The authority may make the following modifications only  
22 upon the notice and after the discussion, public hearing, and  
23 findings required for approval of the original plan:

24 (1) any reduction or enlargement of geographic area of the  
25 project or tax increment financing district that does not meet  
26 the requirements of paragraph (e);

27 (2) increase in amount of bonded indebtedness to be  
28 incurred;

29 (3) a determination to capitalize interest on the debt if  
30 that determination was not a part of the original plan, or to  
31 increase or decrease the amount of interest on the debt to be  
32 capitalized;

33 (4) increase in the portion of the captured net tax  
34 capacity to be retained by the authority;

35 (5) increase in the estimate of the cost of the project,  
36 including administrative expenses, that will be paid or financed

1 with tax increment from the district; ~~or~~

2 (6) designation of additional property to be acquired by  
3 the authority; or

4 (7) a decision to pay for job training for employees of a  
5 business located in the district that was not a part of the  
6 original plan.

7 (c) If an authority changes the type of district to another  
8 type of district, this change is not a modification but requires  
9 the authority to follow the procedure set forth in sections  
10 469.174 to 469.179 for adoption of a new plan, including  
11 certification of the net tax capacity of the district by the  
12 county auditor.

13 (d) If a redevelopment district or a renewal and renovation  
14 district is enlarged, the reasons and supporting facts for the  
15 determination that the addition to the district meets the  
16 criteria of section 469.174, subdivision 10, paragraph (a),  
17 clauses (1) and (2), or subdivision 10a, must be documented.

18 (e) The requirements of paragraph (b) do not apply if (1)  
19 the only modification is elimination of parcels from the project  
20 or district and (2) (A) the current net tax capacity of the  
21 parcels eliminated from the district equals or exceeds the net  
22 tax capacity of those parcels in the district's original net tax  
23 capacity or (B) the authority agrees that, notwithstanding  
24 section 469.177, subdivision 1, the original net tax capacity  
25 will be reduced by no more than the current net tax capacity of  
26 the parcels eliminated from the district. The authority must  
27 notify the county auditor of any modification that reduces or  
28 enlarges the geographic area of a district or a project area.

29 (f) The geographic area of a tax increment financing  
30 district may be reduced, but shall not be enlarged after five  
31 years following the date of certification of the original net  
32 tax capacity by the county auditor or after August 1, 1984, for  
33 tax increment financing districts authorized prior to August 1,  
34 1979.

35 [EFFECTIVE DATE.] This section is effective for districts  
36 for which the request for certification was made after July 31,

1 1979, and is effective for modifications made after June 30,  
2 2005.

3 Sec. 13. Minnesota Statutes 2004, section 469.175,  
4 subdivision 6, is amended to read:

5 Subd. 6. [ANNUAL FINANCIAL REPORTING.] (a) The state  
6 auditor shall develop a uniform system of accounting and  
7 financial reporting for tax increment financing districts. The  
8 system of accounting and financial reporting shall, as nearly as  
9 possible:

10 (1) provide for full disclosure of the sources and uses of  
11 public funds in the district;

12 (2) permit comparison and reconciliation with the affected  
13 local government's accounts and financial reports;

14 (3) permit auditing of the funds expended on behalf of a  
15 district, including a single district that is part of a  
16 multidistrict project or that is funded in part or whole through  
17 the use of a development account funded with tax increments from  
18 other districts or with other public money;

19 (4) be consistent with generally accepted accounting  
20 principles.

21 (b) The authority must annually submit to the state auditor  
22 a financial report in compliance with paragraph (a). Copies of  
23 the report must also be provided to the county auditor and to  
24 the governing body of the municipality, if the authority is not  
25 the municipality. To the extent necessary to permit compliance  
26 with the requirement of financial reporting, the county and any  
27 other appropriate local government unit or private entity must  
28 provide the necessary records or information to the authority or  
29 the state auditor as provided by the system of accounting and  
30 financial reporting developed pursuant to paragraph (a). The  
31 authority must submit the annual report for a year on or before  
32 August 1 of the next year.

33 (c) The annual financial report must also include the  
34 following items:

35 (1) the original net tax capacity of the district and any  
36 subdistrict under section 469.177, subdivision 1;



1 (2) the net tax capacity for the reporting period of the  
2 district and any subdistrict;

3 (3) the captured net tax capacity of the district;

4 (4) any fiscal disparity deduction from the captured net  
5 tax capacity under section 469.177, subdivision 3;

6 (5) the captured net tax capacity retained for tax  
7 increment financing under section 469.177, subdivision 2,  
8 paragraph (a), clause (1);

9 (6) any captured net tax capacity distributed among  
10 affected taxing districts under section 469.177, subdivision 2,  
11 paragraph (a), clause (2);

12 (7) the type of district;

13 (8) the date the municipality approved the tax increment  
14 financing plan and the date of approval of any modification of  
15 the tax increment financing plan, the approval of which requires  
16 notice, discussion, a public hearing, and findings under  
17 subdivision 4, paragraph (a);

18 (9) the date the authority first requested certification of  
19 the original net tax capacity of the district and the date of  
20 the request for certification regarding any parcel added to the  
21 district;

22 (10) the date the county auditor first certified the  
23 original net tax capacity of the district and the date of  
24 certification of the original net tax capacity of any parcel  
25 added to the district;

26 (11) the month and year in which the authority has received  
27 or anticipates it will receive the first increment from the  
28 district;

29 (12) the date the district must be decertified;

30 (13) for the reporting period and prior years of the  
31 district, the actual amount received from, at least, the  
32 following categories:

33 (i) tax increments paid by the captured net tax capacity  
34 retained for tax increment financing under section 469.177,  
35 subdivision 2, paragraph (a), clause (1), but excluding any  
36 excess taxes;

1 (ii) tax increments that are interest or other investment  
2 earnings on or from tax increments;

3 (iii) tax increments that are proceeds from the sale or  
4 lease of property, tangible or intangible, purchased by the  
5 authority with tax increments;

6 (iv) tax increments that are repayments of loans or other  
7 advances made by the authority with tax increments;

8 (v) bond or loan proceeds;

9 (vi) special assessments;

10 (vii) grants; and

11 (viii) transfers from funds not exclusively associated with  
12 the district;

13 (14) for the reporting period and for the prior years of  
14 the district, the actual amount expended for, at least, the  
15 following categories:

16 (i) acquisition of land and buildings through condemnation  
17 or purchase;

18 (ii) site improvements or preparation costs;

19 (iii) installation of public utilities, parking facilities,  
20 streets, roads, sidewalks, or other similar public improvements;

21 (iv) administrative costs, including the allocated cost of  
22 the authority;

23 (v) public park facilities, facilities for social,  
24 recreational, or conference purposes, or other similar public  
25 improvements; and

26 (vi) transfers to funds not exclusively associated with the  
27 district; and

28 (vii) job training as permitted under section 469.176,  
29 subdivision 4m;

30 (15) for properties sold to developers, the total cost of  
31 the property to the authority and the price paid by the  
32 developer;

33 (16) the amount of any payments and the value of any  
34 in-kind benefits, such as physical improvements and the use of  
35 building space, that are paid or financed with tax increments  
36 and are provided to another governmental unit other than the

1 municipality during the reporting period;

2 (17) the amount of any payments for activities and  
3 improvements located outside of the district that are paid for  
4 or financed with tax increments;

5 (18) the amount of payments of principal and interest that  
6 are made during the reporting period on any nondefeased:

7 (i) general obligation tax increment financing bonds;

8 (ii) other tax increment financing bonds; and

9 (iii) notes and pay-as-you-go contracts;

10 (19) the principal amount, at the end of the reporting  
11 period, of any nondefeased:

12 (i) general obligation tax increment financing bonds;

13 (ii) other tax increment financing bonds; and

14 (iii) notes and pay-as-you-go contracts;

15 (20) the amount of principal and interest payments that are  
16 due for the current calendar year on any nondefeased:

17 (i) general obligation tax increment financing bonds;

18 (ii) other tax increment financing bonds; and

19 (iii) notes and pay-as-you-go contracts;

20 (21) if the fiscal disparities contribution under chapter  
21 276A or 473F for the district is computed under section 469.177,  
22 subdivision 3, paragraph (a), the amount of increased property  
23 taxes imposed on other properties in the municipality that  
24 approved the tax increment financing plan as a result of the  
25 fiscal disparities contribution;

26 (22) whether the tax increment financing plan or other  
27 governing document permits increment revenues to be expended:

28 (i) to pay bonds, the proceeds of which were or may be  
29 expended on activities outside of the district;

30 (ii) for deposit into a common bond fund from which money  
31 may be expended on activities located outside of the district;  
32 or

33 (iii) to otherwise finance activities located outside of  
34 the tax increment financing district;

35 (23) the estimate, if any, contained in the tax increment  
36 financing plan of the amount of the cost of the project,

1 including administrative expenses, that will be paid or financed  
2 with tax increment; and

3 (24) any additional information the state auditor may  
4 require.

5 (d) The commissioner of revenue shall prescribe the method  
6 of calculating the increased property taxes under paragraph (c),  
7 clause (21), and the form of the statement disclosing this  
8 information on the annual statement under subdivision 5.

9 (e) The reporting requirements imposed by this subdivision  
10 apply to districts certified before, on, and after August 1,  
11 1979.

12 [EFFECTIVE DATE.] This section is effective for reports  
13 filed in 2006 and thereafter.

14 Sec. 14. Minnesota Statutes 2004, section 469.176,  
15 subdivision 1c, is amended to read:

16 Subd. 1c. [DURATION LIMITS; PRE-1979 DISTRICTS.] (a) For  
17 tax increment financing districts created prior to August 1,  
18 1979, no tax increment shall be paid to the authority after  
19 April 1, 2001, or the term of a nondefeased bond or obligation  
20 outstanding on April 1, 1990, secured by increments from the  
21 district or project area, whichever time is greater, provided  
22 that in no case will a tax increment be paid to an authority  
23 after August 1, 2009, from such a district. If a district's  
24 termination date is extended beyond April 1, 2001, because bonds  
25 were outstanding on April 1, 1990, with maturities extending  
26 beyond April 1, 2001, the following restrictions apply. No  
27 increment collected from the district may be expended after  
28 April 1, 2001, except to pay or repay:

29 (1) bonds issued before April 1, 1990;

30 (2) bonds issued to refund the principal of the outstanding  
31 bonds and pay associated issuance costs;

32 (3) administrative expenses of the district required to be  
33 paid under section 469.176, subdivision 4h, paragraph (a);

34 (4) transfers of increment permitted under section  
35 469.1763, subdivision 6; and

36 (5) any advance or payment made by the municipality or the

1 authority after June 1, 2002, to pay any bonds listed in clause  
2 (1) or (2); and

3 (6) amounts authorized under paragraph (d).

4 (b) Each year, any increments from a district subject to  
5 this subdivision must be first applied to pay obligations listed  
6 under paragraph (a), clauses (1) and (2), and administrative  
7 expenses under paragraph (a), clause (3). Any remaining  
8 increments may be used for transfers of increments permitted  
9 under section 469.1763, subdivision 6, and to make payments  
10 under paragraph paragraphs (a), clause (5), and (d).

11 (c) When sufficient money has been received to pay in full  
12 or defease obligations under paragraph (a), clauses (1), (2),  
13 and (5), and no spending is permitted by paragraph (d) for the  
14 year, the tax increment project or district must be decertified.

15 (d) In addition to the expenditures authorized under  
16 paragraph (a), clauses (1) to (5), a city may expend increments  
17 from a tax increment financing district subject to this  
18 subdivision after April 1, 2001, if all of the following  
19 conditions are met:

20 (1) the captured tax capacity for all tax increment  
21 financing districts constituted less than six percent of the  
22 city's total tax capacity for taxes payable in 2003; and

23 (2) the population of the city exceeds 50,000.

24 [EFFECTIVE DATE.] This section is effective for tax  
25 increment financing districts for which the request for  
26 certification was made before August 1, 1979.

27 Sec. 15. Minnesota Statutes 2004, section 469.176, is  
28 amended by adding a subdivision to read:

29 Subd. 4m. [USE OF INCREMENTS FOR JOB  
30 TRAINING.] Notwithstanding the limits on use of increments in  
31 subdivision 4, 4b, 4c, or 4j, increments may be expended for job  
32 training that is intended to result in new job growth within a  
33 tax increment financing district. The authority may expend  
34 increments directly for the cost of the job training or may  
35 reimburse an employer located within the district or a  
36 municipality in which the district is located for job training

1 expenditures. Increments may be expended only for job training  
2 programs that are approved for this purpose by the local  
3 workforce council established under section 268.666 that has  
4 jurisdiction over the workforce service area that includes the  
5 tax increment financing district. For purposes of section  
6 469.1763, increments expended under this subdivision are  
7 considered to be expended on activities in the district.

8 [EFFECTIVE DATE.] This section is effective for districts  
9 for which the request for certification was made after July 31,  
10 1979, provided that districts for which the request for  
11 certification was made before the effective date of this act  
12 must modify their plans to provide for this expenditure.

13 Sec. 16. Minnesota Statutes 2004, section 469.176, is  
14 amended by adding a subdivision to read:

15 Subd. 8. [URBAN RENEWAL AREA.] (a) An authority may create  
16 an urban renewal area only upon the notice and after the  
17 discussion, public hearing, and findings required for approval  
18 of the original project. In addition, the authority must obtain  
19 written approval from the county in which the urban renewal area  
20 is to be located. After approval by the city and county, the  
21 authority shall notify the commissioner of revenue of the  
22 approved urban renewal area.

23 (b) All provisions of sections 469.174 through 469.1799  
24 apply except:

25 (1) the five-year rule under section 469.1763, subdivision  
26 3, is extended to ten years;

27 (2) the limitation on spending increment outside of the  
28 district under section 469.1763, subdivision 2, does not apply,  
29 provided that increments may only be expended on improvements or  
30 activities within the urban renewal area, and increments from a  
31 soils condition district must be expended as provided under  
32 subdivision 4b; and

33 (3) the local tax rate certification required under section  
34 469.177, subdivision 1a, does not apply.

35 [EFFECTIVE DATE.] This section is effective for urban  
36 renewal areas established on or after the date of final

1 enactment.

2 Sec. 17. Minnesota Statutes 2004, section 469.1761, is  
3 amended by adding a subdivision to read:

4 Subd. 3a. [MIXED-INCOME OCCUPANCY PROJECTS.] (a)

5 Notwithstanding the income requirements in subdivisions 2 and 3,  
6 or section 469.174, subdivision 11, an authority may create  
7 housing districts for developments that contain both  
8 owner-occupied and residential rental units for mixed-income  
9 occupancy. Such a district consists of a project, or a portion  
10 of a project, intended for occupancy, in part, by persons of low  
11 and moderate income as defined in chapter 462A, title II, of the  
12 National Housing Act of 1934; the National Housing Act of 1959;  
13 the United States Housing Act of 1937, as amended; title V of  
14 the Housing Act of 1949, as amended; any other similar present  
15 or future federal, state, or municipal legislation, or the  
16 regulations promulgated under any of those acts, as further  
17 specified in this section. Twenty percent of the units in the  
18 development in the housing district must be occupied by  
19 individuals whose family income is equal to or less than 50  
20 percent of area median gross income, and an additional 60  
21 percent of the units in the development in the housing district  
22 must be occupied by individuals whose family income is equal to  
23 or less than 115 percent of area median gross income. Twenty  
24 percent of the units in the development in the housing district  
25 are not required to be subject to any income limitations.

26 (b) For purposes of this subdivision, "family income" means  
27 the median gross income for the area as determined under section  
28 42 of the Internal Revenue Code of 1986, as amended. The income  
29 requirements of this subdivision are satisfied if the sum of  
30 qualified owner-occupied units and qualified residential rental  
31 units equals the required total number of qualified units.  
32 Owner-occupied units must be initially purchased and occupied by  
33 individuals whose family income satisfies the income  
34 requirements of this subdivision. For residential rental  
35 property, the income requirements of this subdivision apply for  
36 the duration of the tax increment district.

1       (c) The development in the housing district, but not the  
2 project, does not qualify under this subdivision if the fair  
3 market value of the improvements that are constructed for  
4 commercial uses or for uses other than owner-occupied and rental  
5 mixed-income housing consists of more than 20 percent of the  
6 total fair market value of the planned improvements in the  
7 development plan or agreement. The fair market value of the  
8 improvements may be determined using the cost of construction,  
9 capitalized income, or other appropriate method of estimating  
10 market value.

11       [EFFECTIVE DATE.] This section is effective for districts  
12 for which certification is requested after July 31, 2005.

13       Sec. 18. Minnesota Statutes 2004, section 469.1792, is  
14 amended to read:

15       469.1792 [SPECIAL DEFICIT AUTHORITY.]

16       Subdivision 1. [SCOPE.] This section applies only to an  
17 authority with a preexisting district for which:

18       (1) the increments from the district were insufficient to  
19 pay preexisting obligations as a result of the class rate  
20 changes or the elimination of the state-determined general  
21 education property tax levy under this act, or both; or

22       (2) (i) the development authority has a binding contract,  
23 entered into before August 1, 2001, with a person requiring the  
24 authority to pay to the person an amount that may not exceed the  
25 increment from the district or a specific development within the  
26 district; and

27       (ii) the authority is unable to pay the full amount under  
28 the contract from the pledged increments or other increments  
29 from the district that would have been due if the class rate  
30 changes or elimination of the state-determined general education  
31 property tax levy or both had not been made under Laws 2001,  
32 First Special Session chapter 5;

33       (3) the authority amends its tax increment financing plan  
34 to establish an affordable housing account to which increments  
35 are pledged; or

36       (4) the authority amends its tax increment financing plan



1 to establish a hazardous substance, pollutant, or contaminant  
2 remediation account to which increments are pledged.

3 Subd. 2. [DEFINITIONS.] (a) For purposes of this section,  
4 the following terms have the meanings given.

5 (b) "Affordable housing account" means an account in which  
6 increment is deposited solely for affordable housing activities  
7 as defined in section 469.174, subdivision 11.

8 (c) "Hazardous substance, pollutant, or contaminant  
9 remediation account" means an account in which increment is  
10 deposited solely for removal or remediation activities described  
11 in section 469.174, subdivisions 16 to 19.

12 (d) "Preexisting district" means a tax increment  
13 financing district for which the request for certification was  
14 made before August 1, 2001.

15 (e) "Preexisting obligation" means a bond or binding  
16 contract that:

17 (1) (i) was issued or approved before August 1, 2001, or was  
18 issued pursuant to a binding contract entered into before July  
19 1, 2001; or

20 (ii) was issued to refinance an obligation under item (i),  
21 if the refinancing does not increase the present value of the  
22 debt service; and

23 (2) is secured by increments from a preexisting district.

24 Subd. 3. [ACTIONS AUTHORIZED.] (a) An authority with a  
25 district qualifying under this section may take either or both  
26 of the following actions for any or all of its preexisting  
27 districts:

28 (1) the authority may elect that the original local tax  
29 rate under section 469.177, subdivision 1a, does not apply to  
30 the district; and

31 (2) the authority may elect the fiscal disparities  
32 contribution will be computed under section 469.177, subdivision  
33 3, paragraph (a), regardless of the election that was made for  
34 the district or if the district is an economic development  
35 district for which the request for certification was made after  
36 June 30, 1997.

1 (b) The authority may take action under this subdivision  
2 only after the municipality approves the action, by resolution,  
3 after notice and public hearing in the manner provided under  
4 section 469.175, subdivision 3. To be effective for taxes  
5 payable in the following year, the resolution must be adopted  
6 and the county auditor must be notified of the adoption on or  
7 before July 1.

8 Subd. 4. [EXPENDITURES FROM AFFORDABLE HOUSING  
9 ACCOUNTS.] Increment from an affordable housing account may be  
10 spent by an authority anywhere within its area of operation.  
11 Notwithstanding the definition of a project under section  
12 469.174, increments may be spent to assist housing that meets  
13 the requirements under section 469.1761. The limitation imposed  
14 by section 469.1763, subdivision 2, does not apply to any  
15 transfers of increment to the affordable housing account to the  
16 extent that the amount transferred to the account under this  
17 subdivision does not exceed ten percent of the revenue derived  
18 from tax increments paid by properties in the district in the  
19 year.

20 Subd. 5. [EXPENDITURES FROM HAZARDOUS SUBSTANCE,  
21 POLLUTANT, OR CONTAMINANT REMEDIATION ACCOUNT.] Increment from a  
22 hazardous substance, pollutant, or contaminant remediation  
23 account may be spent by an authority anywhere within its area of  
24 operation. Notwithstanding the definition of a project under  
25 section 469.174, increments may be expended to remediation and  
26 removal activities that meet the requirements of section  
27 469.176, subdivision 4b or 4e. The limitation imposed by  
28 section 469.1763, subdivision 2, does not apply to any transfers  
29 of increment to the hazardous substance, pollutant, or  
30 contaminant remediation account to the extent that the amount  
31 transferred to the account under this subdivision does not  
32 exceed ten percent of the revenue derived from tax increments  
33 paid by properties in the district in the year.

34 [EFFECTIVE DATE.] This section is effective for actions  
35 taken and resolutions approved after June 30, 2005.

36 Sec. 19. Minnesota Statutes 2004, section 469.310,

1 subdivision 11, is amended to read:

2 Subd. 11. [QUALIFIED BUSINESS.] (a) "Qualified business"  
3 means a person carrying on a trade or business at a place of  
4 business located within a job opportunity building zone.

5 (b) A person that relocates a trade or business from  
6 outside a job opportunity building zone into a zone is not a  
7 qualified business, unless the business:

8 (1)(i) increases full-time employment in the first full  
9 year of operation within the job opportunity building zone by at  
10 least 20 percent measured relative to the operations that were  
11 relocated and maintains the required level of employment for  
12 each year the zone designation applies; or

13 (ii) makes a capital investment in the property located  
14 within a zone equivalent to ten percent of the gross revenues of  
15 operation that were relocated in the immediately preceding  
16 taxable year; and

17 (2) enters a binding written agreement with the  
18 commissioner that:

19 (i) pledges the business will meet the requirements of  
20 clause (1);

21 (ii) provides for repayment of all tax benefits enumerated  
22 under section 469.315 to the business under the procedures in  
23 section 469.319, if the requirements of clause (1) are not met  
24 for the taxable year or for taxes payable during the year in  
25 which the requirements were not met; and

26 (iii) contains any other terms the commissioner determines  
27 appropriate.

28 (c) A business is not a qualified business if at its  
29 location or locations in the zone, the business is primarily  
30 engaged in making retail sales to purchasers who are physically  
31 present at the business's zone location.

32 [EFFECTIVE DATE.] This section is effective the day  
33 following final enactment and applies to any business entering a  
34 business subsidy agreement for a job opportunity development  
35 zone after that date.

36 Sec. 20. Laws 1998, chapter 389, article 11, section 19,

1 subdivision 3, is amended to read:

2 Subd. 3. [DURATION OF DISTRICT.] Notwithstanding the  
3 provisions of Minnesota Statutes, section 469.176, subdivision  
4 1b, no tax increment may be paid to the authority or the city  
5 ~~after 18-years-from-the-date-of-receipt-by-the-authority-of-the~~  
6 ~~first-increment-generated-from-the-final-phase-of~~  
7 ~~redevelopment.--In-no-case-may-increments-be-paid-to-the~~  
8 ~~authority-after~~ 30 years from approval of the tax increment  
9 plan. ~~"Final-phase-of-redevelopment"-means-that-phase-of~~  
10 ~~redevelopment-activity-which-completes-the-rehabilitation-of-the~~  
11 ~~Lake-Street-site.~~

12 [EFFECTIVE DATE.] This section is effective upon compliance  
13 with Minnesota Statutes, sections 469.1782, subdivision 2, and  
14 645.021, subdivision 2.

15 Sec. 21. Laws 1998, chapter 389, article 11, section 24,  
16 subdivision 1, is amended to read:

17 Subdivision 1. [SPECIAL RULES.] (a) If the city elects  
18 upon the adoption of the tax increment financing plan for the  
19 district, the rules under this section apply to one or more  
20 ~~redevelopment or-seiis-ecndition~~ tax increment financing  
21 districts established by the city of New Brighton or a  
22 development authority of the city in the area bounded on the  
23 north by the south boundary line of tax increment district  
24 number 8 extended to Long Lake regional park, on the east by  
25 interstate highway 35W, on the south by interstate highway 694,  
26 and on the west by Long Lake regional park.

27 (b) ~~The-five-year-rule-under-Minnesota-Statutes, section~~  
28 ~~469.1763, subdivision 3, is extended to nine years for the~~  
29 ~~district.~~

30 (c) The limitations on spending increment outside of the  
31 district under Minnesota Statutes, section 469.1763, subdivision  
32 2, do not apply, but the following limitations apply:

33 (1) increments may only be expended on improvements or  
34 activities within the area defined in paragraph (a); and

35 (2) increment from the area described in paragraph (d) must  
36 be expended within the area or for administrative expenses,

1 sanitary sewer relocation, and the cost of road improvements  
 2 that are a direct result of development occurring within that  
 3 area.

4 (c) The certified original local tax rate for the district  
 5 under Minnesota Statutes, section 469.177, subdivision 1a, does  
 6 not apply.

7 (d) The requirements for qualifying a redevelopment  
 8 district under Minnesota Statutes, section 469.174, subdivision  
 9 10, do not apply to the parcels identified as 20-30-23-14-0004,  
 10 20-30-23-14-0003, 20-30-23-41-0001, 21-30-23-32-0009,  
 11 21-30-23-32-0010, 20-30-23-41-0015, 20-30-23-41-0003,  
 12 21-30-23-32-0013, 20-30-23-41-0004, 20-30-23-41-0016,  
 13 20-30-23-41-0005, 20-30-23-41-0006, 20-30-23-41-0007,  
 14 20-30-23-41-0014, 20-30-23-41-0010, and 20-30-23-44-0002, or to  
 15 railroad property in the district. The area of each parcel and  
 16 the railroad property shall be deemed eligible for the purpose  
 17 of qualifying for inclusion in a redevelopment district.

18 Sec. 22. Laws 1998, chapter 389, article 11, section 24,  
 19 subdivision 2, is amended to read:

20 Subd. 2. [EXPIRATION.] ~~{a}-The-exception-from-the~~  
 21 ~~limitations-of-Minnesota-Statutes,-section-469.1763,-subdivision~~  
 22 ~~2,-expires-18-years-after-the-receipt-of-the-first-increment~~  
 23 ~~from-a-district-to-which-the-city-has-elected-that-this-section~~  
 24 ~~applies.~~

25 ~~{b}~~ The authority to approve tax increment financing plans  
 26 to establish a tax increment financing district or districts  
 27 under this section expires on December 31, ~~2008~~ 2013.

28 [EFFECTIVE DATE.] This section is effective upon approval  
 29 by the governing bodies of the city of New Brighton and Ramsey  
 30 County and upon compliance by the city with Minnesota Statutes,  
 31 section 645.021, subdivision 3.

32 Sec. 23. [ANOKA COUNTY REGIONAL RAILROAD AUTHORITY  
 33 POWERS.]

34 Subdivision 1. [ECONOMIC DEVELOPMENT POWERS AND  
 35 DUTIES.] The Anoka County Regional Railroad Authority may  
 36 exercise any of the powers and duties of an economic development

1 authority under Minnesota Statutes, sections 469.090, 469.098,  
2 and 469.101 to 469.106. The Anoka County Regional Railroad  
3 Authority may exercise the powers under Minnesota Statutes,  
4 sections 469.001 to 469.047, for the purpose of transit-oriented  
5 development, except that the Anoka County Regional Railroad  
6 Authority must not exercise the power to tax under Minnesota  
7 Statutes, section 469.033, subdivision 6. In applying Minnesota  
8 Statutes, sections 469.001 to 469.047, 469.090, 469.098, and  
9 469.101 to 469.106, to the Anoka County Regional Railroad  
10 Authority, the county is considered to be the city and the  
11 county board is considered to be the city council.

12 Subd. 2. [RELATION TO LOCAL AUTHORITIES.] Nothing in  
13 subdivision 1 shall change or impair the powers or duties of a  
14 city, town, municipal housing and redevelopment authority, or  
15 municipal economic development authority.

16 Subd. 3. [LOCAL APPROVAL.] If any economic development  
17 project is constructed in the county pursuant to the  
18 authorization in this section, the project must be approved by  
19 the governing body of each city or town within which the project  
20 will be constructed.

21 [EFFECTIVE DATE.] This section is effective the day after  
22 the governing body of the Anoka County Regional Railroad  
23 Authority and its chief clerical officer timely complete their  
24 compliance with Minnesota Statutes, section 645.021,  
25 subdivisions 2 and 3.

26 Sec. 24. [CITY OF DETROIT LAKES; REDEVELOPMENT TAX  
27 INCREMENT FINANCING DISTRICT.]

28 Subdivision 1. [AUTHORIZATION.] At the election of the  
29 governing body of the city of Detroit Lakes, upon adoption of  
30 the tax increment financing plan for the district described in  
31 this section, the rules provided under this section apply to  
32 each such district.

33 Subd. 2. [DEFINITION.] In this section, "district" means a  
34 redevelopment district established by the city of Detroit Lakes  
35 or the Detroit Lakes Development Authority within the following  
36 area:

1 Beginning at the intersection of Washington Avenue and the  
2 Burlington Northern Santa Fe Railroad then east to the  
3 intersection of Roosevelt Avenue then south to the intersection  
4 of Highway 10/Fraze Street then west to the intersection of  
5 Fraze Street and the alley that parallels Washington Avenue  
6 then north to the point of beginning.

7 More than one district may be created under this act.

8 Subd. 3. [QUALIFICATION AS REDEVELOPMENT DISTRICT; SPECIAL  
9 RULES.] The district shall be a redevelopment district under  
10 Minnesota Statutes, section 469.174, subdivision 10. All  
11 buildings that are removed to facilitate the Highway 10  
12 Realignment Project are deemed to be "structurally  
13 substandard." The three-year limit after demolition of the  
14 buildings to request tax increment financing certification  
15 provided in Minnesota Statutes, section 469.174, subdivision 10,  
16 paragraph (d), clause (1), does not apply.

17 Subd. 4. [EXPIRATION.] The authority to approve tax  
18 increment financing plans to establish a tax increment financing  
19 redevelopment district subject to this section expires on  
20 December 31, 2014.

21 Subd. 5. [EFFECTIVE DATE.] This section is effective upon  
22 approval of the governing body of the city of Detroit Lakes and  
23 compliance with Minnesota Statutes, section 645.021, subdivision  
24 3.

25 Sec. 25. [CITIES OF ELGIN, EYOTA, BYRON, AND ORONOCO; TAX  
26 INCREMENT FINANCING DISTRICTS.]

27 Subdivision 1. [AUTHORIZATION.] Notwithstanding the  
28 mileage limitation in Minnesota Statutes, section 469.174,  
29 subdivision 27, the cities of Elgin, Eyota, Byron, and Oronoco  
30 are deemed to be small cities for purposes of Minnesota  
31 Statutes, sections 469.174 to 469.1799, as long as they do not  
32 exceed the population limit in that section.

33 Subd. 2. [LOCAL APPROVAL.] This section is effective for  
34 each of the cities of Elgin, Eyota, Byron, and Oronoco upon  
35 approval of that city's governing body and compliance with  
36 Minnesota Statutes, section 645.021, subdivisions 2 and 3.

1           Sec. 26. [CITY OF BROOKLYN CENTER; EXTENSION OF TIME TO  
2 EXPEND TAX INCREMENT.]

3           For tax increment financing district number 3, established  
4 on December 19, 1994, by Brooklyn Center Resolution No. 94-273,  
5 Minnesota Statutes, section 469.1763, subdivision 3, applies to  
6 the district by permitting a period of 13 years for commencement  
7 of activities within the district.

8           [EFFECTIVE DATE.] This section is effective upon approval  
9 by the governing body of the city of Brooklyn Center and  
10 compliance with Minnesota Statutes, section 645.021, subdivision  
11 3.

12          Sec. 27. [CITY OF FAIRMONT; TAX INCREMENT FINANCING  
13 DISTRICT.]

14          Subdivision 1. [AUTHORITY TO REDUCE ORIGINAL VALUE.] The  
15 city of Fairmont may elect to reduce the original tax capacity  
16 of a previously tax-exempt parcel, consisting of property  
17 formerly owned by the United States Post Office, in tax  
18 increment financing district No. 20, to the value of the land.

19          Subd. 2. [EFFECTIVE DATE.] This section is effective upon  
20 compliance by the city of Fairmont with the requirements of  
21 Minnesota Statutes, section 645.021.

22          Sec. 28. [CITY OF FERGUS FALLS; ECONOMIC DEVELOPMENT  
23 PROPERTY.]

24          The provisions of Minnesota Statutes, section 272.02,  
25 subdivision 39, apply to property located in the city of Fergus  
26 Falls as if the city had a population of 5,000 or less.

27          [EFFECTIVE DATE.] This section is effective for taxes  
28 levied in 2005, payable in 2006, and thereafter.

29          Sec. 29. [CITY OF MINNEAPOLIS; SPECIAL SERVICE DISTRICTS;  
30 MANAGEMENT BY NONPROFIT CORPORATIONS.]

31          The city of Minneapolis may elect, in the establishment of  
32 a special service district, to provide that the activities of  
33 the special service district may be managed by a nonprofit  
34 corporation created to assist and act on behalf of the city in  
35 implementing and providing services as authorized by Minnesota  
36 Statutes, section 428A.02. The ordinance establishing the



1 district may not be adopted until the city certifies that no  
2 current city employee is able and available to perform the  
3 services called for by the contract and until that certification  
4 is verified at the public hearing on the ordinance.

5 If the city intends to contract with a nonprofit  
6 corporation to manage a special service district, the notice of  
7 the hearing on the ordinance relating to creation of the  
8 district must include a statement of that intent, and  
9 certification that no city employee is able and available to  
10 perform the service that would be provided within the special  
11 service district.

12 [EFFECTIVE DATE.] This section is effective for public  
13 hearings on ordinances conducted after June 30, 2005, but only  
14 after approval by the governing body of the city of Minneapolis  
15 and compliance with Minnesota Statutes, section 645.021,  
16 subdivision 3.

17 Sec. 30. [CITY OF ST. MICHAEL; TAX INCREMENT FINANCING  
18 DISTRICT.]

19 Subdivision 1. [ESTABLISHMENT OF DISTRICT.] The city of St.  
20 Michael may establish a redevelopment tax increment financing  
21 district subject to Minnesota Statutes, sections 469.174 to  
22 469.179, except as provided in this section. The district must  
23 be established within an area that includes the downtown and  
24 town center areas as designated by the city as well as all  
25 parcels adjacent to marked Trunk Highway 241 within the city.

26 Subd. 2. [SPECIAL RULES.] (a) Notwithstanding the  
27 requirements of Minnesota Statutes, section 469.174, subdivision  
28 10, the district may be established and operated as a  
29 redevelopment district.

30 (b) Notwithstanding the restrictions of Minnesota Statutes,  
31 sections 469.176, subdivisions 4 and 4j, and 469.1763,  
32 subdivision 2, revenues derived from tax increments from the  
33 district created under this section may be used to meet the cost  
34 of land acquisition, removal of buildings in the right-of-way  
35 acquisition area, and other costs incurred by the city of St.  
36 Michael in the expansion and improvement of marked Trunk Highway

1 241 within the city.

2 (c) Minnesota Statutes, section 469.176, subdivision 5,  
3 does not apply to the district.

4 [EFFECTIVE DATE.] This section is effective the day after  
5 the governing body of the city of St. Michael complies with  
6 Minnesota Statutes, section 645.021, subdivision 3.

7 Sec. 31. [WABASHA TAX INCREMENT FINANCING DISTRICT.]

8 Subdivision 1. [DISTRICT EXTENSION.] The governing body of  
9 the city of Wabasha may elect to extend the duration of its  
10 redevelopment tax increment financing district number 3 by up to  
11 five additional years.

12 Subd. 2. [FIVE-YEAR RULE.] The requirements of Minnesota  
13 Statutes, section 469.1763, subdivision 3, that activities must  
14 be undertaken within a five-year period from the date of  
15 certification of a tax increment financing district must be  
16 considered to be met for the city of Wabasha redevelopment tax  
17 increment district number 3, if the activities are undertaken  
18 within ten years from the date of certification of the district.

19 Subd. 3. [NATIONAL EAGLE CENTER.] Notwithstanding the  
20 provisions of Minnesota Statutes, section 469.176, subdivision  
21 41, or any other law, the city of Wabasha may spend the proceeds  
22 of tax increment bonds issued prior to January 1, 2000, to pay  
23 the costs of acquiring and constructing a National Eagle Center  
24 in the city. The city of Wabasha may also use tax increment  
25 from its tax increment districts to pay the debt service on such  
26 bonds, or any bonds issued to refund such bonds, subject to  
27 legal restrictions on the pooling of tax increment.

28 [EFFECTIVE DATE.] Subdivision 1 is effective upon  
29 compliance with the provisions of Minnesota Statutes, sections  
30 469.1782, subdivision 2, and 645.021. Subdivisions 2 and 3 are  
31 effective upon compliance by the governing body of the city of  
32 Wabasha with the provisions of Minnesota Statutes, section  
33 645.021.

34 Sec. 32. [JOBZ EXPENDITURE LIMITATIONS; AUDITS.]

35 Subdivision 1. [DETERMINATION OF TAX EXPENDITURES.] By  
36 September 1, 2005, the commissioner of revenue, with the

1 assistance of the commissioner of employment and economic  
2 development, must estimate the total amount of tax expenditures  
3 projected to have been obligated for all job opportunity  
4 building zone projects that have been approved before June 1,  
5 2005. If the commissioner of revenue determines that the  
6 estimated amount of tax expenditures for fiscal years 2005-2007  
7 exceeds \$13,780,000, the commissioner of revenue must inform the  
8 chairs of the house of representatives and senate tax committees.

9 Subd. 2. [AUDITS.] The Tax Increment Financing, Investment  
10 and Finance Division of the Office of the State Auditor must  
11 annually audit the creation and operation of all job opportunity  
12 building zones and business subsidy agreements entered into  
13 under Minnesota Statutes, sections 469.310 to 469.320.

14 ARTICLE 6

15 PUBLIC FINANCE

16 Section 1. Minnesota Statutes 2004, section 373.01,  
17 subdivision 3, is amended to read:

18 Subd. 3. [CAPITAL NOTES.] (a) A county board may, by  
19 resolution and without referendum, issue capital notes subject  
20 to the county debt limit to purchase capital equipment useful  
21 for county purposes that has an expected useful life at least  
22 equal to the term of the notes. The notes shall be payable in  
23 not more than five years and shall be issued on terms and in a  
24 manner the board determines. A tax levy shall be made for  
25 payment of the principal and interest on the notes, in  
26 accordance with section 475.61, as in the case of bonds.

27 (b) For purposes of this subdivision, "capital equipment"  
28 means:

29 (1) public safety, ambulance, road construction or  
30 maintenance, and medical equipment; and

31 (2) computer hardware and ~~original-operating-system~~  
32 software, whether bundled with machinery or equipment or  
33 unbundled, together with application development services and  
34 training related to the use of the computer.

35 (c) The authority to issue capital notes for ~~original~~  
36 operating-systems computer software and related services expires

1 on July 1, 2005.

2 Sec. 2. Minnesota Statutes 2004, section 373.40,  
3 subdivision 1, is amended to read:

4 Subdivision 1. [DEFINITIONS.] For purposes of this  
5 section, the following terms have the meanings given.

6 (a) "Bonds" means an obligation as defined under section  
7 475.51.

8 (b) "Capital improvement" means acquisition or betterment  
9 of public lands, ~~development-rights-in-the-form-of-conservation~~  
10 ~~easements-under-chapter-84C~~, buildings, or other improvements  
11 within the county for the purpose of a county courthouse,  
12 administrative building, health or social service facility,  
13 correctional facility, jail, law enforcement center, hospital,  
14 morgue, library, park, qualified indoor ice arena, and roads and  
15 bridges, and the acquisition of development rights in the form  
16 of conservation easements under chapter 84C. An improvement  
17 must have an expected useful life of five years or more to  
18 qualify. "Capital improvement" does not include light rail  
19 transit or any activity related to it or a recreation or sports  
20 facility building (such as, but not limited to, a gymnasium, ice  
21 arena, racquet sports facility, swimming pool, exercise room or  
22 health spa), unless the building is part of an outdoor park  
23 facility and is incidental to the primary purpose of outdoor  
24 recreation.

25 (c) "Commissioner" means the commissioner of employment and  
26 economic development.

27 (d) "Metropolitan county" means a county located in the  
28 seven-county metropolitan area as defined in section 473.121 or  
29 a county with a population of 90,000 or more.

30 (e) "Population" means the population established by the  
31 most recent of the following (determined as of the date the  
32 resolution authorizing the bonds was adopted):

33 (1) the federal decennial census,

34 (2) a special census conducted under contract by the United  
35 States Bureau of the Census, or

36 (3) a population estimate made either by the metropolitan

1 council or by the state demographer under section 4A.02.

2 (f) "Qualified indoor ice arena" means a facility that  
3 meets the requirements of section 373.43.

4 (g) "Tax capacity" means total taxable market value, but  
5 does not include captured market value.

6 Sec. 3. Minnesota Statutes 2004, section 410.32, is  
7 amended to read:

8 410.32 [CITIES MAY ISSUE CAPITAL NOTES FOR CAPITAL  
9 EQUIPMENT.]

10 (a) Notwithstanding any contrary provision of other law or  
11 charter, a home rule charter city may, by resolution and without  
12 public referendum, issue capital notes subject to the city debt  
13 limit to purchase capital equipment.

14 (b) For purposes of this section, "capital equipment" means:

15 (1) public safety equipment, ambulance and other medical  
16 equipment, road construction and maintenance equipment, and  
17 other capital equipment; and

18 (2) computer hardware and ~~original-operating-system~~  
19 software, ~~provided~~ whether bundled with machinery or equipment  
20 or unbundled, together with application development services and  
21 training related to the use of the computer.

22 (c) The equipment or software ~~has~~ must have an expected  
23 useful life at least as long as the term of the notes.

24 (d) The authority to issue capital notes for ~~original~~  
25 ~~operating-system~~ computer software and related services expires  
26 on July 1, 2005.

27 (e) The notes shall be payable in not more than five years  
28 and be issued on terms and in the manner the city determines.  
29 The total principal amount of the capital notes issued in a  
30 fiscal year shall not exceed 0.03 percent of the market value of  
31 taxable property in the city for that year.

32 (f) A tax levy shall be made for the payment of the  
33 principal and interest on the notes, in accordance with section  
34 475.61, as in the case of bonds.

35 (g) Notes issued under this section shall require an  
36 affirmative vote of two-thirds of the governing body of the city.

1        (h) Notwithstanding a contrary provision of other law or  
2 charter, a home rule charter city may also issue capital notes  
3 subject to its debt limit in the manner and subject to the  
4 limitations applicable to statutory cities pursuant to section  
5 412.301.

6        Sec. 4. Minnesota Statutes 2004, section 412.301, is  
7 amended to read:

8        412.301 [FINANCING PURCHASE OF CERTAIN EQUIPMENT.]

9        (a) The council may issue certificates of indebtedness or  
10 capital notes subject to the city debt limits to  
11 purchase capital equipment.

12        (b) For purposes of this section, "capital equipment" means:

13        (1) public safety equipment, ambulance and other medical  
14 equipment, road construction ~~or~~ and maintenance equipment, and  
15 other capital equipment; and

16        (2) computer hardware and ~~original-operating-system~~  
17 software, provided whether bundled with machinery or equipment  
18 or unbundled, together with application development services and  
19 training related to the use of the computer.

20        (c) The equipment or software ~~has~~ must have an expected  
21 useful life at least as long as the terms of the certificates or  
22 notes.

23        (d) The authority to issue capital notes for ~~original~~  
24 ~~operating-system~~ computer software and related services expires  
25 on July 1, 2005.

26        (e) Such certificates or notes shall be payable in not more  
27 than ~~five~~ ten years and shall be issued on such terms and in  
28 such manner as the council may determine.

29        (f) If the amount of the certificates or notes to be issued  
30 to finance any such purchase exceeds 0.25 percent of the market  
31 value of taxable property in the city, they shall not be issued  
32 for at least ten days after publication in the official  
33 newspaper of a council resolution determining to issue them; and  
34 if before the end of that time, a petition asking for an  
35 election on the proposition signed by voters equal to ten  
36 percent of the number of voters at the last regular municipal

1 election is filed with the clerk, such certificates or notes  
2 shall not be issued until the proposition of their issuance has  
3 been approved by a majority of the votes cast on the question at  
4 a regular or special election.

5 (g) A tax levy shall be made for the payment of the  
6 principal and interest on such certificates or notes, in  
7 accordance with section 475.61, as in the case of bonds.

8 Sec. 5. Minnesota Statutes 2004, section 428A.101, is  
9 amended to read:

10 428A.101 [SPECIAL SERVICE DISTRICT; SUNSET OF  
11 SELF-EXECUTING PROVISIONS.]

12 The establishment of a new special service district after  
13 June 30, ~~2005~~ 2009, requires enactment of a special law  
14 authorizing the establishment.

15 Sec. 6. Minnesota Statutes 2004, section 428A.21, is  
16 amended to read:

17 428A.21 [SUNSET.]

18 No new housing improvement areas may be established under  
19 sections 428A.11 to 428A.20 after June 30, ~~2005~~ 2009. After  
20 June 30, ~~2005~~ 2009, a city may establish a housing improvement  
21 area, provided that it receives enabling legislation authorizing  
22 the establishment of the area.

23 Sec. 7. Minnesota Statutes 2004, section 452.25,  
24 subdivision 3, is amended to read:

25 Subd. 3. [AUTHORITY.] (a) Upon the approval of its elected  
26 utilities commission or, if there be none, its city council, a  
27 municipal utility may enter into a joint venture with other  
28 municipal utilities, municipal power agencies, cooperative  
29 associations, ~~or investor-owned utilities, or other private~~  
30 investors to provide utility services. Retail electric utility  
31 services provided by a joint venture must be within the  
32 boundaries of each utility's exclusive electric service  
33 territory as shown on the map of service territories maintained  
34 by the department of commerce. The terms and conditions of the  
35 joint venture are subject to ratification by the governing  
36 bodies of the respective utilities and may include the formation

1 of a corporate or other separate legal entity with an  
2 administrative and governance structure independent of the  
3 respective utilities.

4 (b) A corporate or other separate legal entity, if formed:

5 (1) has the authority and legal capacity and, in the  
6 exercise of the joint venture, the powers, privileges,  
7 responsibilities, and duties authorized by this section;

8 (2) is subject to the laws and rules applicable to the  
9 organization, internal governance, and activities of the entity;

10 (3) in connection with its property and affairs and in  
11 connection with property within its control, may exercise any  
12 and all powers that may be exercised by a natural person or a  
13 private corporation or other private legal entity in connection  
14 with similar property and affairs;

15 (4) a joint venture that does not include an investor-owned  
16 utility may elect to be deemed a municipal utility or a  
17 cooperative association for purposes of chapter 216B or other  
18 federal or state law regulating utility operations; and

19 (5) for a joint venture that includes an investor-owned  
20 utility, the commission has authority over the activities,  
21 services, and rates of the joint venture, and may exercise that  
22 authority, to the same extent the commission has authority over  
23 the activities, services, and rates of the investor-owned  
24 utility itself.

25 (c) Any corporation, if formed, must comply with section  
26 465.719, subdivisions 9, 10, 11, 12, 13, and 14. The term  
27 "political subdivision," as it is used in section 465.719, shall  
28 refer to the city council of a city. In this paragraph,  
29 "corporation" means a corporation organized under chapters 302A  
30 and 317A.

31 Sec. 8. Minnesota Statutes 2004, section 469.034,  
32 subdivision 2, is amended to read:

33 Subd. 2. [GENERAL OBLIGATION REVENUE BONDS.] (a) An  
34 authority may pledge the general obligation of the general  
35 jurisdiction governmental unit as additional security for bonds  
36 payable from income or revenues of the project or the



1 authority. The authority must find that the pledged revenues  
2 will equal or exceed 110 percent of the principal and interest  
3 due on the bonds for each year. The proceeds of the bonds must  
4 be used for a qualified housing development project or  
5 projects. The obligations must be issued and sold in the manner  
6 and following the procedures provided by chapter 475, except the  
7 obligations are not subject to approval by the electors, and the  
8 maturities may extend to not more than 30 years from the  
9 estimated date of completion of the project for obligations sold  
10 to finance housing for the elderly and 40 years for other  
11 obligations issued under this subdivision. The authority is the  
12 municipality for purposes of chapter 475.

13 (b) The principal amount of the issue must be approved by  
14 the governing body of the general jurisdiction governmental unit  
15 whose general obligation is pledged. Public hearings must be  
16 held on issuance of the obligations by both the authority and  
17 the general jurisdiction governmental unit. The hearings must  
18 be held at least 15 days, but not more than 120 days, before the  
19 sale of the obligations.

20 (c) The maximum amount of general obligation bonds that may  
21 be issued and outstanding under this section equals the greater  
22 of (1) one-half of one percent of the taxable market value of  
23 the general jurisdiction governmental unit whose general  
24 obligation which includes a tax on property is pledged, or (2)  
25 \$3,000,000. In the case of county or multicounty general  
26 obligation bonds, the outstanding general obligation bonds of  
27 all cities in the county or counties issued under this  
28 subdivision must be added in calculating the limit under clause  
29 (1).

30 (d) "General jurisdiction governmental unit" means the city  
31 in which the housing development project is located. In the  
32 case of a county or multicounty authority, the county or  
33 counties may act as the general jurisdiction governmental unit.  
34 In the case of a multicounty authority, the pledge of the  
35 general obligation is a pledge of a tax on the taxable property  
36 in each of the counties.

1 (e) "Qualified housing development project" means a housing  
2 development project providing housing either for the elderly or  
3 for individuals and families with incomes not greater than 80  
4 percent of the median family income as estimated by the United  
5 States Department of Housing and Urban Development for the  
6 standard metropolitan statistical area or the nonmetropolitan  
7 county in which the project is located, and will be owned by the  
8 authority for the term of the bonds. A qualified housing  
9 development project may admit nonelderly individuals and  
10 families with higher incomes if:

11 (1) three years have passed since initial occupancy;

12 (2) the authority finds the project is experiencing  
13 unanticipated vacancies resulting in insufficient revenues,  
14 because of changes in population or other unforeseen  
15 circumstances that occurred after the initial finding of  
16 adequate revenues; and

17 (3) the authority finds a tax levy or payment from general  
18 assets of the general jurisdiction governmental unit will be  
19 necessary to pay debt service on the bonds if higher income  
20 individuals or families are not admitted.

21 Sec. 9. Minnesota Statutes 2004, section 471.342, is  
22 amended by adding a subdivision to read:

23 Subd. 2a. [WATER SUBMETERING.] In this section, "water  
24 submetering" means metering devices in multifamily dwellings and  
25 related services, which detect water leaks and monitor water  
26 usage of specific units or areas.

27 Sec. 10. Minnesota Statutes 2004, section 471.342,  
28 subdivision 3, is amended to read:

29 Subd. 3. [PROGRAM AUTHORITY.] A city may establish an  
30 inflow and infiltration prevention program and a water  
31 submetering program and provide loans and grants to property  
32 owners to assist the owners in financing the cost of abating  
33 inflow and infiltration and water conservation and leak  
34 detection on their property.

35 Sec. 11. Minnesota Statutes 2004, section 471.342,  
36 subdivision 5, is amended to read:

1 Subd. 5. [PROGRAM FINANCING.] The city may finance the  
 2 program programs with federal, state, private, or city funds.  
 3 City funds include, but are not limited to, general fund  
 4 appropriations, sanitary or storm sewer utility funds, and fees  
 5 or charges. A city may also issue revenue obligations payable  
 6 solely from fees and charges imposed for program costs and loan  
 7 repayments to finance the programs.

8 Sec. 12. Minnesota Statutes 2004, section 473.39, is  
 9 amended by adding a subdivision to read:

10 Subd. 1k. [OBLIGATIONS.] After July 1, 2005, in addition  
 11 to the authority in subdivisions 1a, 1b, 1c, 1d, 1e, 1g, 1h, 1i,  
 12 and 1j, the council may issue certificates of indebtedness,  
 13 bonds, or other obligations under this section in an amount not  
 14 exceeding \$32,000,000 for capital expenditures as prescribed in  
 15 the council's regional transit master plan and transit capital  
 16 improvement program and for related costs, including the costs  
 17 of issuance and sale of the obligations.

18 Sec. 13. Minnesota Statutes 2004, section 474A.131,  
 19 subdivision 1, is amended to read:

20 Subdivision 1. [NOTICE OF ISSUE.] Each issuer that issues  
 21 bonds with an allocation received under this chapter shall  
 22 provide a notice of issue to the department on forms provided by  
 23 the department stating:

- 24 (1) the date of issuance of the bonds;
- 25 (2) the title of the issue;
- 26 (3) the principal amount of the bonds;
- 27 (4) the type of qualified bonds under federal tax law;
- 28 (5) the dollar amount of the bonds issued that were subject
- 29 to the annual volume cap; and
- 30 (6) for entitlement issuers, whether the allocation is from
- 31 current year entitlement authority or is from carryforward
- 32 authority.

33 For obligations that are issued as a part of a series of  
 34 obligations, a notice must be provided for each series. A  
 35 penalty of one-half of the amount of the application deposit not  
 36 to exceed \$5,000 shall apply to any issue of obligations for

1 which a notice of issue is not provided to the department within  
2 five business days after issuance or before ~~the last Monday~~ 4:30  
3 p.m. on the last business day in December, whichever occurs  
4 first. Within 30 days after receipt of a notice of issue the  
5 department shall refund a portion of the application deposit  
6 equal to one percent of the amount of the bonding authority  
7 actually issued if a one percent application deposit was made,  
8 or equal to two percent of the amount of the bonding authority  
9 actually issued if a two percent application deposit was made,  
10 less any penalty amount.

11 Sec. 14. Minnesota Statutes 2004, section 475.52,  
12 subdivision 1, is amended to read:

13 Subdivision 1. [STATUTORY CITIES.] Any statutory city may  
14 issue bonds or other obligations for the acquisition or  
15 betterment of public buildings, means of garbage disposal,  
16 hospitals, nursing homes, homes for the aged, schools,  
17 libraries, museums, art galleries, parks, playgrounds, stadia,  
18 sewers, sewage disposal plants, subways, streets, sidewalks,  
19 warning systems; for any utility or other public convenience  
20 from which a revenue is or may be derived; for a permanent  
21 improvement revolving fund; for changing, controlling or  
22 bridging streams and other waterways; for the acquisition and  
23 betterment of bridges and roads within two miles of the  
24 corporate limits; for the acquisition of development rights in  
25 the form of conservation easements under chapter 84C; and for  
26 acquisition of equipment for snow removal, street construction  
27 and maintenance, or fire fighting. Without limitation by the  
28 foregoing the city may issue bonds to provide money for any  
29 authorized corporate purpose except current expenses.

30 Sec. 15. Minnesota Statutes 2004, section 475.52,  
31 subdivision 3, is amended to read:

32 Subd. 3. [COUNTIES.] Any county may issue bonds for the  
33 acquisition or betterment of courthouses, county administrative  
34 buildings, health or social service facilities, correctional  
35 facilities, law enforcement centers, jails, morgues, libraries,  
36 parks, and hospitals, for roads and bridges within the county or

1 bordering thereon and for road equipment and machinery and for  
2 ambulances and related equipment, for the acquisition of  
3 development rights in the form of conservation easements under  
4 chapter 84C, and for capital equipment for the administration  
5 and conduct of elections providing the equipment is uniform  
6 countywide, except that the power of counties to issue bonds in  
7 connection with a library shall not exist in Hennepin County.

8 Sec. 16. Minnesota Statutes 2004, section 475.52,  
9 subdivision 4, is amended to read:

10 Subd. 4. [TOWNS.] Any town may issue bonds for the  
11 acquisition and betterment of town halls, town roads and  
12 bridges, nursing homes and homes for the aged, and for  
13 acquisition of equipment for snow removal, road construction or  
14 maintenance, and fire fighting, for the acquisition of  
15 development rights in the form of conservation easements under  
16 chapter 84C, and for the acquisition and betterment of any  
17 buildings to house and maintain town equipment.

18 Sec. 17. Minnesota Statutes 2004, section 475.521,  
19 subdivision 4, is amended to read:

20 Subd. 4. [LIMITATIONS ON AMOUNT.] A city may not issue  
21 bonds under this section if the maximum amount of principal and  
22 interest to become due in any year on all the outstanding bonds  
23 issued under this section, including the bonds to be issued,  
24 will equal or exceed ~~0.05367~~ 0.16 percent of the taxable market  
25 value of property in the county city for a city that has a  
26 population less than 2,500 and 0.05367 percent of the taxable  
27 market value of property in the city for a city that has a  
28 population of 2,500 or more. Calculation of the limit must be  
29 made using the taxable market value for the taxes payable year  
30 in which the obligations are issued and sold. This section does  
31 not limit the authority to issue bonds under any other special  
32 or general law.

33 Sec. 18. Minnesota Statutes 2004, section 475.58,  
34 subdivision 3b, is amended to read:

35 Subd. 3b. [STREET RECONSTRUCTION.] (a) A municipality may,  
36 without regard to the election requirement under subdivision 1,

1 issue and sell obligations for street reconstruction, if the  
2 following conditions are met:

3 (1) the streets are reconstructed under a street  
4 reconstruction plan that describes the streets to be  
5 reconstructed, the estimated costs, and any planned  
6 reconstruction of other streets in the municipality over the  
7 next five years, and the plan and issuance of the obligations  
8 has been approved by a vote of all of the members of the  
9 governing body following a public hearing for which notice has  
10 been published in the official newspaper at least ten days but  
11 not more than 28 days prior to the hearing; and

12 (2) if a petition requesting a vote on the issuance is  
13 signed by voters equal to five percent of the votes cast in the  
14 last municipal general election and is filed with the municipal  
15 clerk within 30 days of the public hearing, the municipality may  
16 issue the bonds only after obtaining the approval of a majority  
17 of the voters voting on the question of the issuance of the  
18 obligations.

19 (b) Obligations issued under this subdivision are subject  
20 to the debt limit of the municipality and are not excluded from  
21 net debt under section 475.51, subdivision 4.

22 (c) For purposes of this subdivision, street reconstruction  
23 includes utility replacement and relocation and other activities  
24 incidental to the street reconstruction, ~~but~~ turn lanes, and  
25 other improvements having a substantial public safety function  
26 and realignments, other modifications to intersect with state  
27 and county roads, and the local share of state and county road  
28 projects.

29 (d) Except in the case of turn lanes, safety improvements,  
30 intersection modifications, and the local share of state and  
31 county road projects, street reconstruction does not include the  
32 portion of project cost allocable to widening a street or adding  
33 curbs and gutters where none previously existed.

34 Sec. 19. Minnesota Statutes 2004, section 504B.215, is  
35 amended by adding a subdivision to read:

36 Subd. 5. [UTILITY CHARGES.] (a) Where submetering, as

1 defined in section 471.342, subdivision 2a, is installed,  
 2 metering equipment must comply with safety and technical  
 3 standards established by the American Water Works Association,  
 4 and must be installed in accordance with manufacturer's  
 5 instructions and applicable code.

6 (b) Where tenants are billed separately from rent for  
 7 utilities, the person or entity billing the tenants may not  
 8 collect in the aggregate more than the amount billed by the  
 9 utility for the utility service provided. The person or entity  
 10 may not collect from tenants as part of utility charges,  
 11 administrative, capital, or other expenses related to the  
 12 provision of utility service. Such expenses include, but are  
 13 not limited to, purchase and installation of submeters,  
 14 connection, disconnection, reconnection, billing, or other  
 15 servicing charges and late payment charges.

16 (c) The rate for utility service charged to tenants must be  
 17 the same rate that the bill payer of record is charged by the  
 18 utility. Recovery by the bill payer of record from the tenants  
 19 of any fixed monthly or periodic charges shall be made on a pro  
 20 rata basis.

21 (d) Upon a resident's request, an owner must provide a copy  
 22 of any bills received from the utility showing the billed rate  
 23 and total consumption and any bills, statements, or other  
 24 documentation of rates and consumption provided by any third  
 25 party to an owner during the prior 12 months.

26 (e) Any violation of this subdivision shall be considered a  
 27 violation of sections 325F.69 and 325D.44.

28 Sec. 20. [CITY OF ST. PAUL; RIVERCENTRE COMPLEX  
 29 OPERATION.]

30 Subdivision 1. [DEFINITIONS.] (a) For the purposes of this  
 31 section, the terms defined in this subdivision have the meanings  
 32 given them.

33 (b) "City" means the city of St. Paul, its mayor, city  
 34 council, and any other board, authority, commission, or officer  
 35 authorized by law, charter, or ordinance to exercise city powers  
 36 of the nature referred to in this section.

1       (c) "RiverCentre complex" means collectively the  
2 auditorium, convention, conference and education center, arena,  
3 and parking ramp facilities presently and commonly known as the  
4 Roy Wilkins Auditorium, St. Paul RiverCentre, Xcel Energy  
5 Center, and RiverCentre Parking Ramp, including all property,  
6 real or personal, tangible or intangible, located in the city,  
7 intended to be used as part of the RiverCentre complex or  
8 additions to or extensions of it.

9       Subd. 2. [CREATION OF NONPROFIT ORGANIZATION.] As required  
10 under Minnesota Statutes, section 465.717, and notwithstanding  
11 any other law, city charter provision, or ordinance to the  
12 contrary, the city of St. Paul may participate in the creation  
13 of a nonprofit organization for the purposes provided in this  
14 section.

15       Subd. 3. [GOVERNING BOARD.] (a) The mayor of the city,  
16 subject to approval by the city council, shall appoint a  
17 majority of the members of the governing board of the nonprofit  
18 organization performing all or a part of the activities  
19 necessary to carry out the purposes specified in this section.  
20 The mayor may designate any officer or employee of the city to  
21 serve as a member of the governing board of any nonprofit  
22 organization.

23       (b) In addition to the appointments made by the mayor under  
24 paragraph (a), the mayor shall designate two members of the city  
25 council to serve on the governing board of the nonprofit  
26 organization.

27       (c) Notwithstanding any provision contained in the articles  
28 of incorporation and bylaws of the nonprofit organization, any  
29 member of the governing board appointed by the mayor may be  
30 removed only by the mayor.

31       (d) The governing board of the nonprofit organization shall  
32 select, subject to the approval of the mayor, a president to  
33 serve as chief executive officer and general manager of the  
34 nonprofit organization.

35       (e) The procedures in Minnesota Statutes, section 317A.255,  
36 subdivision 1, paragraph (b), relating to director conflicts of



1 interest, are not required if the contract or other transaction  
2 is between the city and the nonprofit organization.

3 Subd. 4. [RIVERCENTRE MANAGEMENT; AUTHORITY TO CONTRACT  
4 WITH NONPROFIT ORGANIZATION.] The city may enter into an  
5 agreement with the nonprofit organization created in subdivision  
6 2 to equip, maintain, manage, and operate all or a portion of  
7 the RiverCentre complex and to manage and operate a convention  
8 bureau to market and promote the city as a tourist or convention  
9 center. Except as otherwise provided in this section, the  
10 nonprofit organization may only contract and utilize and expend  
11 funds for these purposes under the direction of its governing  
12 board, subject to the accounting, financial reporting, and other  
13 conditions that the city may prescribe in a contract made under  
14 this section between the city and the nonprofit organization.  
15 The nonprofit organization may use the services of the office of  
16 the city attorney and the city's purchasing department. All  
17 activities performed to carry out these purposes are deemed to  
18 be for a public purpose.

19 Subd. 5. [BONDHOLDERS' RIGHTS AND RIVERCENTRE COMPLEX TAX  
20 EXEMPTIONS PRESERVED.] (a) The city must protect the rights of  
21 holders of bonds issued for the RiverCentre complex, including  
22 preserving the tax-exempt status of the bonds.

23 (b) The use and operation of the RiverCentre complex by the  
24 nonprofit organization with which the city contracts under this  
25 act is a use, lease, or occupancy for public, governmental, and  
26 municipal purposes, and the complex is exempt from taxation by  
27 the state or any political subdivision of the state during such  
28 use, to the extent it would be exempt if the complex was  
29 equipped, maintained, managed, and operated by the city.

30 (c) Gross receipts of tickets and admissions to events at  
31 the RiverCentre complex sponsored by the nonprofit organization  
32 created in this section do not qualify for the sales tax  
33 exemption under Minnesota Statutes, section 297A.70, subdivision  
34 10.

35 Subd. 6. [APPLICABLE GENERAL LAWS.] The following statutes  
36 apply to the nonprofit organization with which the city

1 contracts under this section the same as they apply to the city,  
2 to the extent practicable:

3 (1) Minnesota Statutes, chapter 13D, the Minnesota Open  
4 Meeting Law; and

5 (2) Minnesota Statutes, chapter 13, the Government Data  
6 Practices Act.

7 Subd. 7. [SUCCESSION.] The nonprofit organization with  
8 which the city contracts under this section is the successor to  
9 all powers, rights, assets, privileges, and interests held and  
10 enjoyed by the RiverCentre authority on the effective date of  
11 this section, and established by the provisions of Laws 1967,  
12 chapter 459, sections 1, 2, 4, and 8, subdivisions 2 and 3,  
13 clause (3), as amended; Laws 1982, chapter 523, article 25,  
14 sections 4 and 5, as amended; Laws 1998, chapter 404, sections  
15 81 and 82; and Minnesota Statutes, section 297A.98. On the  
16 effective date of the contract between the city and the  
17 nonprofit organization authorized by this section, the  
18 RiverCentre authority ceases to exist for only so long as the  
19 contract is in effect, and all other laws or provisions  
20 specifically relating to the RiverCentre authority and the  
21 RiverCentre complex that are not otherwise referenced in this  
22 section, do not apply to the nonprofit organization.

23 Subd. 8. [LIABILITY.] The nonprofit organization with  
24 which the city contracts under this section is a "municipality,"  
25 and the officers, directors, employees, and agents of the  
26 nonprofit organization are "employees, officers, or agents,"  
27 under Minnesota Statutes, chapter 466, relating to tort  
28 liability. The city must defend, save harmless, and indemnify  
29 the nonprofit organization, including the nonprofit's officers,  
30 directors, employees, and agents, against any claim or demand  
31 arising out of the nonprofit organization's performance under  
32 the contract.

33 [EFFECTIVE DATE.] This section is effective the day after  
34 the city council and the chief clerical officer of the city of  
35 St. Paul have timely completed their compliance with Minnesota  
36 Statutes, section 645.023, subdivisions 2 and 3.

1           Sec. 21. [TRANSFER OF MHFA BONDING AUTHORITY TO HESO.]  
2           Notwithstanding Minnesota Statutes, section 474A.03,  
3 subdivision 2a, clause (b), the Minnesota Housing Finance Agency  
4 may enter into an agreement with the Higher Education Services  
5 Office under which the Higher Education Services Office issues  
6 qualified student loan bonds, up to \$50,000,000 of which are  
7 issued pursuant to bonding authority allocated to the Minnesota  
8 Housing Finance Agency in 2004 under Minnesota Statutes, section  
9 474A.03, subdivision 2a, clause (a). This amount is in addition  
10 to the bonding authority otherwise allocated to the Higher  
11 Education Services Office under Minnesota Statutes, chapter  
12 474A. Notwithstanding Minnesota Statutes, section 474A.04,  
13 subdivision 1a, 474A.061, or 474A.091, subdivision 2, bonding  
14 authority carried forward by the Minnesota Housing Financing  
15 Agency from its allocation for 2004 under Minnesota Statutes,  
16 section 474A.03, subdivision 2a, clause (b), are exempt from the  
17 requirement that the bonding authority be permanently issued by  
18 December 31 of the next succeeding calendar year.

19           Sec. 22. [APPLICATION.]  
20           Section 16 applies in the counties of Anoka, Carver,  
21 Dakota, Hennepin, Ramsey, Scott, and Washington.

22           Sec. 23. [EFFECTIVE DATE.]  
23           Except as provided in section 24, this article is effective  
24 the day following final enactment.

#### ARTICLE 7

##### INTERNATIONAL ECONOMIC DEVELOPMENT ZONE

27           Section 1. Minnesota Statutes 2004, section 174.03, is  
28 amended by adding a subdivision to read:

29           Subd. 2a. [STATE AVIATION PLAN.] (a) Each revision of the  
30 state transportation plan must include a chapter setting out a  
31 state aviation plan. The plan must include the following:

32           (1) an analysis of the projected commercial aviation needs  
33 of the state over the next 20 years;

34           (2) a description of the present capacity, function, and  
35 levels of activity at each commercial service airport as  
36 designated by the Federal Aviation Administration, each airport

1 that the commissioner determines is likely to become a  
2 commercial service airport in the next 20 years, and any other  
3 airport that the commissioner determines should be included by  
4 reason of commercial passenger or cargo service levels; and

5 (3) a description of the capacity, function, and levels of  
6 activity that each airport identified in clause (2) must have in  
7 order to carry out the plan's goal and objectives and meet the  
8 needs described under clause (1).

9 (b) In assessing aviation needs and the capacity, function,  
10 and level of activity at any airport, the plan must consider  
11 both commercial passenger service and cargo service.

12 Sec. 2. [174.032] [ADVISORY COUNCIL ON AVIATION PLANNING.]

13 Subdivision 1. [ADVISORY COUNCIL CREATED.] (a) The  
14 commissioner shall create an Advisory Council on Aviation  
15 Planning to advise the commissioner on the aviation chapter of  
16 the state transportation plan. The council consists of the  
17 following members appointed by the commissioner:

18 (1) one member of the Metropolitan Airports Commission;

19 (2) one representative of major commercial airlines;

20 (3) one representative of independent pilots who fly for  
21 small business;

22 (4) one representative of the air cargo industry;

23 (5) two representatives of the business community unrelated  
24 to aviation, one of whom must reside within the seven-county  
25 metropolitan area and one of whom must reside outside that area;

26 (6) one representative of environmental interests;

27 (7) one employee of the Department of Transportation's  
28 Office of Aeronautics;

29 (8) two representatives of neighborhoods that are  
30 significantly affected by airplane noise; and

31 (9) one representative of tier-two airports (St. Cloud,  
32 Duluth, Willmar, and Rochester).

33 (b) Members of the advisory council serve at the pleasure  
34 of the appointing authority. Members shall serve without  
35 compensation.

36 Subd. 2. [ADVISORY COUNCIL DUTIES.] (a) The Advisory

1 Council on Aviation Planning shall advise the commissioner on  
2 the aviation planning chapter of the state transportation plan  
3 required under section 174.03, subdivision 2a. In carrying out  
4 these duties the advisory council shall prepare an initial draft  
5 of the chapter and submit it to the commissioner, revise the  
6 draft if so requested by the commissioner, and comment to the  
7 commissioner on any revisions to the draft the commissioner  
8 makes. In drafting the chapter the council shall consider:

9 (1) present and anticipated capacity needs of commercial  
10 service airports, including limitations on expanding the  
11 capacity of individual commercial service airports imposed by  
12 state or local regulations, safety or environmental concerns,  
13 and land uses near the airport that are incompatible with  
14 airport operations;

15 (2) the needs of Minnesota residents and businesses for  
16 passenger and cargo service, from both a statewide and regional  
17 perspective;

18 (3) anticipated changes in commercial aircraft types and  
19 characteristics;

20 (4) noise and other environmental impacts of aviation at  
21 commercial service airports;

22 (5) trends in the aviation and airline industries; and

23 (6) relationship between aviation and other forms of  
24 transportation covered by the state transportation plan.

25 (b) The advisory council may also make recommendations to  
26 the commissioner, the Metropolitan Airports Commission, and the  
27 legislature concerning the policy steps needed to implement the  
28 chapter.

29 Subd. 3. [TERM OF COUNCIL; EXPIRATION; RECONVENING.] (a)  
30 The commissioner shall appoint the first advisory council by  
31 July 1, 2005. The council shall submit any recommendations it  
32 makes to the legislature by January 15, 2006. The terms of all  
33 members of the advisory council serving on July 1, 2005, expire  
34 on January 1, 2007.

35 (b) The commissioner shall appoint and convene a new  
36 advisory council not less than two years before the date on

1 which each revision of the state transportation plan is required  
2 under section 174.03, subdivision 1a. Each such advisory  
3 council must consist of members as prescribed in subdivision 1,  
4 who shall serve on the same terms as set forth under subdivision  
5 1. Each such advisory council expires on the date on which the  
6 revision of the state transportation plan becomes final.

7 Sec. 3. Minnesota Statutes 2004, section 290.06, is  
8 amended by adding a subdivision to read:

9 Subd. 32. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE JOB  
10 CREDIT.] A taxpayer that is a qualified business, as defined in  
11 section 469.321, subdivision 6, is allowed a credit as  
12 determined under section 469.327 against the tax imposed by this  
13 chapter.

14 [EFFECTIVE DATE.] This section is effective for taxable  
15 years beginning after December 31, 2005.

16 Sec. 4. [290.0681] [INTERNATIONAL ECONOMIC DEVELOPMENT  
17 ZONE INVESTMENT CREDIT.]

18 A person is allowed a credit against the taxes imposed  
19 under this chapter in an amount equal to 50 percent of the  
20 amount of qualifying investment. A qualifying investment is an  
21 amount invested in a regional distribution center, as developed  
22 pursuant to section 469.322. Unused portions of the credit may  
23 be carried over for five years.

24 [EFFECTIVE DATE.] This section is effective for taxable  
25 years beginning after December 31, 2005.

26 Sec. 5. Minnesota Statutes 2004, section 290.191, is  
27 amended by adding a subdivision to read:

28 Subd. 4a. [APPORTIONMENT FORMULA FOR CERTAIN QUALIFIED  
29 BUSINESSES.] (a) If the business of a corporation, partnership,  
30 or proprietorship is a qualified business under section 469.321,  
31 and has operations only within the international economic  
32 development zone, then the taxpayer may apportion net income to  
33 Minnesota based solely upon the percentage that the sales made  
34 within this state in connection with its trade or business  
35 during the tax period are of the total sales wherever made in  
36 connection with the trade or business during the tax period.

1 Property and payroll factors are disregarded.

2 (b) If the taxpayer has operations both within the  
3 international economic development zone and outside of the  
4 international economic development zone, income will be  
5 apportioned to Minnesota under the formula in subdivision 2,  
6 except that only the Minnesota sales of the facility or  
7 facilities located in the international economic development  
8 zone will be included in the taxpayer's factors. Property and  
9 payroll factors of the facility or facilities located in the  
10 international economic development zone are disregarded.

11 [EFFECTIVE DATE.] This section is effective for taxable  
12 years beginning after December 31, 2005.

13 Sec. 6. Minnesota Statutes 2004, section 297A.68, is  
14 amended by adding a subdivision to read:

15 Subd. 40. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONES.] (a)  
16 Purchases of tangible personal property or taxable services by a  
17 qualified business, as defined in section 469.321, are exempt if  
18 the property or services are primarily used or consumed in an  
19 international economic development zone designated under section  
20 469.322.

21 (b) Purchase and use of construction materials and supplies  
22 for construction of improvements to real property in an  
23 international economic development zone are exempt if the  
24 improvements after completion of construction are to be used in  
25 the conduct of a qualified business, as defined in section  
26 469.321. This exemption applies regardless of whether the  
27 purchases are made by the business or a contractor.

28 (c) The exemptions under this subdivision apply to a local  
29 sales and use tax, regardless of whether the local tax is  
30 imposed on sales taxable under this chapter or in another law,  
31 ordinance, or charter provision.

32 (d) This subdivision applies to sales, if the purchase was  
33 made and delivery received during the period provided under  
34 section 469.324, subdivision 2.

35 [EFFECTIVE DATE.] This section is effective for sales made  
36 on or after the day following final enactment.

1       Sec. 7. [469.321] [DEFINITIONS.]

2       Subdivision 1. [SCOPE.] For purposes of sections 469.321  
3 to 469.328, the following terms have the meanings given.

4       Subd. 2. [FOREIGN TRADE ZONE.] "Foreign trade zone" means  
5 a foreign trade zone designated pursuant to United States Code,  
6 title 19, section 81b, for the right to use the powers provided  
7 in United States Code, title 19, sections 81a to 81u, or a  
8 subzone authorized by the foreign trade zone.

9       Subd. 3. [FOREIGN TRADE ZONE AUTHORITY.] "Foreign trade  
10 zone authority" means the Greater Metropolitan Foreign Trade  
11 Zone Commission number 119, a joint powers authority created by  
12 the county of Hennepin, the cities of Minneapolis and  
13 Bloomington, and the Metropolitan Airports Commission, under the  
14 authority of section 469.059, 469.101, or 471.59, which includes  
15 any other political subdivisions that enter into the authority  
16 after its creation.

17       Subd. 4. [INTERNATIONAL ECONOMIC DEVELOPMENT ZONE.] An  
18 "international economic development zone" or "zone" is a zone so  
19 designated under section 469.322.

20       Subd. 5. [PERSON.] "Person" includes an individual,  
21 corporation, partnership, limited liability company,  
22 association, or any other entity.

23       Subd. 6. [QUALIFIED BUSINESS.] (a) "Qualified business"  
24 means a person carrying on a trade or business at a place of  
25 business located within an international economic development  
26 zone that is:

27       (1) engaged in the furtherance of international export or  
28 import of goods; and

29       (2) certified by the foreign trade zone authority as a  
30 trade or business that furthers the purpose of developing  
31 international distribution capacity and capability.

32       (b) A person that relocates a trade or business from within  
33 Minnesota but outside an international economic development zone  
34 into an international economic development zone is not a  
35 qualified business, unless the business:

36       (1) (i) increases full-time employment in the first full



1 year of operation within the international economic development  
2 zone by at least 20 percent measured relative to the operations  
3 that were relocated and maintains the required level of  
4 employment for each year that tax incentives under section  
5 469.324 are claimed; or

6 (ii) makes a capital investment in the property located  
7 within a zone equal to at least ten percent of the gross  
8 revenues of the operations that were relocated in the  
9 immediately preceding taxable year; and

10 (2) enters a binding written agreement with the foreign  
11 trade zone authority that:

12 (i) pledges that the business will meet the requirements of  
13 clause (1);

14 (ii) provides for repayment of all tax benefits enumerated  
15 under section 469.324 to the business under the procedures in  
16 section 469.328, if the requirements of clause (1) are not met  
17 for the taxable year or for taxes payable during a year in which  
18 the requirements were not met; and

19 (iii) contains any other terms the foreign trade zone  
20 authority determines appropriate.

21 Clause (1) of this paragraph does not apply to a freight  
22 forwarder.

23 (c) A qualified business must pay each employee total  
24 compensation, including benefits not mandated by law, that on an  
25 annualized basis is equal to at least 110 percent of the federal  
26 poverty guidelines for a family of four.

27 Subd. 7. [REGIONAL DISTRIBUTION CENTER.] A "regional  
28 distribution center" is a distribution center developed within a  
29 foreign trade zone. The regional distribution center must have  
30 as its primary purpose to facilitate gathering of freight for  
31 the purpose of centralizing the functions necessary for the  
32 shipment of freight in international commerce, including, but  
33 not limited to, security and customs functions.

34 Subd. 8. [RELOCATE.] (a) "Relocate" means that a trade or  
35 business:

36 (1) ceases one or more operations or functions at another

1 location in Minnesota and begins performing substantially the  
2 same operations or functions at a location in an international  
3 economic development zone; or

4 (2) reduces employment at another location in Minnesota  
5 during a period starting one year before and ending one year  
6 after it begins operations in an international economic  
7 development zone and its employees in the international economic  
8 development zone are engaged in the same line of business as the  
9 employees at the location where it reduced employment.

10 (b) "Relocate" does not include an expansion by a business  
11 that establishes a new facility that does not replace or  
12 supplant an existing operation or employment, in whole or in  
13 part.

14 (c) "Trade or business" includes any business entity that  
15 is substantially similar in operation or ownership to the  
16 business entity seeking to be a qualified business under this  
17 section.

18 Subd. 9. [FREIGHT FORWARDER.] "Freight forwarder" is a  
19 business that, for compensation, ensures that goods produced or  
20 sold by another business move from point of origin to point of  
21 destination.

22 [EFFECTIVE DATE.] This section is effective the day  
23 following final enactment.

24 Sec. 8. [469.322] [DESIGNATION OF INTERNATIONAL ECONOMIC  
25 DEVELOPMENT ZONE.]

26 (a) An area designated as a foreign trade zone may be  
27 designated by the foreign trade zone authority as an  
28 international economic development zone if within the zone a  
29 regional distribution center is being developed pursuant to  
30 section 469.323. The zone must be not less than 500 acres and  
31 not more than 1,000 acres in size.

32 (b) In making the designation, the foreign trade zone  
33 authority, in consultation with the Minnesota Department of  
34 Transportation and the Metropolitan Council, shall consider  
35 access to major transportation routes, consistency with current  
36 state transportation and air cargo planning, adequacy of the

1 size of the site, access to airport facilities, present and  
2 future capacity at the designated airport, the capability to  
3 meet integrated present and future air cargo, security, and  
4 inspection services, and access to other infrastructure and  
5 financial incentives. The border of the international economic  
6 development zone must be no more than 60 miles distant or 90  
7 minutes drive time from the border of the Minneapolis-St. Paul  
8 International Airport. The county in which the zone is located  
9 must be a member of the foreign trade zone authority.

10 [EFFECTIVE DATE.] This section is effective the day  
11 following final enactment.

12 Sec. 9. [469.323] [FOREIGN TRADE ZONE AUTHORITY POWERS.]

13 Subdivision 1. [DEVELOPMENT OF REGIONAL DISTRIBUTION  
14 CENTER.] The foreign trade zone authority is responsible for  
15 creating a development plan for the regional distribution  
16 center. The regional distribution center must be developed with  
17 the purpose of expanding, on a regional basis, international  
18 distribution capacity and capability. The foreign trade zone  
19 authority shall consult with municipalities that have indicated  
20 to the authority an interest in locating the international  
21 economic development zone within their boundaries and a  
22 willingness to establish a tax increment financing district  
23 coterminous with the boundaries of the zone, as well as  
24 interested businesses, potential financiers, and appropriate  
25 state and federal agencies.

26 Subd. 2. [BUSINESS PLAN.] Before designation of an  
27 international economic development zone under section 469.322,  
28 the governing body of the foreign trade zone authority shall  
29 prepare a business plan. The plan must include an analysis of  
30 the economic feasibility of the regional distribution center  
31 once it becomes operational and of the operations of freight  
32 forwarders and other businesses that choose to locate within the  
33 boundaries of the zone. The analysis must provide profitability  
34 models that:

35 (1) include the benefits of the incentives;

36 (2) estimate the amount of time needed to achieve

1 profitability; and

2 (3) analyze the length of time incentives will be necessary  
3 to the economic viability of the regional distribution center.

4 If the governing body of the foreign trade authority  
5 determines that the models do not establish the economic  
6 feasibility of the project, the regional distribution center  
7 does not meet the development requirements of this section and  
8 section 469.322.

9 Subd. 3. [PORT AUTHORITY POWERS.] The governing body of  
10 the foreign trade zone authority may establish a port authority  
11 that has the same powers as a port authority established under  
12 section 469.049. If the foreign trade zone authority  
13 establishes a port authority, the governing body of the foreign  
14 trade zone authority may exercise all powers granted to a city  
15 by sections 469.048 to 469.068 within the area of the  
16 international economic development zone, except it may not  
17 impose or request imposition of a property tax levy under  
18 section 469.053 by any city.

19 Subd. 4. [BUSINESS SUBSIDY LAW.] Tax exemptions, job  
20 credits, and tax increment financing provided under this section  
21 are business subsidies for the purpose of sections 116J.993 to  
22 116J.995.

23 [EFFECTIVE DATE.] This section is effective the day  
24 following final enactment.

25 Sec. 10. [469.324] [TAX INCENTIVES IN INTERNATIONAL  
26 ECONOMIC DEVELOPMENT ZONE.]

27 Subdivision 1. [AVAILABILITY.] Qualified businesses that  
28 operate in an international economic development zone,  
29 individuals who invest in a regional distribution center, or  
30 qualified businesses that operate in an international economic  
31 development zone qualify for:

32 (1) investment tax credits as provided under section  
33 290.0681;

34 (2) special apportionment formula for corporate franchise  
35 taxes as provided under section 290.191, subdivision 4a;

36 (3) exemption from the state sales and use tax and any

1 local sales and use taxes on qualifying purchases as provided in  
2 section 297A.68, subdivision 40;

3 (4) the jobs credit allowed under section 469.327; and

4 (5) tax increment financing as provided in this chapter.

5 Subd. 2. [DURATION.] (a) Except as provided in paragraph

6 (b), the tax incentives described in subdivision 1, clauses (1),

7 (2), and (4), are available for no more than 12 consecutive

8 taxable years for any taxpayer that claims them. The tax

9 incentives described in subdivision 1, clause (3), are available

10 for each taxpayer that claims them for taxes otherwise payable

11 on transactions during a period of 12 years from the date when

12 the first exemption is claimed by that taxpayer under each

13 exemption. No exemptions described in subdivision 1, clauses

14 (1) to (4), are available after December 31, 2021.

15 (b) For taxpayers that are freight forwarders, the

16 durations provided under paragraph (a) are reduced to six years.

17 Subd. 3. [QUALIFICATION.] To receive the tax incentives

18 under this section, a qualified business must, by December 31 of

19 each year, certify to the commissioner of revenue the percentage

20 of its business activity within the zone that constitutes

21 international business activity for the year, measured by value

22 or volume of activity. If the percentage is less than 100

23 percent, the amount of the tax benefits provided under sections

24 290.06, subdivision 32, 290.0681, and 469.327 are reduced in

25 proportion to the percentage of business activity that is not

26 international business activity. The commissioner of revenue

27 may audit the business activities of a qualifying business to

28 determine its eligibility for tax benefits under this section.

29 Sec. 11. [469.327] [JOBS CREDIT.]

30 Subdivision 1. [CREDIT ALLOWED.] A qualified business is

31 allowed a credit against the taxes imposed under chapter 290.

32 The credit equals seven percent of the:

33 (1) lesser of:

34 (i) zone payroll for the taxable year, less the zone

35 payroll for the base year; or

36 (ii) total Minnesota payroll for the taxable year, less

1 total Minnesota payroll for the base year; minus  
2 (2) \$30,000 multiplied by the number of full-time  
3 equivalent employees that the qualified business employs in the  
4 international economic development zone for the taxable year,  
5 minus the number of full-time equivalent employees the business  
6 employed in the zone in the base year, but not less than zero.

7 Subd. 2. [DEFINITIONS.] (a) For purposes of this section,  
8 the following terms have the meanings given.

9 (b) "Base year" means the taxable year beginning during the  
10 calendar year prior to the calendar year in which the zone  
11 designation took effect.

12 (c) "Full-time equivalent employees" means the equivalent  
13 of annualized expected hours of work equal to 2,080 hours.

14 (d) "Minnesota payroll" means the wages or salaries  
15 attributed to Minnesota under section 290.191, subdivision 12,  
16 for the qualified business or the unitary business of which the  
17 qualified business is a part, whichever is greater.

18 (e) "Zone payroll" means wages or salaries used to  
19 determine the zone payroll factor for the qualified business,  
20 less the amount of compensation attributable to any employee  
21 that exceeds \$70,000.

22 Subd. 3. [INFLATION ADJUSTMENT.] For taxable years  
23 beginning after December 31, 2006, the dollar amounts in  
24 subdivision 1, clause (2), and subdivision 2, paragraph (e), are  
25 annually adjusted for inflation. The commissioner of revenue  
26 shall adjust the amounts by the percentage determined under  
27 section 290.06, subdivision 2d, for the taxable year.

28 Subd. 4. [REFUNDABLE.] If the amount of the credit exceeds  
29 the liability for tax under chapter 290, the commissioner of  
30 revenue shall refund the excess to the qualified business.

31 Subd. 5. [APPROPRIATION.] An amount sufficient to pay the  
32 refunds authorized by this section is appropriated to the  
33 commissioner of revenue from the general fund.

34 [EFFECTIVE DATE.] This section is effective for taxable  
35 years beginning after December 31, 2005.

36 Sec. 12. [469.328] [REPAYMENT OF TAX BENEFITS.]

1        Subdivision 1. [REPAYMENT OBLIGATION.] A person must repay  
2 the amount of the tax reduction received under section 469.324,  
3 subdivision 1, clauses (1) to (4), and refund received under  
4 section 469.327, during the two years immediately before it  
5 ceased to operate in the zone, if the person ceased to operate  
6 its facility located within the zone or otherwise ceases to be  
7 or is not a qualified business.

8        Subd. 2. [DISPOSITION OF REPAYMENT.] The repayment must be  
9 paid to the state to the extent it represents a state tax  
10 reduction. Any amount repaid to the state must be deposited in  
11 the general fund. Any repayment of local sales or use taxes  
12 must be repaid to the jurisdiction imposing the local sales or  
13 use tax.

14        Subd. 3. [REPAYMENT PROCEDURES.] (a) For the repayment of  
15 taxes imposed under chapter 290 or 297A or local taxes collected  
16 pursuant to section 297A.99, a person must file an amended  
17 return with the commissioner of revenue and pay any taxes  
18 required to be repaid within 30 days after ceasing to be a  
19 qualified business. The amount required to be repaid is  
20 determined by calculating the tax for the period for which  
21 repayment is required without regard to the tax reductions  
22 allowed under section 469.324.

23        (b) The provisions of chapters 270 and 289A relating to the  
24 commissioner of revenue's authority to audit, assess, and  
25 collect the tax and to hear appeals are applicable to the  
26 repayment required under paragraph (a). The commissioner may  
27 impose civil penalties as provided in chapter 289A, and the  
28 additional tax and penalties are subject to interest at the rate  
29 provided in section 270.75, from 30 days after ceasing to do  
30 business in the zone until the date the tax is paid.

31        (c) For determining the tax required to be repaid, a tax  
32 reduction is deemed to have been received on the date that the  
33 tax would have been due if the person had not been entitled to  
34 the tax reduction.

35        (d) The commissioner of revenue may assess the repayment of  
36 taxes under paragraph (b) at any time within two years after the

1 person ceases to be a qualified business, or within any period  
2 of limitations for the assessment of tax under section 289A.38,  
3 whichever is later.

4 [EFFECTIVE DATE.] This section is effective the day  
5 following final enactment.

6 Sec. 13. [DEPARTMENT OF EMPLOYMENT AND ECONOMIC  
7 DEVELOPMENT STUDY; INTERNATIONAL AIR FREIGHT.]

8 The commissioner of employment and economic development  
9 must study and analyze the issue of whether the state would  
10 benefit from more than one international economic development  
11 zone as defined in Minnesota Statutes, section 469.321. The  
12 commissioner shall solicit input on the issue from businesses,  
13 communities, and economic development organizations. The  
14 commissioner must report the results of the study and analysis  
15 to the committees of the legislature having jurisdiction over  
16 economic development issues by December 1, 2005, along with any  
17 legislative recommendations.

18 ARTICLE 8

19 MISCELLANEOUS

20 Section 1. Minnesota Statutes 2004, section 15.06,  
21 subdivision 6, is amended to read:

22 Subd. 6. [GENERAL POWERS OF COMMISSIONERS.] Except as  
23 otherwise expressly provided by law, a commissioner shall have  
24 the following powers:

25 (1) to delegate to any subordinate employee the exercise of  
26 specified statutory powers or duties as the commissioner may  
27 deem advisable, subject to the commissioner's control; provided,  
28 that every delegation shall be made by written order, filed with  
29 the secretary of state; and further provided that only a deputy  
30 commissioner may have all the powers or duties of the  
31 commissioner. A commissioner who delegates the exercise of  
32 identical powers or duties to ten or more subordinate employees,  
33 may combine the delegation to these employees in one written  
34 order. A delegation of authority granted by a commissioner  
35 remains in effect until revoked by the commissioner, revoked by  
36 a successor commissioner, or termination of the employees'



1 employment. A successor commissioner may continue to grant the  
2 same delegations of authority that were granted by a previous  
3 commissioner, by issuing a written order that is filed with the  
4 secretary of state and lists the names of the subordinate  
5 employees that have orders of delegations of authority, the date  
6 the order was signed, and the date the order was filed with the  
7 secretary of state;

8 (2) to appoint all subordinate employees and to prescribe  
9 their duties; provided, that all departments and agencies shall  
10 be subject to the provisions of chapter 43A;

11 (3) with the approval of the commissioner of  
12 administration, to organize the department or agency as deemed  
13 advisable in the interest of economy and efficiency; and

14 (4) to prescribe procedures for the internal management of  
15 the department or agency to the extent that the procedures do  
16 not directly affect the rights of or procedure available to the  
17 public.

18 **[EFFECTIVE DATE.]** This section is effective the day  
19 following final enactment.

20 Sec. 2. Minnesota Statutes 2004, section 168A.02,  
21 subdivision 2, is amended to read:

22 Subd. 2. **[VEHICLE REGISTRATION WITHOUT TITLE.]** The  
23 department shall not register or renew the registration of a  
24 vehicle for which a certificate of title is required unless a  
25 certificate of title has been issued to the owner, an  
26 application therefor has been delivered to and approved by the  
27 department, or the vehicle has a Minnesota certificate of title  
28 and is being held for resale by a dealer under section 168A.11.

29 **[EFFECTIVE DATE.]** This section is effective July 1, 2005.

30 Sec. 3. Minnesota Statutes 2004, section 168A.11,  
31 subdivision 1, is amended to read:

32 Subdivision 1. **[REQUIREMENTS UPON SUBSEQUENT TRANSFER;**  
33 **SERVICE FEE.]** (a) A dealer who buys a vehicle and holds it for  
34 resale need not apply for a certificate of title. Upon  
35 transferring the vehicle to another person, other than by the  
36 creation of a security interest, the dealer shall promptly

1 execute the assignment and warranty of title by a dealer,  
2 showing the names and addresses of the transferee and of any  
3 secured party holding a security interest created or reserved at  
4 the time of the resale, and the date of the security agreement  
5 in the spaces provided therefor on the certificate of title or  
6 secure reassignment.

7 (b) If a dealer elects to apply for a certificate of title  
8 on a vehicle held for resale, the dealer need not register the  
9 vehicle but shall pay one month's registration tax. If a dealer  
10 elects to apply for a certificate of title on a vehicle held for  
11 resale, the department shall not place any legend on the title  
12 that no motor vehicle sales tax was paid by the dealer, but may  
13 indicate on the title whether the vehicle is a new or used  
14 vehicle.

15 (c) With respect to motor vehicles subject to the  
16 provisions of section 325E.15, the dealer shall also, in the  
17 space provided therefor on the certificate of title or secure  
18 reassignment, state the true cumulative mileage registered on  
19 the odometer or that the exact mileage is unknown if the  
20 odometer reading is known by the transferor to be different from  
21 the true mileage.

22 (d) The transferee shall complete the application for title  
23 section on the certificate of title or separate title  
24 application form prescribed by the department. The dealer shall  
25 mail or deliver the certificate to the registrar or deputy  
26 registrar with the transferee's application for a new  
27 certificate and appropriate taxes and fees, within ten business  
28 days.

29 (e) With respect to vehicles sold to buyers who will remove  
30 the vehicle from this state, the dealer shall remove any license  
31 plates from the vehicle, issue a 31-day temporary permit  
32 pursuant to section 168.091, and notify the registrar within 48  
33 hours of the sale that the vehicle has been removed from this  
34 state. The notification must be made in an electronic format  
35 prescribed by the registrar. The dealer may contract with a  
36 deputy registrar for the notification of sale to an out-of-state

1 buyer. The deputy registrar may charge a fee not to exceed \$7  
2 per transaction to provide this service.

3 [EFFECTIVE DATE.] This section is effective for  
4 transactions occurring on and after July 1, 2005.

5 Sec. 4. Minnesota Statutes 2004, section 168A.11,  
6 subdivision 2, is amended to read:

7 Subd. 2. [NOTIFICATION ON VEHICLE HELD FOR RESALE; SERVICE  
8 FEE.] Within 48 hours of acquiring a vehicle titled and  
9 registered in Minnesota, a dealer shall notify the registrar  
10 that the dealership is holding the vehicle for resale. The  
11 notification must be made electronically as prescribed by the  
12 registrar. The dealer may contract this service to a deputy  
13 registrar and the registrar may charge a fee not to exceed \$7  
14 per transaction to provide this service.

15 [EFFECTIVE DATE.] This section is effective for  
16 transactions occurring on and after July 1, 2005.

17 Sec. 5. Minnesota Statutes 2004, section 168A.11,  
18 subdivision 4, is amended to read:

19 Subd. 4. [CENTRALIZED RECORD KEEPING.] Three or more new  
20 motor vehicle dealers under common management or control may  
21 designate to the department in writing a single location for  
22 maintaining the records required by this section that are more  
23 than 12 months old. The records must be open to inspection by a  
24 representative of the department or a peace officer during  
25 reasonable business hours. The location must be at the  
26 established place of business of one of the affiliated dealers  
27 or at a location within Minnesota not further than 25 miles from  
28 the established place of business of one of the affiliated  
29 dealers.

30 [EFFECTIVE DATE.] This section is effective July 1, 2005.

31 Sec. 6. Minnesota Statutes 2004, section 270.30,  
32 subdivision 8, is amended to read:

33 Subd. 8. [~~EXEMPTIONS--ENFORCEMENT-PROVISIONS.~~] The  
34 provisions of ~~subdivisions-6-and-7~~ this section, except for  
35 subdivision 4, do not apply to:

36 (1) an attorney admitted to practice under section 481.01;

1 (2) a certified public accountant holding a certificate  
2 under section 326A.04 or a person issued a permit to practice  
3 under section 326A.05;

4 (3) a person designated as a registered accounting  
5 practitioner under Minnesota Rules, part 1105.6600, or a  
6 registered accounting practitioner firm issued a permit under  
7 Minnesota Rules, part 1105.7100;

8 (4) an enrolled agent who has passed the special enrollment  
9 examination administered by the Internal Revenue Service; and

10 (5) any fiduciary, or the regular employees of a fiduciary,  
11 while acting on behalf of the fiduciary estate, the testator,  
12 trustor, grantor, or beneficiaries of them;

13 (6) a tax preparer who provides tax preparation services  
14 for fewer than six clients in a calendar year;

15 (7) a person who provides tax preparation services to a  
16 spouse, parent, grandparent, child, or sibling; and

17 (8) an employee who provides tax preparation services for  
18 an employer.

19 [EFFECTIVE DATE.] This section is effective the day  
20 following final enactment.

21 Sec. 7. [270.772] [MINIMUM DOLLAR REQUIREMENT FOR  
22 ELECTRONIC PAYMENT OF TAXES AND FEES.]

23 Unless a requirement to make payments electronically  
24 regardless of dollar amount is provided for by law for a  
25 specific type of tax, fee, or surcharge, or for a group of  
26 taxpayers or payors, payments of every tax, fee, or surcharge  
27 administered by and payable to the commissioner in a calendar  
28 year, including deposits and estimated payments, must be  
29 remitted electronically if the liability of the taxpayer or  
30 payor for the tax, fee, or surcharge in the preceding fiscal  
31 year ending June 30 is \$20,000 or more. This section does not  
32 apply to individual income, estate, and airflight property taxes.

33 [EFFECTIVE DATE.] This section is effective for payments  
34 due in calendar year 2006, and in calendar years thereafter,  
35 based on liabilities incurred in fiscal year ending June 30,  
36 2005, and in fiscal years thereafter.

1 Sec. 8. Minnesota Statutes 2004, section 289A.08,  
2 subdivision 16, is amended to read:

3 Subd. 16. [TAX REFUND OR RETURN PREPARERS; ELECTRONIC  
4 FILING; PAPER FILING FEE IMPOSED.] (a) A "tax refund or return  
5 preparer," as defined in section 289A.60, subdivision 13,  
6 paragraph (g), who prepared more than 500 Minnesota individual  
7 income tax returns for the prior calendar year must file all  
8 Minnesota individual income tax returns prepared for the current  
9 calendar year by electronic means. "Tax refund or return  
10 preparer" does not include (i) an organization that meets the  
11 requirements of section 501(c)(3) of the Internal Revenue Code  
12 or (ii) an individual hired by such an organization for the  
13 purpose of preparing tax returns.

14 (b) For tax returns prepared for the tax year beginning in  
15 2001, the "500" in paragraph (a) is reduced to 250.

16 (c) For tax returns prepared for tax years beginning after  
17 December 31, 2001, the "500" in paragraph (a) is reduced to 100.

18 (d) Paragraph (a) does not apply to a return if the  
19 taxpayer has indicated on the return that the taxpayer did not  
20 want the return filed by electronic means.

21 (e) For each return that is not filed electronically by a  
22 tax refund or return preparer under this subdivision, including  
23 returns filed under paragraph (d), a paper filing fee of \$5 is  
24 imposed upon the preparer. The fee is collected from the  
25 preparer in the same manner as income tax. The fee does not  
26 apply to returns that the commissioner requires to be filed in  
27 paper form.

28 [EFFECTIVE DATE.] This section is effective for returns  
29 filed for tax years beginning after December 31, 2004.

30 Sec. 9. Minnesota Statutes 2004, section 289A.12,  
31 subdivision 3, is amended to read:

32 Subd. 3. [RETURNS OR REPORTS BY PARTNERSHIPS, FIDUCIARIES,  
33 AND S CORPORATIONS.] (a) Partnerships must file a return with  
34 the commissioner for each taxable year. The return must conform  
35 to the requirements of section 290.311, and must include the  
36 names and addresses of the partners entitled to a distributive

1 share in their taxable net income, gain, loss, or credit, and  
2 the amount of the distributive share to which each is entitled.  
3 A partnership required to file a return for a partnership  
4 taxable year must furnish a copy of the information required to  
5 be shown on the return to a person who is a partner at any time  
6 during the taxable year, on or before the day on which the  
7 return for the taxable year was filed. A partnership with more  
8 than 100 partners that is required to file a federal partnership  
9 return electronically under Code of Federal Regulations, title  
10 26, section 301.6011-3 (2003), must also file the return due  
11 under this section electronically. If a return required to be  
12 filed electronically is filed on paper, the return is still  
13 valid but a penalty of \$50 for each partner over 100 partners is  
14 imposed for failing to file electronically. The commissioner  
15 may waive the penalty if the partnership can demonstrate that  
16 filing the return electronically creates a hardship.

17 (b) The fiduciary of an estate or trust making the return  
18 required to be filed under section 289A.08, subdivision 2, for a  
19 taxable year must give a beneficiary who receives a distribution  
20 from the estate or trust with respect to the taxable year or to  
21 whom any item with respect to the taxable year is allocated, a  
22 statement containing the information required to be shown on the  
23 return, on or before the date on which the return was filed.

24 (c) An S corporation must file a return with the  
25 commissioner for a taxable year during which an election under  
26 section 290.9725 is in effect, stating specifically the names  
27 and addresses of the persons owning stock in the corporation at  
28 any time during the taxable year, the number of shares of stock  
29 owned by a shareholder at all times during the taxable year, the  
30 shareholder's pro rata share of each item of the corporation for  
31 the taxable year, and other information the commissioner  
32 requires. An S corporation required to file a return under this  
33 paragraph for any taxable year must furnish a copy of the  
34 information shown on the return to the person who is a  
35 shareholder at any time during the taxable year, on or before  
36 the day on which the return for the taxable year was filed.

1 (d) The partnership or S corporation return must be signed  
2 by someone designated by the partnership or S corporation.

3 [EFFECTIVE DATE.] This section is effective for taxable  
4 years beginning after December 31, 2004.

5 Sec. 10. Minnesota Statutes 2004, section 289A.20,  
6 subdivision 2, is amended to read:

7 Subd. 2. [WITHHOLDING FROM WAGES, ENTERTAINER WITHHOLDING,  
8 WITHHOLDING FROM PAYMENTS TO OUT-OF-STATE CONTRACTORS, AND  
9 WITHHOLDING BY PARTNERSHIPS AND SMALL BUSINESS CORPORATIONS.]

10 (a) A tax required to be deducted and withheld during the  
11 quarterly period must be paid on or before the last day of the  
12 month following the close of the quarterly period, unless an  
13 earlier time for payment is provided. A tax required to be  
14 deducted and withheld from compensation of an entertainer and  
15 from a payment to an out-of-state contractor must be paid on or  
16 before the date the return for such tax must be filed under  
17 section 289A.18, subdivision 2. Taxes required to be deducted  
18 and withheld by partnerships and S corporations must be paid on  
19 or before the date the return must be filed under section  
20 289A.18, subdivision 2.

21 (b) An employer who, during the previous quarter, withheld  
22 more than \$1,500 of tax under section 290.92, subdivision 2a or  
23 3, or 290.923, subdivision 2, must deposit tax withheld under  
24 those sections with the commissioner within the time allowed to  
25 deposit the employer's federal withheld employment taxes under  
26 Code of Federal Regulations, title 26, section 31.6302-1, as  
27 amended through December 31, 2001, without regard to the safe  
28 harbor or de minimis rules in subparagraph (f) or the one-day  
29 rule in subsection (c), clause (3). Taxpayers must submit a  
30 copy of their federal notice of deposit status to the  
31 commissioner upon request by the commissioner.

32 (c) The commissioner may prescribe by rule other return  
33 periods or deposit requirements. In prescribing the reporting  
34 period, the commissioner may classify payors according to the  
35 amount of their tax liability and may adopt an appropriate  
36 reporting period for the class that the commissioner judges to

1 be consistent with efficient tax collection. In no event will  
2 the duration of the reporting period be more than one year.

3 (d) If less than the correct amount of tax is paid to the  
4 commissioner, proper adjustments with respect to both the tax  
5 and the amount to be deducted must be made, without interest, in  
6 the manner and at the times the commissioner prescribes. If the  
7 underpayment cannot be adjusted, the amount of the underpayment  
8 will be assessed and collected in the manner and at the times  
9 the commissioner prescribes.

10 ~~(e) If the aggregate amount of the tax withheld during a~~  
11 ~~fiscal year ending June 30 under section 290.92, subdivision 2a~~  
12 ~~or 3, is equal to or exceeds the amounts established for~~  
13 ~~remitting federal withheld taxes pursuant to the regulations~~  
14 ~~promulgated under section 6302(h) of the Internal Revenue Code,~~  
15 ~~the employer must remit each required deposit for wages paid in~~  
16 ~~the subsequent calendar year by electronic means.~~

17 ~~(f)~~ A third-party bulk filer as defined in section 290.92,  
18 subdivision 30, paragraph (a), clause (2), who remits  
19 withholding deposits must remit all deposits by electronic means  
20 ~~as provided in paragraph (e)~~, regardless of the aggregate amount  
21 of tax withheld during a fiscal year for all of the employers.

22 **[EFFECTIVE DATE.]** This section is effective for payments  
23 due in calendar year 2006, and in calendar years thereafter,  
24 based upon liabilities incurred in fiscal year ending June 30,  
25 2005, and in fiscal years thereafter.

26 Sec. 11. Minnesota Statutes 2004, section 289A.20,  
27 subdivision 4, is amended to read:

28 Subd. 4. **[SALES AND USE TAX.]** (a) The taxes imposed by  
29 chapter 297A are due and payable to the commissioner monthly on  
30 or before the 20th day of the month following the month in which  
31 the taxable event occurred, or following another reporting  
32 period as the commissioner prescribes or as allowed under  
33 section 289A.18, subdivision 4, paragraph (f) or (g), except  
34 that use taxes due on an annual use tax return as provided under  
35 section 289A.11, subdivision 1, are payable by April 15  
36 following the close of the calendar year.



1 (b) A vendor having a liability of \$120,000 or more during  
2 a fiscal year ending June 30 must remit the June liability for  
3 the next year in the following manner:

4 (1) Two business days before June 30 of the year, the  
5 vendor must remit 85 percent of the estimated June liability to  
6 the commissioner.

7 (2) On or before August 20 of the year, the vendor must pay  
8 any additional amount of tax not remitted in June.

9 ~~(c) A vendor having a liability of \$120,000 or more during  
10 a fiscal year ending June 30 must remit all liabilities on  
11 returns due for periods beginning in the subsequent calendar  
12 year by electronic means on or before the 20th day of the month  
13 following the month in which the taxable event occurred, or on  
14 or before the 20th day of the month following the month in which  
15 the sale is reported under section 289A.18, subdivision 4,  
16 except for 85 percent of the estimated June liability, which is  
17 due two business days before June 30. The remaining amount of  
18 the June liability is due on August 20.~~

19 [EFFECTIVE DATE.] This section is effective for payments  
20 due in calendar year 2006, and in calendar years thereafter,  
21 based upon liabilities incurred in fiscal year ending June 30,  
22 2005, and in fiscal years thereafter.

23 Sec. 12. Minnesota Statutes 2004, section 297F.01, is  
24 amended by adding a subdivision to read:

25 Subd. 10a. [OUT-OF-STATE RETAILER.] "Out-of-state retailer"  
26 means a person engaged outside of this state in the business of  
27 selling, or offering to sell, cigarettes or tobacco products to  
28 consumers located in this state.

29 [EFFECTIVE DATE.] This section is effective the day  
30 following final enactment.

31 Sec. 13. [297F.031] [REGISTRATION REQUIREMENT.]

32 Prior to making delivery sales or shipping cigarettes or  
33 tobacco products in connection with any sales, an out-of-state  
34 retailer shall file with the Department of Revenue a statement  
35 setting forth the out-of-state retailer's name, trade name, and  
36 the address of the out-of-state retailer's principal place of

1 business and any other place of business.

2 Sec. 14. Minnesota Statutes 2004, section 297F.09, is  
3 amended by adding a subdivision to read:

4 Subd. 4a. [REPORTING REQUIREMENTS.] No later than the 18th  
5 day of each calendar month, an out-of-state retailer that has  
6 made a delivery of cigarettes or tobacco products or shipped or  
7 delivered cigarettes or tobacco products into the state in a  
8 delivery sale in the previous calendar month shall file with the  
9 Department of Revenue reports in the form and in the manner  
10 prescribed by the commissioner of revenue that provides for each  
11 delivery sale, the name and address of the purchaser and the  
12 brand or brands and quantity of cigarettes or tobacco products  
13 sold. A tobacco retailer that meets the requirements of United  
14 States Code, title 15, section 375 et seq. satisfies the  
15 requirements of this subdivision.

16 Sec. 15. Minnesota Statutes 2004, section 297I.01, is  
17 amended by adding a subdivision to read:

18 Subd. 6a. [DIRECT BUSINESS.] (a) "Direct business" means  
19 all insurance provided by an insurance company or its agents,  
20 and specifically includes stop-loss insurance purchased in  
21 connection with a self-insurance plan for employee health  
22 benefits or for other purposes, but excludes:

23 (1) reinsurance in which an insurance company assumes the  
24 liability of another insurance company; and

25 (2) self-insurance.

26 (b) For purposes of this subdivision, an insurance company  
27 includes a nonprofit health service corporation, health  
28 maintenance organization, and community integrated service  
29 network.

30 [EFFECTIVE DATE.] This section is effective for insurance  
31 premiums received after December 31, 2005.

32 Sec. 16. Minnesota Statutes 2004, section 297I.05,  
33 subdivision 4, is amended to read:

34 Subd. 4. [MUTUAL PROPERTY AND CASUALTY COMPANIES WITH  
35 TOTAL ASSETS LESS THAN \$1,600,000,000 ON DECEMBER 31, 1989.] A  
36 tax is imposed on mutual insurance companies that sell both

1 property and casualty ~~companies~~ insurance that had total assets  
2 greater than \$5,000,000 at the end of the calendar year but that  
3 had total assets less than \$1,600,000,000 on December 31, 1989.

4 The rate of tax is equal to:

5 ~~(1) two percent of gross premiums less return premiums on~~  
6 ~~all direct business received by the insurer or agents of the~~  
7 ~~insurer in Minnesota for life insurance, in cash or otherwise,~~  
8 ~~during the year, and~~

9 (2) 1.26 percent of gross premiums less return premiums on  
10 all ~~other~~ direct business received by the insurer or agents of  
11 the insurer in Minnesota, in cash or otherwise, during the year,  
12 except for life insurance as provided in subdivision 14.

13 [EFFECTIVE DATE.] This section is effective for premiums  
14 received after December 31, 2005.

15 Sec. 17. Minnesota Statutes 2004, section 297I.05, is  
16 amended by adding a subdivision to read:

17 Subd. 14. [LIFE INSURANCE.] A tax is imposed on life  
18 insurance. The rate of tax equals 1.50 percent of gross  
19 premiums less return premiums on all direct business received by  
20 the insurer or agents of the insurer in Minnesota for life  
21 insurance, in cash or otherwise, during the year.

22 [EFFECTIVE DATE.] This section is effective for premiums  
23 received after December 31, 2005.

24 Sec. 18. Minnesota Statutes 2004, section 298.01,  
25 subdivision 3, is amended to read:

26 Subd. 3. [OCCUPATION TAX; OTHER ORES.] Every person  
27 engaged in the business of mining or producing ores in this  
28 state, except iron ore or taconite concentrates, shall pay an  
29 occupation tax to the state of Minnesota as provided in this  
30 subdivision. The tax is determined in the same manner as the  
31 tax imposed by section 290.02, except that sections 290.05,  
32 subdivision 1, clause (a), and 290.17, subdivision 4, and  
33 290.191, subdivision 2, do not apply. A person subject to  
34 occupation tax under this section shall apportion its net income  
35 on the basis of the percentage obtained by taking the sum of:

36 (1) 75 percent of the percentage which the sales made

1 within this state in connection with the trade or business  
2 during the tax period are of the total sales wherever made in  
3 connection with the trade or business during the tax period;

4 (2) 12.5 percent of the percentage which the total tangible  
5 property used by the taxpayer in this state in connection with  
6 the trade or business during the tax period is of the total  
7 tangible property, wherever located, used by the taxpayer in  
8 connection with the trade or business during the tax period; and

9 (3) 12.5 percent of the percentage which the taxpayer's  
10 total payrolls paid or incurred in this state or paid in respect  
11 to labor performed in this state in connection with the trade or  
12 business during the tax period are of the taxpayer's total  
13 payrolls paid or incurred in connection with the trade or  
14 business during the tax period.

15 The tax is in addition to all other taxes.

16 **[EFFECTIVE DATE.]** This section is effective for tax years  
17 beginning after December 31, 2005.

18 Sec. 19. Minnesota Statutes 2004, section 298.01,  
19 subdivision 4, is amended to read:

20 Subd. 4. [OCCUPATION TAX; IRON ORE; TACONITE  
21 CONCENTRATES.] A person engaged in the business of mining or  
22 producing of iron ore, taconite concentrates or direct reduced  
23 ore in this state shall pay an occupation tax to the state of  
24 Minnesota. The tax is determined in the same manner as the tax  
25 imposed by section 290.02, except that sections 290.05,  
26 subdivision 1, clause (a), and 290.17, subdivision 4, and  
27 290.191, subdivision 2, do not apply. A person subject to  
28 occupation tax under this section shall apportion its net income  
29 on the basis of the percentage obtained by taking the sum of:

30 (1) 75 percent of the percentage which the sales made  
31 within this state in connection with the trade or business  
32 during the tax period are of the total sales wherever made in  
33 connection with the trade or business during the tax period;

34 (2) 12.5 percent of the percentage which the total tangible  
35 property used by the taxpayer in this state in connection with  
36 the trade or business during the tax period is of the total

1 tangible property, wherever located, used by the taxpayer in  
2 connection with the trade or business during the tax period; and  
3 (3) 12.5 percent of the percentage which the taxpayer's  
4 total payrolls paid or incurred in this state or paid in respect  
5 to labor performed in this state in connection with the trade or  
6 business during the tax period are of the taxpayer's total  
7 payrolls paid or incurred in connection with the trade or  
8 business during the tax period.

9 The tax is in addition to all other taxes.

10 [EFFECTIVE DATE.] This section is effective for tax years  
11 beginning after December 31, 2005.

12 Sec. 20. [325D.125] [EMPLOYERS NOT TO MISREPRESENT STATUS  
13 OF EMPLOYEES.]

14 Subdivision 1. [MISREPRESENTATION PROHIBITED.] No employer  
15 shall misrepresent the nature of its employment relationship  
16 with its employees to any federal, state, or local government  
17 unit, to other employers or to its employees. An employer  
18 misrepresents the nature of its employment relationship with its  
19 employees if it makes any statement regarding the nature of the  
20 relationship that the employer does not in good faith believe to  
21 be true or if it fails to report individuals as employees when  
22 legally required to do so.

23 Subd. 2. [EMPLOYEE COERCION PROHIBITED.] No employer shall  
24 require or request any employee to enter into any agreement, or  
25 sign any document, that results in misclassification of the  
26 employee as an independent contractor or otherwise does not  
27 accurately reflect the employment relationship with the employer.

28 Subd. 3. [VIOLATIONS.] Any court finding any person guilty  
29 of violating this section shall transmit a copy of the  
30 documentation of the finding of guilt to the commissioner of  
31 labor and industry. The commissioner of labor and industry  
32 shall report the finding of guilt to relevant state and federal  
33 agencies, including at least the commissioner of commerce, the  
34 commissioner of economic security, the commissioner of revenue,  
35 the federal Internal Revenue Service, and the United States  
36 Department of Labor.

1           [EFFECTIVE DATE.] This section is effective the day  
2 following final enactment.

3           Sec. 21. [325F.781] [REQUIREMENTS; TOBACCO PRODUCT  
4 DELIVERY SALES.]

5           Subdivision 1. [DEFINITIONS.] (a) For purposes of this  
6 section, the following terms have the meanings given, unless the  
7 language or context clearly provides otherwise.

8           (b) "Consumer" means an individual who purchases, receives,  
9 or possesses tobacco products for personal consumption and not  
10 for resale.

11           (c) "Delivery sale" means:

12           (1) a sale of tobacco products to a consumer in this state  
13 when:

14           (i) the purchaser submits the order for the sale by means  
15 of a telephonic or other method of voice transmission, the mail  
16 or any other delivery service, or the Internet or other on-line  
17 service; or

18           (ii) the tobacco products are delivered by use of the mail  
19 or other delivery service; or

20           (2) a sale of tobacco products that satisfies the criteria  
21 in clause (1), item (i), regardless of whether the seller is  
22 located inside or outside of the state.

23           A sale of tobacco products to an individual in this state  
24 must be treated as a sale to a consumer, unless the individual  
25 is licensed as a distributor or retailer of tobacco products.

26           (d) "Delivery service" means a person, including the United  
27 States Postal Service, that is engaged in the commercial  
28 delivery of letters, packages, or other containers.

29           (e) "Distributor" means a person, whether located inside or  
30 outside of this state, other than a retailer, who sells or  
31 distributes tobacco products in the state. Distributor does not  
32 include a tobacco products manufacturer, export warehouse  
33 proprietor, or importer with a valid permit under United States  
34 Code, title 26, section 5712 (1997), if the person sells or  
35 distributes tobacco products in this state only to distributors  
36 who hold valid and current licenses under the laws of a state,

1 or to an export warehouse proprietor or another manufacturer.  
2 Distributor does not include a common or contract carrier that  
3 is transporting tobacco products under a proper bill of lading  
4 or freight bill that states the quantity, source, and  
5 destination of tobacco products, or a person who ships tobacco  
6 products through this state by common or contract carrier under  
7 a bill of lading or freight bill.

8 (f) "Retailer" means a person, whether located inside or  
9 outside this state, who sells or distributes tobacco products to  
10 a consumer in this state.

11 (g) "Tobacco products" means:

12 (1) cigarettes, as defined in section 297F.01, subdivision  
13 3; and

14 (2) smokeless tobacco as defined in section 325F.76.

15 Subd. 2. [REQUIREMENTS FOR ACCEPTING ORDER FOR DELIVERY  
16 SALE.] (a) This subdivision applies to acceptance of an order  
17 for a delivery sale of tobacco products.

18 (b) When accepting the first order for a delivery sale from  
19 a consumer, the tobacco retailer shall obtain the following  
20 information from the person placing the order:

21 (1) a copy of a valid government-issued document that  
22 provides the person's name, current address, photograph, and  
23 date of birth; and

24 (2) an original written statement signed by the person  
25 documenting that the person:

26 (i) is of legal age to purchase tobacco products in the  
27 state;

28 (ii) has made a choice whether to receive mailings from a  
29 tobacco retailer;

30 (iii) understands that providing false information may be a  
31 violation of law; and

32 (iv) understands that it is a violation of law to purchase  
33 tobacco products for subsequent resale or for delivery to  
34 persons who are under the legal age to purchase tobacco products.

35 (c) If an order is made as a result of advertisement over  
36 the Internet, the tobacco retailer shall request the e-mail

1 address of the purchaser and shall receive payment by credit  
2 card or check prior to shipping.

3 (d) Prior to shipping the tobacco products, the tobacco  
4 retailer shall verify the information provided under paragraph  
5 (b) against a commercially available database. Any such  
6 database or databases may also include age and identity  
7 information from other government or validated commercial  
8 sources, if that additional information is regularly used by  
9 government and businesses for the purpose of identity  
10 verification and authentication, and if the additional  
11 information is used only to supplement and not to replace the  
12 government-issued identification data in the age and identity  
13 verification process.

14 Subd. 3. [REQUIREMENTS FOR SHIPPING A DELIVERY SALE.] (a)  
15 This subdivision applies to a tobacco retailer shipping tobacco  
16 products pursuant to a delivery sale.

17 (b) The tobacco retailer shall clearly mark the outside of  
18 the package of tobacco products to be shipped "tobacco products -  
19 adult signature required" and to show the name of the tobacco  
20 retailer.

21 (c) The tobacco retailer shall utilize a delivery service  
22 that imposes the following requirements:

23 (1) an adult must sign for the delivery; and

24 (2) the person signing for the delivery must show valid  
25 government-issued identification that contains a photograph of  
26 the person signing for the delivery and indicates that the  
27 person signing for the delivery is of legal age to purchase  
28 tobacco products and resides at the delivery address.

29 (d) The retailer must provide delivery instructions that  
30 clearly indicate the requirements of this subdivision and must  
31 declare that state law requires compliance with the requirements.

32 (e) No criminal penalty may be imposed on a person for a  
33 violation of this section other than a violation described in  
34 paragraph (f) or (g). Whenever it appears to the commissioner  
35 that any person has engaged in any act or practice constituting  
36 a violation of this section, and the violation is not within two



1 years of any previous violation of this section, the  
2 commissioner shall issue and cause to be served upon the person  
3 an order requiring the person to cease and desist from violating  
4 this section. The order must give reasonable notice of the  
5 rights of the person to request a hearing and must state the  
6 reason for the entry of the order. Unless otherwise agreed  
7 between the parties, a hearing shall be held not later than  
8 seven days after the request for the hearing is received by the  
9 commissioner after which and within 20 days after the receipt of  
10 the administrative law judge's report and subsequent exceptions  
11 and argument, the commissioner shall issue an order vacating the  
12 cease and desist order, modifying it, or making it permanent as  
13 the facts require. If no hearing is requested within 30 days of  
14 the service of the order, the order becomes final and remains in  
15 effect until modified or vacated by the commissioner. All  
16 hearings shall be conducted in accordance with the provisions of  
17 chapter 14. If the person to whom a cease and desist order is  
18 issued fails to appear at the hearing after being duly notified,  
19 the person shall be deemed in default, and the proceeding may be  
20 determined against the person upon consideration of the cease  
21 and desist order, the allegations of which may be deemed to be  
22 true.

23 (f) Any person who violates this section within two years  
24 of a violation for which a cease and desist order was issued  
25 under paragraph (e), is guilty of a misdemeanor.

26 (g) Any person who commits a third or subsequent violation  
27 of this section, including a violation for which a cease and  
28 desist order was issued under paragraph (c), within any  
29 subsequent two-year period is guilty of a gross misdemeanor.

30 Subd. 4. [COMMON CARRIERS.] This section may not be  
31 construed as imposing liability upon any common carrier, or  
32 officers or employees of the common carrier, when acting within  
33 the scope of business of the common carrier.

34 Subd. 5. [REGISTRATION REQUIREMENT.] Prior to making  
35 delivery sales or shipping tobacco products in connection with  
36 any sales, an out-of-state retailer must meet the requirements

1 of section 297F.031.

2 Subd. 6. [COLLECTION OF TAXES.] (a) Prior to shipping any  
3 tobacco products to a purchaser in this state, the out of state  
4 retailer shall comply with all requirements of chapter 297F and  
5 shall ensure that all state excise taxes and fees that apply to  
6 such tobacco products have been collected and paid to the state  
7 and that all related state excise tax stamps or other indicators  
8 of state excise tax payment have been properly affixed to those  
9 tobacco products.

10 (b) In addition to any penalties under chapter 297F, a  
11 distributor who fails to pay any tax due according to paragraph  
12 (a) shall pay, in addition to any other penalty, a penalty of 50  
13 percent of the tax due but unpaid.

14 Subd. 7. [APPLICATION OF STATE LAWS.] All state laws that  
15 apply to in-state tobacco product retailers shall apply to  
16 Internet and mail-order sellers that sell into this state.

17 Subd. 8. [FORFEITURE.] Any tobacco product sold or  
18 attempted to be sold in a delivery sale that does not meet the  
19 requirements of this section is deemed to be contraband and is  
20 subject to forfeiture in the same manner as and in accordance  
21 with the provisions of section 297F.21.

22 Subd. 9. [CIVIL PENALTIES.] A tobacco retailer or  
23 distributor who violates this section or rules adopted under  
24 this section is subject to the following fines:

25 (1) for the first violation, a fine of not more than  
26 \$1,000; and

27 (2) for the second and any subsequent violation, a fine of  
28 not more than \$5,000.

29 Subd. 10. [ENFORCEMENT.] The attorney general may bring an  
30 action to enforce this section and may seek injunctive relief,  
31 including a preliminary or final injunction, and fines,  
32 penalties, and equitable relief and may seek to prevent or  
33 restrain actions in violation of this section by any person or  
34 any person controlling such person. In addition, a violation of  
35 this section is a violation of the Unlawful Trade Practices Act,  
36 sections 325D.09 to 325D.16.

1           [EFFECTIVE DATE.] This section is effective the day  
2 following final enactment.

3           Sec. 22. Minnesota Statutes 2004, section 469.335, is  
4 amended to read:

5           469.335 [APPLICATION FOR TAX BENEFITS.]

6           (a) To claim a tax credit or exemption against a state tax  
7 under section 469.336, clauses (2) through (5), a business must  
8 apply to the commissioner for a tax credit certificate. As a  
9 condition of its application, the business must agree to furnish  
10 information to the commissioner that is sufficient to verify the  
11 eligibility for any credits or exemptions claimed. The total  
12 amount of the state tax credits and exemptions allowed for the  
13 specified period may not exceed the amount of the tax credit  
14 certificates provided by the commissioner to the business. The  
15 commissioner must verify to the commissioner of revenue the  
16 amount of tax exemptions or credits for which each business is  
17 eligible.

18           (b) A tax credit certificate issued under this section may  
19 specify the particular tax exemptions or credits against a state  
20 tax that the qualified business is eligible to claim under  
21 section 469.336, clauses (2) through (5), and the amount of each  
22 exemption or credit allowed.

23           (c) The commissioner may issue \$1,000,000 of tax credits or  
24 exemptions in fiscal year 2004. ~~Any tax credits or exemptions~~  
25 ~~not awarded in fiscal year 2004 may be awarded in fiscal year~~  
26 ~~2005.~~ The commissioner may not award any additional tax credits  
27 after June 30, 2005.

28           (d) A qualified business must use the tax credits or tax  
29 exemptions granted under this section by the later of the end of  
30 the state fiscal year or the taxpayer's tax year in which the  
31 credits or exemptions are granted.

32           [EFFECTIVE DATE.] This section is effective the day  
33 following final enactment.

34           Sec. 23. [469.342] [BIOTECHNOLOGY AND HEALTH SCIENCES  
35 INDUSTRY GRANTS.]

36           Subdivision 1. [GRANT ELIGIBILITY.] The commissioner shall

1 make grants to eligible businesses in the biotechnology and  
2 health sciences industry to support the startup and growth of  
3 biotechnology and health sciences businesses. An eligible  
4 business is a business that:

5 (1) is engaged primarily in:

6 (i) researching, developing, and/or manufacturing a  
7 biotechnology product or service or a biotechnology-related  
8 health sciences product or service;

9 (ii) researching, developing, and/or manufacturing a  
10 biotechnology medical device product or service or a  
11 biotechnology-related medical device product or service; or

12 (iii) promoting, supplying, or servicing businesses  
13 involved in clause (1) or (2), if the business derives more than  
14 50 percent of its gross receipts from those activities;

15 (2) pledges that the business will increase full-time  
16 employment in high-paying jobs by at least 20 percent in the  
17 first full year of operation after a grant is awarded;

18 (3) shows a viable link between a higher education/research  
19 institution and the business activities of the biotechnology or  
20 health sciences business; and

21 (4) agrees to treat a grant awarded under this section as a  
22 business subsidy under sections 116J.993 to 116J.995, and to  
23 comply with the requirements of that law.

24 Subd. 2. [AMOUNT AND LIMITATIONS OF GRANTS.] The  
25 commissioner may award grants in fiscal year 2008. The total of  
26 the grants in aggregate may not exceed \$5,000,000.

27 Subd. 3. [APPLICATION AND AWARD OF GRANTS.] A  
28 biotechnology and health sciences business must apply for grants  
29 under this section following the procedures established by the  
30 commissioner. To be eligible for a grant, a business must  
31 demonstrate to the commissioner that it meets the requirements  
32 under subdivision 1, and provide any information required by the  
33 commissioner to determine eligibility. All applications must be  
34 received on or before October 1 of each year that grants may be  
35 awarded, and the commissioner must advise each applicant on or  
36 before December 31 of that year that a grant is awarded or an

1 explanation why a grant is not awarded.

2 [EFFECTIVE DATE.] This section is effective July 1, 2005.

3 Sec. 24. [473.24] [POPULATION ESTIMATES.]

4 (a) The Metropolitan Council shall prepare an estimate of  
5 population and of the number of households for each city and  
6 town in the metropolitan area annually and convey the estimates  
7 to the governing body of each city or town by June 1 of each  
8 year. In the case of a city or town that is located partly  
9 within and partly without the metropolitan area, the  
10 Metropolitan Council shall estimate the proportion of the total  
11 population and number of households that reside within the  
12 area. The Metropolitan Council may prepare an estimate of the  
13 population and of the number of households for any other  
14 political subdivision located in the metropolitan area.

15 (b) A governing body of a city or town may challenge an  
16 estimate made under this section by making its specific  
17 objections to the Metropolitan Council by June 24. If the  
18 challenge does not result in an acceptable estimate, the  
19 governing body may have a special census conducted by the United  
20 States Bureau of the Census. The Metropolitan Council shall  
21 certify the population estimates to the commissioner of revenue  
22 by July 15. The political subdivision must notify the  
23 Metropolitan Council on or before July 1 of its intent to have  
24 the special census conducted. The political subdivision must  
25 bear all costs of the special census. Results of the special  
26 census must be received by the Metropolitan Council by the next  
27 May 15 to be used in that year's June 1 estimate under this  
28 section.

29 [EFFECTIVE DATE.] This section is effective the day  
30 following final enactment.

31 Sec. 25. Minnesota Statutes 2004, section 473.843,  
32 subdivision 3, is amended to read:

33 Subd. 3. [PAYMENT OF FEE.] On or before the 20th day of  
34 each month each operator shall pay the fee due under this  
35 section for the previous month, using a form provided by the  
36 commissioner of revenue.

1 ~~An operator having a fee of \$120,000 or more during a~~  
2 ~~fiscal year ending June 30 must pay all fees in the subsequent~~  
3 ~~calendar year by electronic means.~~

4 [EFFECTIVE DATE.] This section is effective for payments  
5 due in calendar year 2006, and in calendar years thereafter,  
6 based upon liabilities incurred in fiscal year ending June 30,  
7 2005, and in fiscal years thereafter.

8 Sec. 26. Minnesota Statutes 2004, section 473F.02,  
9 subdivision 7, is amended to read:

10 Subd. 7. [POPULATION.] "Population" means the most recent  
11 estimate of the population of a municipality made by the  
12 Metropolitan Council under section 473.24 and filed with the  
13 commissioner of revenue as of July ± 15 of the year in which a  
14 municipality's distribution net tax capacity is calculated. ~~The~~  
15 ~~council shall annually estimate the population of each~~  
16 ~~municipality as of a date which it determines and, in the case~~  
17 ~~of a municipality which is located partly within and partly~~  
18 ~~without the area, the proportion of the total which resides~~  
19 ~~within the area, and shall promptly thereafter file its~~  
20 ~~estimates with the commissioner of revenue.~~

21 [EFFECTIVE DATE.] This section is effective the day  
22 following final enactment.

23 Sec. 27. Minnesota Statutes 2004, section 477A.011,  
24 subdivision 3, is amended to read:

25 Subd. 3. [POPULATION.] "Population" means the  
26 population estimated or established as of July ± 15 in an aid  
27 calculation year by the most recent federal census, by a special  
28 census conducted under contract with the United States Bureau of  
29 the Census, by a population estimate made by the Metropolitan  
30 Council, or by a population estimate of the state demographer  
31 made pursuant to section 4A.02, whichever is the most recent as  
32 to the stated date of the count or estimate for the preceding  
33 calendar year, and which has been certified to the commissioner  
34 of revenue on or before July 15 of the aid calculation year.

35 The term "per capita" refers to population as defined by this  
36 subdivision. No changes in population will be recognized for

1 the purposes of sections 477A.011 to 477A.014 after July 15 of  
2 the aid calculation year. Clerical errors in the certification  
3 or use of the estimates and counts established as of July 15 in  
4 the aid calculation year are subject to correction within the  
5 time periods allowed under section 477A.014.

6 [EFFECTIVE DATE.] This section is effective the day  
7 following final enactment.

8 Sec. 28. Minnesota Statutes 2004, section 480B.01,  
9 subdivision 1, is amended to read:

10 Subdivision 1. [JUDICIAL VACANCIES.] If a judge of the  
11 district court or, Workers' Compensation Court of Appeals, or  
12 Tax Court dies, resigns, retires, or is removed during the  
13 judge's term of office, or if a new district or, Workers'  
14 Compensation Court of Appeals, or Tax Court judgeship is  
15 created, the resulting vacancy must be filled by the governor as  
16 provided in this section.

17 [EFFECTIVE DATE.] This section is effective the day  
18 following final enactment.

19 Sec. 29. Minnesota Statutes 2004, section 480B.01,  
20 subdivision 10, is amended to read:

21 Subd. 10. [NOTICE TO THE PUBLIC.] Upon receiving notice  
22 from the governor that a judicial vacancy has occurred or will  
23 occur on a specified date, the chair shall provide notice of the  
24 following information:

25 (1) the office that is or will be vacant;

26 (2) that applications from qualified persons or on behalf  
27 of qualified persons are being accepted by the commission;

28 (3) that application forms may be obtained from the  
29 governor or the commission at a named address; and

30 (4) that application forms must be returned to the  
31 commission by a named date.

32 For a district court vacancy, the notice must be made  
33 available to attorney associations in the judicial district  
34 where the vacancy has occurred or will occur and to at least one  
35 newspaper of general circulation in each county in the  
36 district. For a Workers' Compensation Court of Appeals or Tax

1 Court vacancy, the notice must be given to state attorney  
2 associations and all forms of the public media.

3 [EFFECTIVE DATE.] This section is effective the day  
4 following final enactment.

5 Sec. 30. [COMPACTS; RETALIATORY TAXES.]

6 The commissioner is authorized to enter into compact  
7 agreements with other states for the purpose of eliminating  
8 retaliatory insurance premiums tax provisions between this state  
9 and other states. The commissioner shall report to the  
10 chairpersons of the house and senate tax committees, on or  
11 before February 1, 2006, on the actions the commissioner has  
12 taken to enter into compact agreements with other states.

13 Sec. 31. [APPROPRIATION.]

14 (a) The amounts necessary to award grants as provided in  
15 Minnesota Statutes, section 469.342, shall be appropriated to  
16 the commissioner of employment and economic development from the  
17 general fund.

18 (b) \$3,000,000 is appropriated to the Department of Revenue  
19 from fiscal year 2006 and each year thereafter, in addition to  
20 any other appropriation provided under law. This money must be  
21 used for operation of the department.

22 Sec. 32. [REPEALER.]

23 (a) Minnesota Statutes 2004, sections 289A.26, subdivision  
24 2a; 289A.60, subdivision 21; 295.55, subdivision 4; 295.60,  
25 subdivision 4; 297F.09, subdivision 7; 297G.09, subdivision 6;  
26 297I.35, subdivision 2; and 297I.85, subdivision 7, are repealed.

27 (b) Minnesota Statutes 2004, section 270.30, subdivision 1,  
28 is repealed.

29 [EFFECTIVE DATE.] Paragraph (a) of this section is  
30 effective for payments due in calendar year 2006, and in  
31 calendar years thereafter, based upon liabilities incurred in  
32 fiscal year ending June 30, 2005, and in fiscal years  
33 thereafter. Paragraph (b) is effective the day following final  
34 enactment.

35 ARTICLE 9

36 DEPARTMENT OF REVENUE POLICY PROVISIONS



1 Section 1. Minnesota Statutes 2004, section 16D.10, is  
2 amended to read:

3 16D.10 [CASE REVIEWER.]

4 Subdivision 1. [DUTIES.] The commissioner shall make a  
5 case reviewer available to debtors. The reviewer must be  
6 available to answer a debtor's questions concerning the  
7 collection process and to review the collection activity taken.  
8 If the reviewer reasonably believes that the particular action  
9 being taken is unreasonable or unfair, the reviewer may make  
10 recommendations to the commissioner in regard to the collection  
11 action.

12 Subd. 2. [AUTHORITY TO ISSUE DEBTOR ASSISTANCE ORDER.] On  
13 application filed by a debtor with the case reviewer, in the  
14 form, manner, and in the time prescribed by the commissioner,  
15 and after thorough investigation, the case reviewer may issue a  
16 debtor assistance order if, in the determination of the case  
17 reviewer, the manner in which the state debt collection laws are  
18 being administered is creating or will create an unjust and  
19 inequitable result for the debtor. Debtor assistance orders are  
20 governed by the provisions relating to taxpayer assistance  
21 orders under section 270.273.

22 Subd. 3. [TRANSFER OF DUTIES TO TAXPAYER RIGHTS ADVOCATE.]  
23 All duties and authority of the case reviewer under subdivisions  
24 1 and 2 are transferred to the taxpayer rights advocate.

25 [EFFECTIVE DATE.] This section is effective the day  
26 following final enactment.

27 Sec. 2. Minnesota Statutes 2004, section 270.02,  
28 subdivision 3, is amended to read:

29 Subd. 3. [POWERS, ORGANIZATION, ASSISTANTS.] Subject to  
30 the provisions of this chapter and other applicable laws the  
31 commissioner shall have power to organize the department with  
32 such divisions and other agencies as the commissioner deems  
33 necessary and to appoint one deputy commissioner, a department  
34 secretary, directors of divisions, and such other officers,  
35 employees, and agents as the commissioner may deem necessary to  
36 discharge the functions of the department, define the duties of

1 such officers, employees, and agents, and delegate to them any  
2 of the commissioner's powers or duties, subject to the  
3 commissioner's control and under such conditions as the  
4 commissioner may prescribe. Appointments to exercise delegated  
5 power to sign documents which require the signature of the  
6 commissioner or a delegate by law shall be by written order  
7 filed with the secretary of state as provided under section  
8 15.06, subdivision 6. The delegations of authority granted by  
9 the commissioner remain in effect until revoked by the  
10 commissioner or a successor commissioner.

11 [EFFECTIVE DATE.] This section is effective the day  
12 following final enactment.

13 Sec. 3. [270.0611] [SUFFICIENCY OF NOTICE OF DETERMINATION  
14 OR ACTION OF COMMISSIONER OF REVENUE.]

15 When a method of notification of a written determination or  
16 action of the commissioner is not specifically provided for by  
17 law, notice of the determination or action sent postage prepaid  
18 by United States mail to the taxpayer or other person affected  
19 by the determination or action at the taxpayer's or person's  
20 last known address is sufficient. If the taxpayer or person  
21 being notified is deceased or is under a legal disability, or if  
22 a corporation being notified has terminated its existence,  
23 notice to the last known address of the taxpayer, person, or  
24 corporation is sufficient, unless the department has been  
25 provided with a new address by a party authorized to receive  
26 notices from the commissioner.

27 [EFFECTIVE DATE.] This section is effective for notices  
28 sent on or after the day following final enactment.

29 Sec. 4. Minnesota Statutes 2004, section 270.69,  
30 subdivision 4, is amended to read:

31 Subd. 4. [PERIOD OF LIMITATIONS.] The lien imposed by this  
32 section shall, notwithstanding any other provision of law to the  
33 contrary, be enforceable from the time the lien arises and for  
34 ten years from the date of filing the notice of lien, which must  
35 be filed by the commissioner within five years after the date of  
36 assessment of the tax or final administrative or judicial

1 determination of the assessment. A notice of lien filed in one  
2 county may be transcribed to the secretary of state or to any  
3 other county within ten years after the date of its filing, but  
4 the transcription shall not extend the period during which the  
5 lien is enforceable. A notice of lien may be renewed by the  
6 commissioner before the expiration of the ten-year period for an  
7 additional ten years. The taxpayer must receive written notice  
8 of the renewal.

9 [EFFECTIVE DATE.] This section is effective the day  
10 following final enactment.

11 Sec. 5. Minnesota Statutes 2004, section 270B.01,  
12 subdivision 8, is amended to read:

13 Subd. 8. [MINNESOTA TAX LAWS.] For purposes of this  
14 chapter only, unless expressly stated otherwise, "Minnesota tax  
15 laws" means:

16 (1) the taxes, refunds, and fees administered by or paid to  
17 the commissioner under chapters 115B, 289A (except taxes imposed  
18 under sections 298.01, 298.015, and 298.24), 290, 290A, 291,  
19 295, 297A, and 297H, or any similar Indian tribal tax  
20 administered by the commissioner pursuant to any tax agreement  
21 between the state and the Indian tribal government, and includes  
22 any laws for the assessment, collection, and enforcement of  
23 those taxes, refunds, and fees; and

24 (2) section 273.1315.

25 [EFFECTIVE DATE.] This section is effective the day  
26 following final enactment.

27 Sec. 6. Minnesota Statutes 2004, section 270B.12,  
28 subdivision 13, is amended to read:

29 Subd. 13. [COUNTY ASSESSORS; CLASS 1B HOMESTEADS.] The  
30 commissioner may disclose to a county assessor, and to the  
31 assessor's designated agents or employees, a listing of parcels  
32 of property qualifying for the class 1b property tax  
33 classification under section 273.13, subdivision 22, and the  
34 names and addresses of qualified applicants.

35 [EFFECTIVE DATE.] This section is effective the day  
36 following final enactment.

1           Sec. 7. Minnesota Statutes 2004, section 289A.31,  
2 subdivision 2, is amended to read:

3           Subd. 2. [JOINT INCOME TAX RETURNS.] (a) If a joint income  
4 tax return is made by a husband and wife, the liability for the  
5 tax is joint and several. A spouse who qualifies for relief  
6 from a liability attributable to an underpayment under section  
7 6015(b) of the Internal Revenue Code is relieved of the state  
8 income tax liability on the underpayment.

9           (b) In the case of individuals who were a husband and wife  
10 prior to the dissolution of their marriage or their legal  
11 separation, or prior to the death of one of the individuals, for  
12 tax liabilities reported on a joint or combined return, the  
13 liability of each person is limited to the proportion of the tax  
14 due on the return that equals that person's proportion of the  
15 total tax due if the husband and wife filed separate returns for  
16 the taxable year. This provision is effective only when the  
17 commissioner receives written notice of the marriage  
18 dissolution, legal separation, or death of a spouse from the  
19 husband or wife. No refund may be claimed by an ex-spouse,  
20 legally separated or widowed spouse for any taxes paid more than  
21 60 days before receipt by the commissioner of the written notice.

22           (c) A request for calculation of separate liability  
23 pursuant to paragraph (b) for taxes reported on a return must be  
24 made within six years after the due date of the return. For  
25 calculation of separate liability for taxes assessed by the  
26 commissioner under section 289A.35 or 289A.37, the request must  
27 be made within six years after the date of assessment. The  
28 commissioner is not required to calculate separate liability if  
29 the remaining unpaid liability for which recalculation is  
30 requested is \$100 or less.

31           [EFFECTIVE DATE.] This section is effective for requests  
32 for relief made on or after the day following final enactment.

33           Sec. 8. Minnesota Statutes 2004, section 289A.56, is  
34 amended by adding a subdivision to read:

35           Subd. 7. [BIOTECHNOLOGY AND BORDER CITY ZONE  
36 REFUNDS.] Notwithstanding subdivision 3, for refunds payable

1 under sections 297A.68, subdivision 38, and 469.1734,  
2 subdivision 6, interest is computed from 90 days after the  
3 refund claim is filed with the commissioner.

4 [EFFECTIVE DATE.] This section is effective for refund  
5 claims filed on or after July 1, 2005.

6 Sec. 9. Minnesota Statutes 2004, section 290.01,  
7 subdivision 19d, is amended to read:

8 Subd. 19d. [CORPORATIONS; MODIFICATIONS DECREASING FEDERAL  
9 TAXABLE INCOME.] For corporations, there shall be subtracted  
10 from federal taxable income after the increases provided in  
11 subdivision 19c:

12 (1) the amount of foreign dividend gross-up added to gross  
13 income for federal income tax purposes under section 78 of the  
14 Internal Revenue Code;

15 (2) the amount of salary expense not allowed for federal  
16 income tax purposes due to claiming the federal jobs credit  
17 under section 51 of the Internal Revenue Code;

18 (3) any dividend (not including any distribution in  
19 liquidation) paid within the taxable year by a national or state  
20 bank to the United States, or to any instrumentality of the  
21 United States exempt from federal income taxes, on the preferred  
22 stock of the bank owned by the United States or the  
23 instrumentality;

24 (4) amounts disallowed for intangible drilling costs due to  
25 differences between this chapter and the Internal Revenue Code  
26 in taxable years beginning before January 1, 1987, as follows:

27 (i) to the extent the disallowed costs are represented by  
28 physical property, an amount equal to the allowance for  
29 depreciation under Minnesota Statutes 1986, section 290.09,  
30 subdivision 7, subject to the modifications contained in  
31 subdivision 19e; and

32 (ii) to the extent the disallowed costs are not  
33 represented by physical property, an amount equal to the  
34 allowance for cost depletion under Minnesota Statutes 1986,  
35 section 290.09, subdivision 8;

36 (5) the deduction for capital losses pursuant to sections

1 1211 and 1212 of the Internal Revenue Code, except that:

2 (i) for capital losses incurred in taxable years beginning  
3 after December 31, 1986, capital loss carrybacks shall not be  
4 allowed;

5 (ii) for capital losses incurred in taxable years beginning  
6 after December 31, 1986, a capital loss carryover to each of the  
7 15 taxable years succeeding the loss year shall be allowed;

8 (iii) for capital losses incurred in taxable years  
9 beginning before January 1, 1987, a capital loss carryback to  
10 each of the three taxable years preceding the loss year, subject  
11 to the provisions of Minnesota Statutes 1986, section 290.16,  
12 shall be allowed; and

13 (iv) for capital losses incurred in taxable years beginning  
14 before January 1, 1987, a capital loss carryover to each of the  
15 five taxable years succeeding the loss year to the extent such  
16 loss was not used in a prior taxable year and subject to the  
17 provisions of Minnesota Statutes 1986, section 290.16, shall be  
18 allowed;

19 (6) an amount for interest and expenses relating to income  
20 not taxable for federal income tax purposes, if (i) the income  
21 is taxable under this chapter and (ii) the interest and expenses  
22 were disallowed as deductions under the provisions of section  
23 171(a)(2), 265 or 291 of the Internal Revenue Code in computing  
24 federal taxable income;

25 (7) in the case of mines, oil and gas wells, other natural  
26 deposits, and timber for which percentage depletion was  
27 disallowed pursuant to subdivision 19c, clause ~~(1)~~ (2), a  
28 reasonable allowance for depletion based on actual cost. In the  
29 case of leases the deduction must be apportioned between the  
30 lessor and lessee in accordance with rules prescribed by the  
31 commissioner. In the case of property held in trust, the  
32 allowable deduction must be apportioned between the income  
33 beneficiaries and the trustee in accordance with the pertinent  
34 provisions of the trust, or if there is no provision in the  
35 instrument, on the basis of the trust's income allocable to  
36 each;

1 (8) for certified pollution control facilities placed in  
2 service in a taxable year beginning before December 31, 1986,  
3 and for which amortization deductions were elected under section  
4 169 of the Internal Revenue Code of 1954, as amended through  
5 December 31, 1985, an amount equal to the allowance for  
6 depreciation under Minnesota Statutes 1986, section 290.09,  
7 subdivision 7;

8 (9) amounts included in federal taxable income that are due  
9 to refunds of income, excise, or franchise taxes based on net  
10 income or related minimum taxes paid by the corporation to  
11 Minnesota, another state, a political subdivision of another  
12 state, the District of Columbia, or a foreign country or  
13 possession of the United States to the extent that the taxes  
14 were added to federal taxable income under section 290.01,  
15 subdivision 19c, clause (1), in a prior taxable year;

16 (10) 80 percent of royalties, fees, or other like income  
17 accrued or received from a foreign operating corporation or a  
18 foreign corporation which is part of the same unitary business  
19 as the receiving corporation;

20 (11) income or gains from the business of mining as defined  
21 in section 290.05, subdivision 1, clause (a), that are not  
22 subject to Minnesota franchise tax;

23 (12) the amount of handicap access expenditures in the  
24 taxable year which are not allowed to be deducted or capitalized  
25 under section 44(d)(7) of the Internal Revenue Code;

26 (13) the amount of qualified research expenses not allowed  
27 for federal income tax purposes under section 280C(c) of the  
28 Internal Revenue Code, but only to the extent that the amount  
29 exceeds the amount of the credit allowed under section  
30 290.068 or 469.339;

31 (14) the amount of salary expenses not allowed for federal  
32 income tax purposes due to claiming the Indian employment credit  
33 under section 45A(a) of the Internal Revenue Code;

34 (15) the amount of any refund of environmental taxes paid  
35 under section 59A of the Internal Revenue Code;

36 (16) for taxable years beginning before January 1, 2008,

1 the amount of the federal small ethanol producer credit allowed  
2 under section 40(a)(3) of the Internal Revenue Code which is  
3 included in gross income under section 87 of the Internal  
4 Revenue Code;

5 (17) for a corporation whose foreign sales corporation, as  
6 defined in section 922 of the Internal Revenue Code, constituted  
7 a foreign operating corporation during any taxable year ending  
8 before January 1, 1995, and a return was filed by August 15,  
9 1996, claiming the deduction under section 290.21, subdivision  
10 4, for income received from the foreign operating corporation,  
11 an amount equal to 1.23 multiplied by the amount of income  
12 excluded under section 114 of the Internal Revenue Code,  
13 provided the income is not income of a foreign operating  
14 company;

15 (18) any decrease in subpart F income, as defined in  
16 section 952(a) of the Internal Revenue Code, for the taxable  
17 year when subpart F income is calculated without regard to the  
18 provisions of section 614 of Public Law 107-147; and

19 (19) in each of the five tax years immediately following  
20 the tax year in which an addition is required under subdivision  
21 19c, clause (16), an amount equal to one-fifth of the delayed  
22 depreciation. For purposes of this clause, "delayed  
23 depreciation" means the amount of the addition made by the  
24 taxpayer under subdivision 19c, clause (16). The resulting  
25 delayed depreciation cannot be less than zero.

26 **[EFFECTIVE DATE.] This section is effective for tax years**  
27 **beginning after December 31, 2004.**

28 Sec. 10. Minnesota Statutes 2004, section 290.9705,  
29 subdivision 1, is amended to read:

30 Subdivision 1. [WITHHOLDING OF PAYMENTS TO OUT-OF-STATE  
31 CONTRACTORS.] (a) In this section, "person" means a person,  
32 corporation, or cooperative, the state of Minnesota and its  
33 political subdivisions, and a city, county, and school district  
34 in Minnesota.

35 (b) A person who in the regular course of business is  
36 hiring, contracting, or having a contract with a nonresident



1 person or foreign corporation, as defined in Minnesota Statutes  
2 1986, section 290.01, subdivision 5, to perform construction  
3 work in Minnesota, shall deduct and withhold eight percent of  
4 ~~every-payment~~ cumulative calendar year payments to the  
5 contractor ~~if-the-contract-exceeds-or-can-reasonably-be-expected~~  
6 ~~to-exceed-\$100,000~~ which exceed \$50,000.

7 [EFFECTIVE DATE.] This section is effective for payments  
8 made after December 31, 2005.

9 Sec. 11. Minnesota Statutes 2004, section 290C.10, is  
10 amended to read:

11 290C.10 [WITHDRAWAL PROCEDURES.]

12 An approved claimant under the sustainable forest incentive  
13 program for a minimum of four years may notify the commissioner  
14 of the intent to terminate enrollment. Within 90 days of  
15 receipt of notice to terminate enrollment, the commissioner  
16 shall inform the claimant in writing, acknowledging receipt of  
17 this notice and indicating the effective date of termination  
18 from the sustainable forest incentive program. Termination of  
19 enrollment in the sustainable forest incentive program occurs on  
20 January 1 of the fifth calendar year that begins after receipt  
21 by the commissioner of the termination notice. After the  
22 commissioner issues an effective date of termination, a claimant  
23 wishing to continue the land's enrollment in the sustainable  
24 forest incentive program beyond the termination date must apply  
25 for enrollment as prescribed in section 290C.04. A claimant who  
26 withdraws a parcel of land from this program may not reenroll  
27 the parcel for a period of three years. Within 90 days after  
28 the termination date, the commissioner shall execute and  
29 acknowledge a document releasing the land from the covenant  
30 required under this chapter. The document must be mailed to the  
31 claimant and is entitled to be recorded. The commissioner may  
32 allow early withdrawal from the Sustainable Forest Incentive Act  
33 without penalty ~~in-cases-of-condemnation~~ when the state of  
34 Minnesota, any local government unit, or any other entity which  
35 has the right of eminent domain acquires title or possession to  
36 the land for a public purpose notwithstanding the provisions of

1 this section. In the case of such acquisition, the commissioner  
2 shall execute and acknowledge a document releasing the land  
3 acquired by the state, local government unit, or other entity  
4 from the covenant. All other enrolled land must remain in the  
5 program.

6 [EFFECTIVE DATE.] This section is effective the day  
7 following final enactment.

8 Sec. 12. Minnesota Statutes 2004, section 469.1734,  
9 subdivision 6, is amended to read:

10 Subd. 6. [SALES TAX EXEMPTION; EQUIPMENT; CONSTRUCTION  
11 MATERIALS.] (a) The gross receipts from the sale of machinery  
12 and equipment and repair parts are exempt from taxation under  
13 chapter 297A, if the machinery and equipment:

14 (1) are used in connection with a trade or business;

15 (2) are placed in service in a city that is authorized to  
16 designate a zone under section 469.1731, regardless of whether  
17 the machinery and equipment are used in a zone; and

18 (3) have a useful life of 12 months or more.

19 (b) The gross receipts from the sale of construction  
20 materials are exempt, if they are used to construct:

21 (1) a facility for use in a trade or business located in a  
22 city that is authorized to designate a zone under section  
23 469.1731, regardless of whether the facility is located in a  
24 zone; or

25 (2) housing that is located in a zone.

26 The exemptions under this paragraph apply regardless of whether  
27 the purchase is made by the owner, the user, or a contractor.

28 (c) A purchaser may claim an exemption under this  
29 subdivision for tax on the purchases up to, but not exceeding:

30 (1) the amount of the tax credit certificates received from  
31 the city, less

32 (2) any tax credit certificates used under the provisions  
33 of subdivisions 4 and 5, and section 469.1732, subdivision 2.

34 (d) The tax on sales of items exempted under this  
35 subdivision shall be imposed and collected as if the applicable  
36 rate under section 297A.62 applied. Upon application by the

1 purchaser, on forms prescribed by the commissioner, a refund  
2 equal to the tax paid shall be paid to the purchaser. The  
3 application must include sufficient information to permit the  
4 commissioner to verify the sales tax paid and the eligibility of  
5 the claimant to receive the credit. No more than two  
6 applications for refunds may be filed under this subdivision in  
7 a calendar year. The provisions of section 289A.40 apply to the  
8 refunds payable under this subdivision. There is annually  
9 appropriated to the commissioner of revenue the amount required  
10 to make the refunds, which must be deducted from the amount of  
11 the city's allocation under section 469.169, subdivision 12,  
12 that remains available and its limitation under section 469.1735.  
13 The amount to be refunded shall bear interest at the rate in  
14 section 270.76 from 90 days after the date the refund claim is  
15 filed with the commissioner.

16 [EFFECTIVE DATE.] This section is effective for refund  
17 claims filed on or after July 1, 2005.

18 Sec. 13. Minnesota Statutes 2004, section 469.310,  
19 subdivision 11, is amended to read:

20 Subd. 11. [QUALIFIED BUSINESS.] (a) "Qualified business"  
21 means a person carrying on a trade or business at a place of  
22 business located within a job opportunity building zone. A  
23 person is a qualified business only on those parcels of land for  
24 which it has entered into a business subsidy agreement, as  
25 required under section 469.313, with the appropriate local  
26 government unit in which the parcels are located.

27 (b) A person that relocates a trade or business from  
28 outside a job opportunity building zone into a zone is not a  
29 qualified business, unless the business:

30 (1)(i) increases full-time employment in the first full  
31 year of operation within the job opportunity building zone by at  
32 least 20 percent measured relative to the operations that were  
33 relocated and maintains the required level of employment for  
34 each year the zone designation applies; or

35 (ii) makes a capital investment in the property located  
36 within a zone equivalent to ten percent of the gross revenues of

1 operation that were relocated in the immediately preceding  
2 taxable year; and

3 (2) enters a binding written agreement with the  
4 commissioner that:

5 (i) pledges the business will meet the requirements of  
6 clause (1);

7 (ii) provides for repayment of all tax benefits enumerated  
8 under section 469.315 to the business under the procedures in  
9 section 469.319, if the requirements of clause (1) are not met  
10 for the taxable year or for taxes payable during the year in  
11 which the requirements were not met; and

12 (iii) contains any other terms the commissioner determines  
13 appropriate.

14 **[EFFECTIVE DATE.]** This section is effective retroactively  
15 from June 9, 2003.

16 Sec. 14. Minnesota Statutes 2004, section 469.330,  
17 subdivision 11, is amended to read:

18 Subd. 11. **[QUALIFIED BUSINESS.]** (a) "Qualified business"  
19 means a person carrying on a trade or business at a  
20 biotechnology and health sciences industry facility located  
21 within a biotechnology and health sciences industry zone. A  
22 person is a qualified business only on those parcels of land for  
23 which it has entered into a business subsidy agreement, as  
24 required under section 469.333, with the appropriate local  
25 government unit in which the parcels are located.

26 (b) A person that relocates a biotechnology and health  
27 sciences industry facility from outside a biotechnology and  
28 health sciences industry zone into a zone is not a qualified  
29 business, unless the business:

30 (1)(i) increases full-time employment in the first full  
31 year of operation within the biotechnology and health sciences  
32 industry zone by at least 20 percent measured relative to the  
33 operations that were relocated and maintains the required level  
34 of employment for each year the zone designation applies; or

35 (ii) makes a capital investment in the property located  
36 within a zone equivalent to ten percent of the gross revenues of

1 operation that were relocated in the immediately preceding  
2 taxable year; and

3 (2) enters a binding written agreement with the  
4 commissioner that:

5 (i) pledges the business will meet the requirements of  
6 clause (1);

7 (ii) provides for repayment of all tax benefits enumerated  
8 under section 469.336 to the business under the procedures in  
9 section 469.340, if the requirements of clause (1) are not met;  
10 and

11 (iii) contains any other terms the commissioner determines  
12 appropriate.

13 [EFFECTIVE DATE.] This section is effective retroactively  
14 from June 9, 2003.

15 Sec. 15. Minnesota Statutes 2004, section 469.337, is  
16 amended to read:

17 469.337 [CORPORATE FRANCHISE TAX EXEMPTION.]

18 (a) A qualified business is exempt from taxation under  
19 section 290.02, the alternative minimum tax under section  
20 290.0921, and the minimum fee under section 290.0922, on the  
21 portion of its income attributable to operations of a qualified  
22 business within the biotechnology and health sciences industry  
23 zone. This exemption is determined as follows:

24 (1) for purposes of the tax imposed under section 290.02,  
25 by multiplying its taxable net income by its zone percentage and  
26 subtracting the result in determining taxable income;

27 (2) for purposes of the alternative minimum tax under  
28 section 290.0921, by multiplying its alternative minimum taxable  
29 income by its zone percentage and reducing alternative minimum  
30 taxable income by this amount; and

31 (3) for purposes of the minimum fee under section 290.0922,  
32 by excluding zone property and payroll ~~in-the-zone~~ from the  
33 computations of the fee. The qualified business is exempt from  
34 the minimum fee if all of its property is located in the zone  
35 and all of its payroll is zone payroll.

36 (b) No subtraction is allowed under this section in excess

1 of 20 percent of the sum of the corporation's biotechnology and  
2 health sciences industry zone payroll and the adjusted basis of  
3 the property at the time that the property is first used in the  
4 biotechnology and health sciences industry zone by the  
5 corporation.

6 (c) No reduction in tax is allowed in excess of the amount  
7 allocated under section 469.335.

8 [EFFECTIVE DATE.] This section is effective for tax years  
9 beginning after December 31, 2004.

10 Sec. 16. [REPEALER.]

11 Laws 1975, chapter 287, section 5, and Laws 2003, chapter  
12 127, article 9, section 9, subdivision 4, are repealed.

13 [EFFECTIVE DATE.] This section is effective without local  
14 approval for taxes payable in 2006 and thereafter.

#### 15 ARTICLE 10

#### 16 MINERALS; AGGREGATE

17 Section 1. Minnesota Statutes 2004, section 272.02, is  
18 amended by adding a subdivision to read:

19 Subd. 68. [PROPERTY USED IN THE BUSINESS OF MINING SUBJECT  
20 TO THE NET PROCEEDS TAX.] The following property used in the  
21 business of mining subject to the net proceeds tax under section  
22 298.015 is exempt:

23 (1) deposits of ores, metals, and minerals and the lands in  
24 which they are contained;

25 (2) all real and personal property used in mining,  
26 quarrying, producing, or refining ores, minerals, or metals,  
27 including lands occupied by or used in connection with the  
28 mining, quarrying, production, or refining facilities; and

29 (3) concentrate or direct reduced ore.

30 This exemption applies for each year that a person subject to  
31 tax under section 298.015 uses the property for mining,  
32 quarrying, producing, or refining ores, metals, or minerals.

33 [EFFECTIVE DATE.] This section is effective for taxes  
34 payable in 2006 and thereafter.

35 Sec. 2. Minnesota Statutes 2004, section 290.05,  
36 subdivision 1, is amended to read:

1           Subdivision 1. [EXEMPT ENTITIES.] The following  
2 corporations, individuals, estates, trusts, and organizations  
3 shall be exempted from taxation under this chapter, provided  
4 that every such person or corporation claiming exemption under  
5 this chapter, in whole or in part, must establish to the  
6 satisfaction of the commissioner the taxable status of any  
7 income or activity:

8           (a) corporations, individuals, estates, and trusts engaged  
9 in the business of mining or producing iron ore and mining,  
10 producing, or refining other ores, metals, and minerals, the  
11 mining or, production, or refining of which is subject to the  
12 occupation tax imposed by section 298.01; but if any such  
13 corporation, individual, estate, or trust engages in any other  
14 business or activity or has income from any property not used in  
15 such business it shall be subject to this tax computed on the  
16 net income from such property or such other business or  
17 activity. Royalty shall not be considered as income from the  
18 business of mining or producing iron ore within the meaning of  
19 this section;

20           (b) the United States of America, the state of Minnesota or  
21 any political subdivision of either agencies or  
22 instrumentalities, whether engaged in the discharge of  
23 governmental or proprietary functions; and

24           (c) any insurance company.

25           [EFFECTIVE DATE.] This section is effective for taxable  
26 years beginning after December 31, 2004.

27           Sec. 3. Minnesota Statutes 2004, section 290.17,  
28 subdivision 4, is amended to read:

29           Subd. 4. [UNITARY BUSINESS PRINCIPLE.] (a) If a trade or  
30 business conducted wholly within this state or partly within and  
31 partly without this state is part of a unitary business, the  
32 entire income of the unitary business is subject to  
33 apportionment pursuant to section 290.191. Notwithstanding  
34 subdivision 2, paragraph (c), none of the income of a unitary  
35 business is considered to be derived from any particular source  
36 and none may be allocated to a particular place except as

1 provided by the applicable apportionment formula. The  
2 provisions of this subdivision do not apply to business income  
3 subject to subdivision 5, income of an insurance company, ~~or~~  
4 income of an investment company determined under section 290.36,  
5 or income of a mine or mineral processing facility subject to  
6 tax under section 298.01.

7 (b) The term "unitary business" means business activities  
8 or operations which result in a flow of value between them. The  
9 term may be applied within a single legal entity or between  
10 multiple entities and without regard to whether each entity is a  
11 sole proprietorship, a corporation, a partnership or a trust.

12 (c) Unity is presumed whenever there is unity of ownership,  
13 operation, and use, evidenced by centralized management or  
14 executive force, centralized purchasing, advertising,  
15 accounting, or other controlled interaction, but the absence of  
16 these centralized activities will not necessarily evidence a  
17 nonunitary business. Unity is also presumed when business  
18 activities or operations are of mutual benefit, dependent upon  
19 or contributory to one another, either individually or as a  
20 group.

21 (d) Where a business operation conducted in Minnesota is  
22 owned by a business entity that carries on business activity  
23 outside the state different in kind from that conducted within  
24 this state, and the other business is conducted entirely outside  
25 the state, it is presumed that the two business operations are  
26 unitary in nature, interrelated, connected, and interdependent  
27 unless it can be shown to the contrary.

28 (e) Unity of ownership is not deemed to exist when a  
29 corporation is involved unless that corporation is a member of a  
30 group of two or more business entities and more than 50 percent  
31 of the voting stock of each member of the group is directly or  
32 indirectly owned by a common owner or by common owners, either  
33 corporate or noncorporate, or by one or more of the member  
34 corporations of the group. For this purpose, the term "voting  
35 stock" shall include membership interests of mutual insurance  
36 holding companies formed under section 60A.077.



1 (f) The net income and apportionment factors under section  
2 290.191 or 290.20 of foreign corporations and other foreign  
3 entities which are part of a unitary business shall not be  
4 included in the net income or the apportionment factors of the  
5 unitary business. A foreign corporation or other foreign entity  
6 which is required to file a return under this chapter shall file  
7 on a separate return basis. The net income and apportionment  
8 factors under section 290.191 or 290.20 of foreign operating  
9 corporations shall not be included in the net income or the  
10 apportionment factors of the unitary business except as provided  
11 in paragraph (g).

12 (g) The adjusted net income of a foreign operating  
13 corporation shall be deemed to be paid as a dividend on the last  
14 day of its taxable year to each shareholder thereof, in  
15 proportion to each shareholder's ownership, with which such  
16 corporation is engaged in a unitary business. Such deemed  
17 dividend shall be treated as a dividend under section 290.21,  
18 subdivision 4.

19 Dividends actually paid by a foreign operating corporation  
20 to a corporate shareholder which is a member of the same unitary  
21 business as the foreign operating corporation shall be  
22 eliminated from the net income of the unitary business in  
23 preparing a combined report for the unitary business. The  
24 adjusted net income of a foreign operating corporation shall be  
25 its net income adjusted as follows:

26 (1) any taxes paid or accrued to a foreign country, the  
27 commonwealth of Puerto Rico, or a United States possession or  
28 political subdivision of any of the foregoing shall be a  
29 deduction; and

30 (2) the subtraction from federal taxable income for  
31 payments received from foreign corporations or foreign operating  
32 corporations under section 290.01, subdivision 19d, clause (10),  
33 shall not be allowed.

34 If a foreign operating corporation incurs a net loss,  
35 neither income nor deduction from that corporation shall be  
36 included in determining the net income of the unitary business.

1 (h) For purposes of determining the net income of a unitary  
2 business and the factors to be used in the apportionment of net  
3 income pursuant to section 290.191 or 290.20, there must be  
4 included only the income and apportionment factors of domestic  
5 corporations or other domestic entities other than foreign  
6 operating corporations that are determined to be part of the  
7 unitary business pursuant to this subdivision, notwithstanding  
8 that foreign corporations or other foreign entities might be  
9 included in the unitary business.

10 (i) Deductions for expenses, interest, or taxes otherwise  
11 allowable under this chapter that are connected with or  
12 allocable against dividends, deemed dividends described in  
13 paragraph (g), or royalties, fees, or other like income  
14 described in section 290.01, subdivision 19d, clause (10), shall  
15 not be disallowed.

16 (j) Each corporation or other entity, except a sole  
17 proprietorship, that is part of a unitary business must file  
18 combined reports as the commissioner determines. On the  
19 reports, all intercompany transactions between entities included  
20 pursuant to paragraph (h) must be eliminated and the entire net  
21 income of the unitary business determined in accordance with  
22 this subdivision is apportioned among the entities by using each  
23 entity's Minnesota factors for apportionment purposes in the  
24 numerators of the apportionment formula and the total factors  
25 for apportionment purposes of all entities included pursuant to  
26 paragraph (h) in the denominators of the apportionment formula.

27 (k) If a corporation has been divested from a unitary  
28 business and is included in a combined report for a fractional  
29 part of the common accounting period of the combined report:

30 (1) its income includable in the combined report is its  
31 income incurred for that part of the year determined by  
32 proration or separate accounting; and

33 (2) its sales, property, and payroll included in the  
34 apportionment formula must be prorated or accounted for  
35 separately.

36 **[EFFECTIVE DATE.]** This section is effective for taxable

1 years beginning after December 31, 2004.

2 Sec. 4. Minnesota Statutes 2004, section 290.191,  
3 subdivision 1, is amended to read:

4 Subdivision 1. [GENERAL RULE.] (a) Except as otherwise  
5 provided in section 290.17, subdivision 5, the net income from a  
6 trade or business carried on partly within and partly without  
7 this state must be apportioned to this state as provided in this  
8 section. To the extent that an entity is exempt from taxation  
9 under this chapter as provided in section 290.05, the  
10 apportionment factors associated with the entity's exempt  
11 activities are excluded from the apportionment formula under  
12 this section.

13 (b) For purposes of this section, "state" means a state of  
14 the United States, the District of Columbia, the commonwealth of  
15 Puerto Rico, or any territory or possession of the United States  
16 or any foreign country.

17 [EFFECTIVE DATE.] This section is effective for taxable  
18 years beginning after December 31, 2004.

19 Sec. 5. Minnesota Statutes 2004, section 297A.68,  
20 subdivision 4, is amended to read:

21 Subd. 4. [TACONITE, OTHER ORES, METALS, OR MINERALS;  
22 PRODUCTION MATERIALS.] Mill liners, grinding rods, and grinding  
23 balls that are substantially consumed in the production of  
24 taconite or other ores, metals, or minerals are exempt when sold  
25 to or stored, used, or consumed by persons taxed under the  
26 in-lieu provisions of chapter 298.

27 [EFFECTIVE DATE.] This section is effective for sales and  
28 purchases made after June 30, 2006.

29 Sec. 6. Minnesota Statutes 2004, section 298.001, is  
30 amended by adding a subdivision to read:

31 Subd. 9. [REFINING.] "Refining" means and is limited to  
32 refining:

33 (1) of ores, metals, or mineral products, the mining,  
34 extraction, or quarrying of which were subject to tax under  
35 section 298.015; and

36 (2) carried on by the entity, or an affiliated entity, that

1 mined, extracted, or quarried the metal or mineral products.

2 [EFFECTIVE DATE.] This section is effective for taxable  
3 years beginning after December 31, 2004.

4 Sec. 7. Minnesota Statutes 2004, section 298.001, is  
5 amended by adding a subdivision to read:

6 Subd. 10. [PRECIOUS MINERALS TAX RELIEF AREA.] The  
7 "precious minerals tax relief area" means the area of the  
8 following Independent School Districts:

- 9 (1) No. 166, Cook County;
- 10 (2) No. 316, Coleraine;
- 11 (3) No. 318, Grand Rapids;
- 12 (4) No. 319, Nashwauk-Keewatin;
- 13 (5) No. 381, Lake Superior;
- 14 (6) No. 695, Chisholm;
- 15 (7) No. 696, Ely;
- 16 (8) No. 701, Hibbing;
- 17 (9) No. 706, Virginia;
- 18 (10) No. 712, Mountain Iron-Buhl;
- 19 (11) No. 2711, Mesabi East;
- 20 (12) No. 2142, St. Louis County; and
- 21 (13) No. 2154, Eveleth-Gilbert.

22 [EFFECTIVE DATE.] This section is effective for taxable  
23 years beginning after December 31, 2004.

24 Sec. 8. Minnesota Statutes 2004, section 298.01,  
25 subdivision 3, is amended to read:

26 Subd. 3. [OCCUPATION TAX; OTHER ORES.] Every person  
27 engaged in the business of mining, refining, or producing ores,  
28 metals, or minerals in this state, except iron ore or taconite  
29 concentrates, shall pay an occupation tax to the state of  
30 Minnesota as provided in this subdivision. For purposes of this  
31 subdivision, mining includes the application of  
32 hydrometallurgical processes. The tax is determined in the same  
33 manner as the tax imposed by section 290.02, except that  
34 sections 290.05, subdivision 1, clause (a), 290.0921, and  
35 290.17, subdivision 4, do not apply. Except as provided in  
36 section 290.05, subdivision 1, paragraph (a), the tax is in

1 addition to all other taxes.

2 [EFFECTIVE DATE.] This section is effective for taxable  
3 years beginning after December 31, 2004.

4 Sec. 9. Minnesota Statutes 2004, section 298.01,  
5 subdivision 3a, is amended to read:

6 Subd. 3a. [GROSS INCOME.] (a) For purposes of determining  
7 a person's taxable income under subdivision 3, gross income is  
8 determined by the amount of gross proceeds from mining in this  
9 state under section 298.016 and includes any gain or loss  
10 recognized from the sale or disposition of assets used in the  
11 business in this state.

12 (b) In applying section 290.191, subdivision 5, transfers  
13 of ores, metals, or minerals that are subject to tax under this  
14 chapter are deemed to be sales outside this state if the ores,  
15 metals, or minerals are transported out of this state for  
16 further processing or refining by the person engaged in mining  
17 after the ores, metals, or minerals have been converted to a  
18 marketable quality.

19 (c) In applying section 290.191, subdivision 5, transfers  
20 of ores, metals, or minerals that are subject to tax under this  
21 chapter are deemed to be sales within this state if the ores,  
22 metals, or minerals are received by a purchaser at a point  
23 within this state, and the taxpayer is taxable in this state,  
24 regardless of the f.o.b. point, or other conditions of the sale,  
25 or the ultimate destination of the property.

26 [EFFECTIVE DATE.] This section is effective for taxable  
27 years beginning after December 31, 2004.

28 Sec. 10. Minnesota Statutes 2004, section 298.01,  
29 subdivision 4, is amended to read:

30 Subd. 4. [OCCUPATION TAX; IRON ORE; TACONITE  
31 CONCENTRATES.] A person engaged in the business of mining or  
32 producing of iron ore, taconite concentrates or direct reduced  
33 ore in this state shall pay an occupation tax to the state of  
34 Minnesota. The tax is determined in the same manner as the tax  
35 imposed by section 290.02, except that sections 290.05,  
36 subdivision 1, clause (a), 290.0921, and 290.17, subdivision 4,

1 do not apply. The tax is in addition to all other taxes.

2 [EFFECTIVE DATE.] This section is effective for taxable  
3 years beginning after December 31, 2004.

4 Sec. 11. Minnesota Statutes 2004, section 298.015,  
5 subdivision 1, is amended to read:

6 Subdivision 1. [TAX IMPOSED.] A person engaged in the  
7 business of mining shall pay to the state of Minnesota for  
8 distribution as provided in section 298.018 a net proceeds tax  
9 equal to ~~two~~ four percent of the net proceeds from mining in  
10 Minnesota. The tax applies to all ~~mineral-and-energy-resources~~  
11 ores, metals, and minerals mined or, extracted, produced, or  
12 refined within the state of Minnesota except for sand, silica  
13 sand, gravel, building stone, crushed rock, limestone, granite,  
14 dimension granite, dimension stone, horticultural peat, clay,  
15 soil, iron ore, and taconite concentrates. Except as provided  
16 in section 272.02, subdivision 68, the tax is in addition to all  
17 other taxes provided for by law.

18 [EFFECTIVE DATE.] This section is effective for taxes  
19 payable in 2006 and thereafter.

20 Sec. 12. Minnesota Statutes 2004, section 298.015,  
21 subdivision 2, is amended to read:

22 Subd. 2. [NET PROCEEDS.] For purposes of this section, the  
23 term "net proceeds" means the gross proceeds from mining, as  
24 defined in section 298.016, less the same deductions allowed in  
25 ~~section-298-017~~ for purposes of determining taxable income under  
26 section 298.01, subdivision 3b. No other credits or deductions  
27 shall apply to this tax ~~except-for-these-provided-in-section~~  
28 ~~298-017.~~

29 [EFFECTIVE DATE.] This section is effective for taxes  
30 payable in 2006 and thereafter.

31 Sec. 13. Minnesota Statutes 2004, section 298.016,  
32 subdivision 4, is amended to read:

33 Subd. 4. [DEFINITIONS.] For the purposes of sections  
34 298.015 and 298.017, the terms defined in this subdivision have  
35 the meaning given them unless the context clearly indicates  
36 otherwise.

1 (a) "Metal or mineral products" means all those ~~mineral-and~~  
2 ~~energy-resources~~ ores, metals, and minerals subject to the tax  
3 provided in section 298.015.

4 (b) "Exploration" means activities designed and engaged in  
5 to ascertain the existence, location, extent, or quality of any  
6 deposit of metal or mineral products prior to the development of  
7 a mining site.

8 (c) "Development" means activities designed and engaged in  
9 to prepare or develop a potential mining site for mining after  
10 the existence of metal or mineral products in commercially  
11 marketable quantities has been disclosed including, but not  
12 limited to, the clearing of forestation, the building of roads,  
13 removal of overburden, or the sinking of shafts.

14 (d) "Research" means activities designed and engaged in to  
15 create new or improved methods of mining, producing, processing,  
16 beneficiating, smelting, or refining metal or mineral products.

17 [EFFECTIVE DATE.] This section is effective for taxable  
18 years beginning after December 31, 2005.

19 Sec. 14. Minnesota Statutes 2004, section 298.018, is  
20 amended to read:

21 298.018 [DISTRIBUTION OF PROCEEDS.]

22 Subdivision 1. ~~[WITHIN THE TACONITE~~ PRECIOUS MINERALS  
23 ASSISTANCE AREA.] The proceeds of the tax paid under sections  
24 298.015 to 298.017 on ores, metals, and minerals and-energy  
25 ~~resources~~ mined or extracted within the ~~taconite~~ precious  
26 minerals assistance area ~~defined-in-section-273-1341,~~ shall be  
27 allocated as follows:

28 (1) five percent to the city or town within which the ores,  
29 metals, or minerals ~~or-energy-resources~~ are mined or extracted;

30 (2) ten percent to the taconite municipal aid account to be  
31 distributed ~~as-provided-in-section-298-282~~ to qualifying  
32 municipalities, as defined in section 298.282 and located in the  
33 precious minerals assistance area;

34 (3) ten percent to the school district within which the  
35 ores, metals, or minerals ~~or-energy-resources~~ are mined or  
36 extracted;

1 (4) ~~20~~ 30 percent to a group of school districts comprised  
 2 of those school districts wherein the mineral or energy resource  
 3 was mined or extracted or in which there is a qualifying  
 4 municipality as defined by section 273.134, paragraph (b), in  
 5 direct proportion to school district indexes as follows:--for  
 6 each school district, its pupil units determined under section  
 7 126C.05 for the prior school year shall be multiplied by the  
 8 ratio of the average adjusted net tax capacity per pupil unit  
 9 for school districts receiving aid under this clause as  
 10 calculated pursuant to chapters 122A, 126C, and 127A for the  
 11 school year ending prior to distribution to the adjusted net tax  
 12 capacity per pupil unit of the district.--Each district shall  
 13 receive that portion of the distribution which its index bears  
 14 to the sum of the indices for all school districts that receive  
 15 the distributions the state general fund to represent the  
 16 portion of the tax that is in lieu of the state general tax  
 17 under section 275.025;

18 (5) 20 percent to the county within which the ores, metals,  
 19 or minerals or energy resources are mined or extracted;

20 (6) ~~20 percent to St. Louis County acting as the counties'~~  
 21 ~~fiscal agent to be distributed as provided in sections 273.134~~  
 22 ~~to 273.136;~~

23 ~~(7)~~ five percent to the Iron Range Resources and  
 24 Rehabilitation Board for the purposes of section 298.22;

25 ~~(8)~~ (7) ten percent to the Douglas J. Johnson economic  
 26 protection trust fund; and

27 ~~(9)~~ (8) ten percent to the taconite environmental  
 28 protection fund.

29 The proceeds of the tax shall be distributed on July 15  
 30 each year.

31 Subd. 2. [OUTSIDE THE ~~TACONITE~~ PRECIOUS MINERALS  
 32 ASSISTANCE AREA.] The proceeds of the tax paid under sections  
 33 298.015 to 298.017 on ores, metals, or minerals and energy  
 34 resources mined or extracted outside of the taconite precious  
 35 minerals assistance area ~~defined in section 273.1341~~, shall be  
 36 deposited in the general fund.



1        Subd. 3. [SEGREGATION OF FUNDS.] The proceeds of the tax  
2 allocated under subdivision 1, clauses (2), (6), (7), and (8),  
3 including any investment earnings on them, must be segregated  
4 and separately accounted for in the respective funds or account  
5 to which they are allocated. These amounts must only be  
6 distributed to municipalities within the precious minerals  
7 assistance area or used for projects located in the precious  
8 minerals assistance area.

9        [EFFECTIVE DATE.] This section is effective for  
10 distribution of net proceeds tax revenues made after July 1,  
11 2005.

12        Sec. 15. [298.021] [ROYALTY TAX.]

13        In addition to any other taxes imposed by law, a tax is  
14 imposed on a royalty, as defined in section 290.923, subdivision  
15 1, paid on ore, other than iron ore, taconite, iron sulphides,  
16 or semitaconite. The tax equals 12 percent of the amount of the  
17 royalty paid. The person paying the royalty shall withhold the  
18 tax from the payment and remit the payment to the commissioner  
19 at the times and under the procedures provided under section  
20 290.923. The commissioner shall deposit proceeds in the general  
21 fund and allocate the proceeds as provided under section  
22 298.018, subdivision 1.

23        [EFFECTIVE DATE.] This section is effective for royalties  
24 paid after June 30, 2005.

25        Sec. 16. Minnesota Statutes 2004, section 298.223,  
26 subdivision 1, is amended to read:

27        Subdivision 1. [CREATION; PURPOSES.] A fund called the  
28 taconite environmental protection fund is created for the  
29 purpose of reclaiming, restoring and enhancing those areas of  
30 northeast Minnesota located within the taconite assistance area  
31 defined in section 273.1341, that are adversely affected by the  
32 environmentally damaging operations involved in mining taconite  
33 and iron ore and producing iron ore concentrate and for the  
34 purpose of promoting the economic development of northeast  
35 Minnesota. The taconite environmental protection fund shall be  
36 used for the following purposes:

1 (a) to initiate investigations into matters the Iron Range  
2 Resources and Rehabilitation Board determines are in need of  
3 study and which will determine the environmental problems  
4 requiring remedial action;

5 (b) reclamation, restoration, or reforestation of minelands  
6 not otherwise provided for by state law;

7 (c) ~~local-economic-development-projects-including~~  
8 ~~construction-of-sewer-and-water-systems,-and-other~~ public works,  
9 including construction of sewer and water systems located within  
10 the taconite assistance area defined in section 273.1341;

11 (d) monitoring of mineral industry related health problems  
12 among mining employees.

13 [EFFECTIVE DATE.] This section is effective the day  
14 following final enactment.

15 Sec. 17. Minnesota Statutes 2004, section 298.24,  
16 subdivision 1, is amended to read:

17 Subdivision 1. (a) For concentrate produced in 2001, 2002,  
18 and 2003, there is imposed upon taconite and iron sulphides, and  
19 upon the mining and quarrying thereof, and upon the production  
20 of iron ore concentrate therefrom, and upon the concentrate so  
21 produced, a tax of \$2.103 per gross ton of merchantable iron ore  
22 concentrate produced therefrom.

23 (b) For concentrates produced in 2004 and subsequent years,  
24 the tax rate shall be equal to the preceding year's tax rate  
25 plus an amount equal to the preceding year's tax rate multiplied  
26 by the percentage increase in the implicit price deflator from  
27 the fourth quarter of the second preceding year to the fourth  
28 quarter of the preceding year. "Implicit price deflator" means  
29 the implicit price deflator for the gross domestic product  
30 prepared by the Bureau of Economic Analysis of the United States  
31 Department of Commerce.

32 (c) On concentrates produced in 1997 and thereafter, an  
33 additional tax is imposed equal to three cents per gross ton of  
34 merchantable iron ore concentrate for each one percent that the  
35 iron content of the product exceeds 72 percent, when dried at  
36 212 degrees Fahrenheit.

1 (d) Except for taxes payable in 2005 through 2007, the tax  
2 shall be imposed on the average of the production for the  
3 current year and the previous two years. The rate of the tax  
4 imposed will be the current year's tax rate. This clause shall  
5 not apply in the case of the closing of a taconite facility if  
6 the property taxes on the facility would be higher if this  
7 clause and section 298.25 were not applicable.

8 (e) If the tax or any part of the tax imposed by this  
9 subdivision is held to be unconstitutional, a tax of \$2.103 per  
10 gross ton of merchantable iron ore concentrate produced shall be  
11 imposed.

12 (f) Consistent with the intent of this subdivision to  
13 impose a tax based upon the weight of merchantable iron ore  
14 concentrate, the commissioner of revenue may indirectly  
15 determine the weight of merchantable iron ore concentrate  
16 included in fluxed pellets by subtracting the weight of the  
17 limestone, dolomite, or olivine derivatives or other basic flux  
18 additives included in the pellets from the weight of the  
19 pellets. For purposes of this paragraph, "fluxed pellets" are  
20 pellets produced in a process in which limestone, dolomite,  
21 olivine, or other basic flux additives are combined with  
22 merchantable iron ore concentrate. No subtraction from the  
23 weight of the pellets shall be allowed for binders, mineral and  
24 chemical additives other than basic flux additives, or moisture.

25 (g) (1) Notwithstanding any other provision of this  
26 subdivision, for any year before the plant reaches the level of  
27 commercial production and for the first two years of a plant's  
28 commercial production of direct reduced ore, no tax is imposed  
29 under this section. As used in this paragraph, "commercial  
30 production" is production of more than 50,000 tons of direct  
31 reduced ore per year, and "direct reduced ore" is ore that  
32 results in a product that has an iron content of at least 75  
33 percent. For the third year of a plant's commercial production  
34 of direct reduced ore, the rate to be applied to direct reduced  
35 ore is 25 percent of the rate otherwise determined under this  
36 subdivision. For the fourth such production year, the rate is

1 50 percent of the rate otherwise determined under this  
2 subdivision; for the fifth such production year, the rate is 75  
3 percent of the rate otherwise determined under this subdivision;  
4 and for all subsequent production years, the full rate is  
5 imposed.

6 (2) Subject to clause (1), production of direct reduced ore  
7 in this state is subject to the tax imposed by this section, but  
8 if that production is not produced by a producer of taconite or  
9 iron sulfides, the production of taconite or iron sulfides  
10 consumed in the production of direct reduced iron in this state  
11 is not subject to the tax imposed by this section on taconite or  
12 iron sulfides.

13 (3) Notwithstanding any other provision of this  
14 subdivision, no tax is imposed under this section for the first  
15 two years of noncommercial production of direct reduced ore.

16 [EFFECTIVE DATE.] This section is effective for direct  
17 reduced ore produced after the date of final enactment.

18 Sec. 18. Minnesota Statutes 2004, section 298.27, is  
19 amended to read:

20 298.27 [COLLECTION AND PAYMENT OF TAX.]

21 The taxes provided by section 298.24 shall be paid directly  
22 to each eligible county and the Iron Range Resources and  
23 Rehabilitation Board. The commissioner of revenue shall notify  
24 each producer of the amount to be paid each recipient prior to  
25 February 15. Every person subject to taxes imposed by section  
26 298.24 shall file a correct report covering the preceding year.  
27 The report must contain the information required by the  
28 commissioner. The report shall be filed by each producer on or  
29 before February 1. A remittance equal to 50 percent of the  
30 total tax required to be paid hereunder shall be paid on or  
31 before February 24. A remittance equal to 20 percent of the  
32 remaining total tax required to be paid hereunder shall be paid  
33 on or before the first days of April, May, June, July, and  
34 August 24. On or before February 25 and August 25, the county  
35 auditor shall make distribution of the payments previously  
36 received by the county in the manner provided by section

1 298.28. Reports shall be made and hearings held upon the  
2 determination of the tax in accordance with procedures  
3 established by the commissioner of revenue. The commissioner of  
4 revenue shall have authority to make reasonable rules as to the  
5 form and manner of filing reports necessary for the  
6 determination of the tax hereunder, and by such rules may  
7 require the production of such information as may be reasonably  
8 necessary or convenient for the determination and apportionment  
9 of the tax. All the provisions of the occupation tax law with  
10 reference to the assessment and determination of the occupation  
11 tax, including all provisions for appeals from or review of the  
12 orders of the commissioner of revenue relative thereto, but not  
13 including provisions for refunds, are applicable to the taxes  
14 imposed by section 298.24 except in so far as inconsistent  
15 herewith. If any person subject to section 298.24 shall fail to  
16 make the report provided for in this section at the time and in  
17 the manner herein provided, the commissioner of revenue shall in  
18 such case, upon information possessed or obtained, ascertain the  
19 kind and amount of ore mined or produced and thereon find and  
20 determine the amount of the tax due from such person. There  
21 shall be added to the amount of tax due a penalty for failure to  
22 report on or before February 1, which penalty shall equal ten  
23 percent of the tax imposed and be treated as a part thereof.

24 If any person responsible for making a tax payment at the  
25 time and in the manner herein provided fails to do so, there  
26 shall be imposed a penalty equal to ten percent of the amount so  
27 due, which penalty shall be treated as part of the tax due.

28 In the case of any underpayment of the tax payment required  
29 herein, there may be added and be treated as part of the tax due  
30 a penalty equal to ten percent of the amount so underpaid.

31 A person having a liability of \$120,000 or more during a  
32 calendar year must remit all liabilities by means of a funds  
33 transfer as defined in section 336.4A-104, paragraph (a). The  
34 funds transfer payment date, as defined in section 336.4A-401,  
35 must be on or before the date the tax is due. If the date the  
36 tax is due is not a funds transfer business day, as defined in

1 section 336.4A-105, paragraph (a), clause (4), the payment date  
2 must be on or before the funds transfer business day next  
3 following the date the tax is due.

4 [EFFECTIVE DATE.] This section is effective for production  
5 payable beginning calendar year 2006.

6 Sec. 19. Minnesota Statutes 2004, section 298.28,  
7 subdivision 9a, is amended to read:

8 Subd. 9a. [~~TACONITE-ECONOMIC-DEVELOPMENT~~ MINERAL  
9 PROCESSING AND ENERGY DEVELOPMENT ASSISTANCE FUND.] (a) 30.1  
10 cents per ton for distributions in ~~2002~~ 2006 and thereafter must  
11 be paid to the ~~taconite-economic-development-fund~~ mineral  
12 processing and energy development assistance fund under section  
13 298.2962. No distribution shall be made under this paragraph in  
14 2004 or any subsequent year in which total industry production  
15 falls below 30 million tons. ~~Distribution shall only be made to~~  
16 ~~a taconite producer's fund under section 298.227 if the producer~~  
17 ~~timely pays its tax under section 298.24 by the dates provided~~  
18 ~~under section 298.277 or pursuant to the due dates provided by~~  
19 ~~an administrative agreement with the commissioner.~~

20 (b) An amount equal to 50 percent of the tax under section  
21 298.24 for concentrate sold in the form of pellet chips and  
22 fines not exceeding 5/16 inch in size and not including crushed  
23 pellets shall be paid to the ~~taconite-economic~~ mineral  
24 processing and energy development assistance fund under section  
25 298.2962. The amount paid shall not exceed \$700,000 annually  
26 for all companies. If the initial amount to be paid to the fund  
27 exceeds this amount, each company's payment shall be prorated so  
28 the total does not exceed \$700,000.

29 [EFFECTIVE DATE.] This section is effective the day  
30 following final enactment.

31 Sec. 20. Minnesota Statutes 2004, section 298.28,  
32 subdivision 9b, is amended to read:

33 Subd. 9b. [TACONITE ENVIRONMENTAL FUND.] Five cents per  
34 ~~ton for distributions in 1999, 2000, 2001, 2002, and 2003~~ must  
35 be paid to the taconite environmental fund for use under section  
36 298.2961, subdivision 4.

1 [EFFECTIVE DATE.] This section is effective for  
2 distributions in 2005 and later years.

3 Sec. 21. Minnesota Statutes 2004, section 298.28,  
4 subdivision 10, is amended to read:

5 Subd. 10. [INCREASE.] Beginning with distributions in 2000  
6 2006, except for the amount of the revenue increases provided in  
7 subdivision 4, paragraph (d), the amount determined-under  
8 subdivision-9-shall-be-increased-in-the-same-proportion-as of  
9 increased tax proceeds attributable to the increase in the  
10 implicit price deflator as provided in section 298.24,  
11 subdivision 1, is distributed to the taconite environmental  
12 protection fund under section 298.223. Beginning-with  
13 distributions-in-2003, the amount determined-under-subdivision  
14 6, paragraph (a), shall-be-increased-in-the-same-proportion-as  
15 the-increase-in-the-implicit-price-deflator-as-provided-in  
16 section-298.24, subdivision-1.

17 Sec. 22. Minnesota Statutes 2004, section 298.2961, is  
18 amended by adding a subdivision to read:

19 Subd. 4. [GRANT AND LOAN FUND.] (a) A fund is established  
20 to receive distributions under section 298.28, subdivision 9b,  
21 and to make grants or loans as provided in this subdivision.  
22 Any grant or loan made under this subdivision must be approved  
23 by a majority of the members of the Iron Range Resources and  
24 Rehabilitation Board, established under section 298.22.

25 (b) Distributions received in calendar year 2005 are  
26 allocated to the city of Virginia for improvements and repairs  
27 to the city's steam heating system.

28 (c) Distributions received in calendar year 2006 are  
29 allocated to a project of the public utilities commissions of  
30 the cities of Hibbing and Virginia to convert their electrical  
31 generating plants to the use of biomass products, such as wood.

32 (d) For distributions received in 2007 and later, amounts  
33 are to be allocated to joint ventures with mining companies for  
34 reclamation of lands containing abandoned or worked out mines to  
35 convert these lands to marketable properties for residential,  
36 recreational, commercial, or other valuable uses.

1           [EFFECTIVE DATE.] This section is effective the day  
2 following final enactment.

3           Sec. 23. [298.2962] [MINERAL PROCESSING AND ENERGY  
4 DEVELOPMENT ASSISTANCE FUND.]

5           Subdivision 1. [CREATION OF FUND; DEPOSITS.] The amount  
6 distributed under section 298.28, subdivision 9a, must be  
7 deposited by the commissioner of iron range resources and  
8 rehabilitation in a mineral processing and energy development  
9 assistance fund, which is created in this section. In this  
10 section, "commissioner" means the commissioner of iron range  
11 resources and rehabilitation.

12           Subd. 2. [USE OF FUND.] The commissioner shall use money  
13 in the fund to make grants, loans, or equity investments in  
14 mineral processing and energy generating facilities including,  
15 but not limited to, taconite processing, direct reduction  
16 processing, steel production, and energy generation facilities.  
17 Money in the fund may also be used to pay for the costs of  
18 carrying out the commissioner's due diligence duties under this  
19 section. Any grant, loan, or equity investment made under this  
20 subdivision must be approved by a majority of the members of the  
21 Iron Range Resources and Rehabilitation Board.

22           Subd. 3. [REQUIREMENTS PRIOR TO COMMITTING FUNDS.] The  
23 commissioner, prior to making a commitment for a grant, loan, or  
24 equity investment must, at a minimum, conduct due diligence  
25 research regarding the proposed loan or equity investment,  
26 including contracting with professionals as needed to assist in  
27 the due diligence.

28           Subd. 4. [REQUIREMENTS FOR FUND DISBURSEMENTS.] The  
29 commissioner may make conditional commitments for grants, loans,  
30 or equity investments but disbursements of funds pursuant to a  
31 commitment may not be made until commitments for the remainder  
32 of a project's funding are made that are satisfactory to the  
33 commissioner and disbursements are made from the other  
34 commitments sufficient to protect the interests of the state in  
35 its loan or investment.

36           Subd. 5. [COMPANY CONTRIBUTION.] The commissioner may



1 provide grants, loans, or equity investments that match, in a  
2 proportion determined by the commissioner, an investment made by  
3 the owner of a facility.

4 Sec. 24. Minnesota Statutes 2004, section 298.75,  
5 subdivision 1, is amended to read:

6 Subdivision 1. [DEFINITIONS.] Except as may otherwise be  
7 provided, the following words, when used in this section, shall  
8 have the meanings herein ascribed to them.

9 (1) "Aggregate material" shall mean nonmetallic natural  
10 mineral aggregate including, but not limited to sand, silica  
11 sand, gravel, crushed rock, limestone, granite, and borrow, but  
12 only if the borrow is transported on a public road, street, or  
13 highway. Aggregate material shall not include dimension stone  
14 and dimension granite. Aggregate material must be measured or  
15 weighed after it has been extracted from the pit, quarry, or  
16 deposit.

17 (2) "Person" shall mean any individual, firm, partnership,  
18 corporation, organization, trustee, association, or other entity.

19 (3) "Operator" shall mean any person engaged in the  
20 business of removing aggregate material from the surface or  
21 subsurface of the soil, for the purpose of sale, either directly  
22 or indirectly, through the use of the aggregate material in a  
23 marketable product or service; except that operator does not  
24 include persons engaged in a transaction in which: (i) the  
25 person is allowed to remove or produce aggregate without a  
26 mining permit; or (ii) the aggregate is moved within a project's  
27 construction limits to other locations within that same  
28 project's construction limits.

29 (4) "Extraction site" shall mean a pit, quarry, or deposit  
30 containing aggregate material and any contiguous property to the  
31 pit, quarry, or deposit which is used by the operator for  
32 stockpiling the aggregate material.

33 (5) "Importer" shall mean any person who buys aggregate  
34 material produced from a county not listed in paragraph (6) or  
35 another state and causes the aggregate material to be imported  
36 into a county in this state which imposes a tax on aggregate

1 material.

2 (6) "County" shall mean the counties of Pope, Stearns,  
3 Benton, Sherburne, Carver, Scott, Dakota, Le Sueur, Kittson,  
4 Marshall, Pennington, Red Lake, Polk, Norman, Mahnomen, Clay,  
5 Becker, Carlton, St. Louis, Rock, Murray, Wilkin, Big Stone,  
6 Sibley, Hennepin, Washington, Chisago, and Ramsey. County also  
7 means any other county whose board has voted after a public  
8 hearing to impose the tax under this section and has notified  
9 the commissioner of revenue of the imposition of the tax.

10 (7) "Borrow" shall mean granular borrow, consisting of  
11 durable particles of gravel and sand, crushed quarry or mine  
12 rock, crushed gravel or stone, or any combination thereof, the  
13 ratio of the portion passing the (#200) sieve divided by the  
14 portion passing the (1 inch) sieve may not exceed 20 percent by  
15 mass.

16 [EFFECTIVE DATE.] This section is effective for aggregate  
17 sold, imported, transported, or used from a stockpile after June  
18 30, 2005.

19 Sec. 25. Minnesota Statutes 2004, section 298.75,  
20 subdivision 2, is amended to read:

21 Subd. 2. [TAX IMPOSED.] A county shall impose upon every  
22 importer and operator a production tax up to ten cents per cubic  
23 yard or up to seven cents per ton of aggregate material removed  
24 except that the county board may decide not to impose this tax  
25 if it determines that in the previous year operators removed  
26 less than 20,000 tons or 14,000 cubic yards of aggregate  
27 material from that county. A county or town may exempt an  
28 operator from the tax if the operator has removed less than  
29 2,500 tons or 1,750 yards from the county in the year that the  
30 tax is due and no other aggregate operator has removed material  
31 from the same site in the same year. The tax shall be imposed  
32 on aggregate material produced in the county when the aggregate  
33 material is transported from the extraction site or sold. When  
34 aggregate material is stored in a stockpile within the state of  
35 Minnesota and a public highway, road or street is not used for  
36 transporting the aggregate material, the tax shall be imposed

1 either when the aggregate material is sold, or when it is  
2 transported from the stockpile site, or when it is used from the  
3 stockpile, whichever occurs first. The tax shall be imposed on  
4 an importer when the aggregate material is imported into the  
5 county that imposes the tax.

6 If the aggregate material is transported directly from the  
7 extraction site to a waterway, railway, or another mode of  
8 transportation other than a highway, road or street, the tax  
9 imposed by this section shall be apportioned equally between the  
10 county where the aggregate material is extracted and the county  
11 to which the aggregate material is originally transported. If  
12 that destination is not located in Minnesota, then the county  
13 where the aggregate material was extracted shall receive all of  
14 the proceeds of the tax.

15 [EFFECTIVE DATE.] This section is effective the day  
16 following final enactment.

17 Sec. 26. [TRANSITION PROVISION.]

18 Each person with an alternative minimum tax credit on  
19 December 31, 2004, pursuant to Minnesota Statutes 2004, section  
20 298.01, may take that credit against occupation tax under the  
21 provisions of Minnesota Statutes 2004, section 298.01,  
22 subdivision 3d or 4e.

23 [EFFECTIVE DATE.] This section is effective the day  
24 following final enactment.

25 Sec. 27. [REPEALER.]

26 (a) Minnesota Statutes 2004, section 298.01, subdivisions  
27 3c, 3d, 4d, and 4e, are repealed effective for taxable years  
28 beginning after December 31, 2004.

29 (b) Minnesota Statutes 2004, section 298.017, is repealed  
30 effective for taxes payable in 2006 and thereafter.

31 (c) Minnesota Statutes 2004, section 298.227, is repealed  
32 July 1, 2005. The commissioner of iron range resources and  
33 rehabilitation must transfer any unobligated money in the  
34 taconite economic development fund on that date to the mineral  
35 processing and energy development assistance fund established  
36 under Minnesota Statutes, section 298.2962.

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## ARTICLE 11

## SALES AND USE TAXES

## DEPARTMENT OF REVENUE TECHNICAL CHANGES

Section 1. Minnesota Statutes 2004, section 289A.38, subdivision 6, is amended to read:

Subd. 6. [OMISSION IN EXCESS OF 25 PERCENT.] Additional taxes may be assessed within 6-1/2 years after the due date of the return or the date the return was filed, whichever is later, if:

(1) the taxpayer omits from gross income an amount properly includable in it that is in excess of 25 percent of the amount of gross income stated in the return;

(2) the taxpayer omits from a sales, use, or withholding tax return an amount of taxes in excess of 25 percent of the taxes reported in the return; or

(3) the taxpayer omits from the gross estate assets in excess of 25 percent of the gross estate reported in the return.

[EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2004, section 289A.40, subdivision 2, is amended to read:

Subd. 2. [BAD DEBT LOSS.] If a claim relates to an overpayment because of a failure to deduct a loss due to a bad debt or to a security becoming worthless, the claim is considered timely if filed within seven years from the date prescribed for the filing of the return. A claim relating to an overpayment of taxes under chapter 297A must be filed within 3-1/2 years from the date prescribed for filing the return, plus any extensions granted for filing the return, but only if filed within the extended time. The refund or credit is limited to the amount of overpayment attributable to the loss. "Bad debt" for purposes of this subdivision, has the same meaning as that term is used in United States Code, title 26, section 166, except that for a claim relating to an overpayment of taxes under chapter 297A the following are excluded from the calculation of bad debt: financing charges or interest; sales

1 or use taxes charged on the purchase price; uncollectible  
2 amounts on property that remain in the possession of the seller  
3 until the full purchase price is paid; expenses incurred in  
4 attempting to collect any debt; and repossessed property.

5 [EFFECTIVE DATE.] For claims relating to an overpayment of  
6 taxes under chapter 297A, this section is effective for sales  
7 and purchases made on or after January 1, 2004; for all other  
8 bad debts or claims, this section is effective on or after July  
9 1, 2003.

10 Sec. 3. Minnesota Statutes 2004, section 297A.668,  
11 subdivision 1, is amended to read:

12 Subdivision 1. [APPLICABILITY.] The provisions of this  
13 section apply regardless of the characterization of a product as  
14 tangible personal property, a digital good, or a service; but do  
15 not apply to telecommunications services, or the sales of motor  
16 vehicles, ~~watercraft, aircraft, modular homes, manufactured~~  
17 ~~homes, or mobile homes.~~ These provisions only apply to  
18 determine a seller's obligation to pay or collect and remit a  
19 sales or use tax with respect to the seller's sale of a  
20 product. These provisions do not affect the obligation of a  
21 seller as purchaser to remit tax on the use of the product.

22 [EFFECTIVE DATE.] This section is effective the day  
23 following final enactment.

24 Sec. 4. Minnesota Statutes 2004, section 297A.668,  
25 subdivision 3, is amended to read:

26 Subd. 3. [LEASE OR RENTAL OF TANGIBLE PERSONAL PROPERTY.]  
27 The lease or rental of tangible personal property, other than  
28 property identified in subdivision 4 or 5, shall be sourced as  
29 required in paragraphs (a) to (c).

30 (a) For a lease or rental that requires recurring periodic  
31 payments, the first periodic payment is sourced the same as a  
32 retail sale in accordance with the provisions of subdivision 2.  
33 Periodic payments made subsequent to the first payment are  
34 sourced to the primary property location for each period covered  
35 by the payment. The primary property location must be as  
36 indicated by an address for the property provided by the lessee

1 that is available to the lessor from its records maintained in  
2 the ordinary course of business, when use of this address does  
3 not constitute bad faith. The property location must not be  
4 altered by intermittent use at different locations, such as use  
5 of business property that accompanies employees on business  
6 trips and service calls.

7 (b) For a lease or rental that does not require recurring  
8 periodic payments, the payment is sourced the same as a retail  
9 sale in accordance with the provisions of subdivision 2.

10 (c) This subdivision does not affect the imposition or  
11 computation of sales or use tax on leases or rentals based on a  
12 lump sum or accelerated basis, or on the acquisition of property  
13 for lease.

14 [EFFECTIVE DATE.] This section is effective for sales and  
15 purchases made on or after January 1, 2004.

16 Sec. 5. Minnesota Statutes 2004, section 297A.668,  
17 subdivision 5, is amended to read:

18 Subd. 5. [TRANSPORTATION EQUIPMENT.] (a) The retail sale,  
19 including lease or rental, of transportation equipment shall be  
20 sourced the same as a retail sale in accordance with the  
21 provisions of subdivision 2, notwithstanding the exclusion of  
22 lease or rental in subdivision 2.

23 (b) "Transportation equipment" means any of the following:

24 (1) locomotives and railcars that are utilized for the  
25 carriage of persons or property in interstate commerce; ~~and/or~~

26 (2) trucks and truck-tractors with a gross vehicle weight  
27 rating (GVWR) of 10,001 pounds or greater, trailers,  
28 semitrailers, or passenger buses that are:

29 (i) registered through the international registration plan;

30 and

31 (ii) operated under authority of a carrier authorized and  
32 certified by the United States Department of Transportation or  
33 another federal authority to engage in the carriage of persons  
34 or property in interstate commerce;

35 (3) aircraft that are operated by air carriers authorized  
36 and certificated by the United States Department of

1 Transportation or another federal or a foreign authority to  
2 engage in the carriage of persons or property in interstate  
3 commerce; or

4 (4) containers designed for use on and component parts  
5 attached or secured on the transportation equipment described in  
6 items (1) through (3).

7 [EFFECTIVE DATE.] This section is effective for sales and  
8 purchases made on or after January 1, 2005.

9 Sec. 6. Minnesota Statutes 2004, section 297A.669,  
10 subdivision 16, is amended to read:

11 Subd. 16. [SERVICE ADDRESS.] "Service address," for  
12 purposes of this section, means:

13 (1) the location of the telecommunications equipment to  
14 which a customer's call is charged and from which the call  
15 originates or terminates, regardless of where the call is billed  
16 or paid;

17 (2) if the location in clause (1) is not known, service  
18 address means the origination point of the signal of the  
19 telecommunications services first identified by either the  
20 seller's telecommunications system or in information received by  
21 the seller from its service provider, where the system used to  
22 transport the signals is not that of the seller; or

23 (3) if the location in clauses (1) and (2) is not known,  
24 the service address means the location of the customer's place  
25 of primary use.

26 [EFFECTIVE DATE.] This section is effective for sales and  
27 purchases made on or after January 1, 2005.

28 Sec. 7. Minnesota Statutes 2004, section 297A.68,  
29 subdivision 2, is amended to read:

30 Subd. 2. [MATERIALS CONSUMED IN INDUSTRIAL PRODUCTION.]

31 (a) Materials stored, used, or consumed in industrial production  
32 of personal property intended to be sold ultimately at retail  
33 are exempt, whether or not the item so used becomes an  
34 ingredient or constituent part of the property produced.

35 Materials that qualify for this exemption include, but are not  
36 limited to, the following:

1 (1) chemicals, including chemicals used for cleaning food  
2 processing machinery and equipment;

3 (2) materials, including chemicals, fuels, and electricity  
4 purchased by persons engaged in industrial production to treat  
5 waste generated as a result of the production process;

6 (3) fuels, electricity, gas, and steam used or consumed in  
7 the production process, except that electricity, gas, or steam  
8 used for space heating, cooling, or lighting is exempt if (i) it  
9 is in excess of the average climate control or lighting for the  
10 production area, and (ii) it is necessary to produce that  
11 particular product;

12 (4) petroleum products and lubricants;

13 (5) packaging materials, including returnable containers  
14 used in packaging food and beverage products;

15 (6) accessory tools, equipment, and other items that are  
16 separate detachable units with an ordinary useful life of less  
17 than 12 months used in producing a direct effect upon the  
18 product; and

19 (7) the following materials, tools, and equipment used in  
20 metalcasting: crucibles, thermocouple protection sheaths and  
21 tubes, stalk tubes, refractory materials, molten metal filters  
22 and filter boxes, degassing lances, and base blocks.

23 (b) This exemption does not include:

24 (1) machinery, equipment, implements, tools, accessories,  
25 appliances, contrivances and furniture and fixtures, except  
26 those listed in paragraph (a), clause (6); and

27 (2) petroleum and special fuels used in producing or  
28 generating power for propelling ready-mixed concrete trucks on  
29 the public highways of this state.

30 (c) Industrial production includes, but is not limited to,  
31 research, development, design or production of any tangible  
32 personal property, manufacturing, processing (other than by  
33 restaurants and consumers) of agricultural products (whether  
34 vegetable or animal), commercial fishing, refining, smelting,  
35 reducing, brewing, distilling, printing, mining, quarrying,  
36 lumbering, generating electricity, the production of road



1 building materials, and the research, development, design, or  
2 production of computer software. Industrial production does not  
3 include painting, cleaning, repairing or similar processing of  
4 property except as part of the original manufacturing process.  
5 Industrial production does not include the furnishing of  
6 services listed in section 297A.61, subdivision 3, paragraph  
7 (g), clause (6), items (i) to (vi) and (viii).

8 [EFFECTIVE DATE.] This section is effective the day  
9 following final enactment.

10 Sec. 8. Minnesota Statutes 2004, section 297A.68,  
11 subdivision 5, is amended to read:

12 Subd. 5. [CAPITAL EQUIPMENT.] (a) Capital equipment is  
13 exempt. The tax must be imposed and collected as if the rate  
14 under section 297A.62, subdivision 1, applied, and then refunded  
15 in the manner provided in section 297A.75.

16 "Capital equipment" means machinery and equipment purchased  
17 or leased, and used in this state by the purchaser or lessee  
18 primarily for manufacturing, fabricating, mining, or refining  
19 tangible personal property to be sold ultimately at retail if  
20 the machinery and equipment are essential to the integrated  
21 production process of manufacturing, fabricating, mining, or  
22 refining. Capital equipment also includes machinery and  
23 equipment used primarily to electronically transmit results  
24 retrieved by a customer of an on-line computerized data  
25 retrieval system.

26 (b) Capital equipment includes, but is not limited to:

27 (1) machinery and equipment used to operate, control, or  
28 regulate the production equipment;

29 (2) machinery and equipment used for research and  
30 development, design, quality control, and testing activities;

31 (3) environmental control devices that are used to maintain  
32 conditions such as temperature, humidity, light, or air pressure  
33 when those conditions are essential to and are part of the  
34 production process;

35 (4) materials and supplies used to construct and install  
36 machinery or equipment;

1 (5) repair and replacement parts, including accessories,  
2 whether purchased as spare parts, repair parts, or as upgrades  
3 or modifications to machinery or equipment;

4 (6) materials used for foundations that support machinery  
5 or equipment;

6 (7) materials used to construct and install special purpose  
7 buildings used in the production process;

8 (8) ready-mixed concrete equipment in which the ready-mixed  
9 concrete is mixed as part of the delivery process regardless if  
10 mounted on a chassis and leases of ready-mixed concrete trucks;  
11 and

12 (9) machinery or equipment used for research, development,  
13 design, or production of computer software.

14 (c) Capital equipment does not include the following:

15 (1) motor vehicles taxed under chapter 297B;

16 (2) machinery or equipment used to receive or store raw  
17 materials;

18 (3) building materials, except for materials included in  
19 paragraph (b), clauses (6) and (7);

20 (4) machinery or equipment used for nonproduction purposes,  
21 including, but not limited to, the following: plant security,  
22 fire prevention, first aid, and hospital stations; support  
23 operations or administration; pollution control; and plant  
24 cleaning, disposal of scrap and waste, plant communications,  
25 space heating, cooling, lighting, or safety;

26 (5) farm machinery and aquaculture production equipment as  
27 defined by section 297A.61, subdivisions 12 and 13;

28 (6) machinery or equipment purchased and installed by a  
29 contractor as part of an improvement to real property; or

30 (7) machinery and equipment used by restaurants in the  
31 furnishing, preparing, or serving of prepared foods as defined  
32 in section 297A.61, subdivision 31;

33 (8) machinery and equipment used to furnish the services  
34 listed in section 297A.61, subdivision 3, paragraph (g), clause  
35 (6), items (i) to (vi) and (viii); or

36 (9) any other item that is not essential to the integrated

1 process of manufacturing, fabricating, mining, or refining.

2 (d) For purposes of this subdivision:

3 (1) "Equipment" means independent devices or tools separate  
4 from machinery but essential to an integrated production  
5 process, including computers and computer software, used in  
6 operating, controlling, or regulating machinery and equipment;  
7 and any subunit or assembly comprising a component of any  
8 machinery or accessory or attachment parts of machinery, such as  
9 tools, dies, jigs, patterns, and molds.

10 (2) "Fabricating" means to make, build, create, produce, or  
11 assemble components or property to work in a new or different  
12 manner.

13 (3) "Integrated production process" means a process or  
14 series of operations through which tangible personal property is  
15 manufactured, fabricated, mined, or refined. For purposes of  
16 this clause, (i) manufacturing begins with the removal of raw  
17 materials from inventory and ends when the last process prior to  
18 loading for shipment has been completed; (ii) fabricating begins  
19 with the removal from storage or inventory of the property to be  
20 assembled, processed, altered, or modified and ends with the  
21 creation or production of the new or changed product; (iii)  
22 mining begins with the removal of overburden from the site of  
23 the ores, minerals, stone, peat deposit, or surface materials  
24 and ends when the last process before stockpiling is completed;  
25 and (iv) refining begins with the removal from inventory or  
26 storage of a natural resource and ends with the conversion of  
27 the item to its completed form.

28 (4) "Machinery" means mechanical, electronic, or electrical  
29 devices, including computers and computer software, that are  
30 purchased or constructed to be used for the activities set forth  
31 in paragraph (a), beginning with the removal of raw materials  
32 from inventory through completion of the product, including  
33 packaging of the product.

34 (5) "Machinery and equipment used for pollution control"  
35 means machinery and equipment used solely to eliminate, prevent,  
36 or reduce pollution resulting from an activity described in

1 paragraph (a).

2 (6) "Manufacturing" means an operation or series of  
3 operations where raw materials are changed in form, composition,  
4 or condition by machinery and equipment and which results in the  
5 production of a new article of tangible personal property. For  
6 purposes of this subdivision, "manufacturing" includes the  
7 generation of electricity or steam to be sold at retail.

8 (7) "Mining" means the extraction of minerals, ores, stone,  
9 or peat.

10 (8) "On-line data retrieval system" means a system whose  
11 cumulation of information is equally available and accessible to  
12 all its customers.

13 (9) "Primarily" means machinery and equipment used 50  
14 percent or more of the time in an activity described in  
15 paragraph (a).

16 (10) "Refining" means the process of converting a natural  
17 resource to an intermediate or finished product, including the  
18 treatment of water to be sold at retail.

19 [EFFECTIVE DATE.] This section is effective the day  
20 following final enactment.

21 Sec. 9. Minnesota Statutes 2004, section 297A.68,  
22 subdivision 39, is amended to read:

23 Subd. 39. [PREEXISTING BIDS OR CONTRACTS.] (a) The sale of  
24 tangible personal property or services is exempt from tax or a  
25 tax rate increase for a period of six months from the effective  
26 date of the law change that results in the imposition of the tax  
27 or the tax rate increase under this chapter if:

28 (1) the act imposing the tax or increasing the tax rate  
29 does not have transitional effective date language for existing  
30 construction contracts and construction bids; and

31 (2) the requirements of paragraph (b) are met.

32 (b) A sale is tax exempt under paragraph (a) if it meets  
33 the requirements of either clause (1) or (2):

34 (1) For a construction contract:

35 (i) the goods or services sold must be used for the  
36 performance of a bona fide written lump sum or fixed price

1 construction contract;

2 (ii) the contract must be entered into before the date the  
3 goods or services become subject to the sales tax or the tax  
4 rate was increased;

5 (iii) the contract must not provide for allocation of  
6 future taxes; and

7 (iv) for each qualifying contract the contractor must give  
8 the seller documentation of the contract on which an exemption  
9 is to be claimed.

10 (2) For a construction bid:

11 (i) the goods or services sold must be used pursuant to an  
12 obligation of a bid or bids;

13 (ii) the bid or bids must be submitted and accepted before  
14 the date the goods or services became subject to the sales  
15 tax or the tax rate was increased;

16 (iii) the bid or bids must not be able to be withdrawn,  
17 modified, or changed without forfeiting a bond; and

18 (iv) for each qualifying bid, the contractor must give the  
19 seller documentation of the bid on which an exemption is to be  
20 claimed.

21 [EFFECTIVE DATE.] This section is effective the day  
22 following final enactment.

23 Sec. 10. [REPEALER.]

24 Minnesota Rules, parts 8130.0110, subpart 4; 8130.0200,  
25 subparts 5 and 6; 8130.0400, subpart 9; 8130.1200, subparts 5  
26 and 6; 8130.2900; 8130.3100, subpart 1; 8130.4000, subparts 1  
27 and 2; 8130.4200, subpart 1; 8130.4400, subpart 3; 8130.5200;  
28 8130.5600, subpart 3; 8130.5800, subpart 5; 8130.7300, subpart  
29 5; and 8130.8800, subpart 4, are repealed.

30 [EFFECTIVE DATE.] This section is effective the day  
31 following final enactment.

32 ARTICLE 12

33 SPECIAL TAXES

34 DEPARTMENT OF REVENUE TECHNICAL CHANGES

35 Section 1. Minnesota Statutes 2004, section 287.04, is  
36 amended to read:

1 287.04 [EXEMPTIONS.]

2 The tax imposed by section 287.035 does not apply to:

3 (a) A decree of marriage dissolution or an instrument made  
4 pursuant to it.

5 (b) A mortgage given to correct a misdescription of the  
6 mortgaged property.

7 (c) A mortgage or other instrument that adds additional  
8 security for the same debt for which mortgage registry tax has  
9 been paid.

10 (d) A contract for the conveyance of any interest in real  
11 property, including a contract for deed.

12 (e) A mortgage secured by real property subject to the  
13 minerals production tax of sections 298.24 to 298.28.

14 (f) The principal amount of a mortgage loan made under a  
15 low and moderate income or other affordable housing program, if  
16 the mortgagee is a federal, state, or local government agency.

17 (g) Mortgages granted by fraternal benefit societies  
18 subject to section 64B.24.

19 (h) A mortgage amendment or extension, as defined in  
20 section 287.01.

21 (i) An agricultural mortgage if the proceeds of the loan  
22 secured by the mortgage are used to acquire or improve real  
23 property classified under section 273.13, subdivision 23,  
24 paragraph (a), or (b), clause (1), (2), or (3).

25 (j) A mortgage on an armory building as set forth in  
26 section 193.147.

27 **[EFFECTIVE DATE.] This section is effective the day**  
28 **following final enactment.**

29 Sec. 2. Minnesota Statutes 2004, section 295.50,  
30 subdivision 4, is amended to read:

31 Subd. 4. [HEALTH CARE PROVIDER.] (a) "Health care  
32 provider" means:

33 (1) a person whose health care occupation is regulated or  
34 required to be regulated by the state of Minnesota furnishing  
35 any or all of the following goods or services directly to a  
36 patient or consumer: medical, surgical, optical, visual,

1 dental, hearing, nursing services, drugs, laboratory, diagnostic  
2 or therapeutic services;

3 (2) a person who provides goods and services not listed in  
4 clause (1) that qualify for reimbursement under the medical  
5 assistance program provided under chapter 256B;

6 (3) a staff model health plan company;

7 (4) an ambulance service required to be licensed; or

8 (5) a person who sells or repairs hearing aids and related  
9 equipment or prescription eyewear.

10 (b) Health care provider does not include:

11 (1) hospitals; medical supplies distributors, except as  
12 specified under paragraph (a), clause (5); nursing homes  
13 licensed under chapter 144A or licensed in any other  
14 jurisdiction; pharmacies; surgical centers; bus and taxicab  
15 transportation, or any other providers of transportation  
16 services other than ambulance services required to be licensed;  
17 supervised living facilities for persons with mental retardation  
18 or related conditions, licensed under Minnesota Rules, parts  
19 4665.0100 to 4665.9900; ~~residential-care-homes-licensed-under~~  
20 ~~chapter-144B~~ housing with services establishments required to be  
21 registered under chapter 144D; board and lodging establishments  
22 providing only custodial services that are licensed under  
23 chapter 157 and registered under section 157.17 to provide  
24 supportive services or health supervision services; adult foster  
25 homes as defined in Minnesota Rules, part 9555.5105; day  
26 training and habilitation services for adults with mental  
27 retardation and related conditions as defined in section 252.41,  
28 subdivision 3; boarding care homes, as defined in Minnesota  
29 Rules, part 4655.0100; and adult day care centers as defined in  
30 Minnesota Rules, part 9555.9600;

31 (2) home health agencies as defined in Minnesota Rules,  
32 part 9505.0175, subpart 15; a person providing personal care  
33 services and supervision of personal care services as defined in  
34 Minnesota Rules, part 9505.0335; a person providing private duty  
35 nursing services as defined in Minnesota Rules, part 9505.0360;  
36 and home care providers required to be licensed under chapter

1 144A;

2 (3) a person who employs health care providers solely for  
3 the purpose of providing patient services to its employees; and

4 (4) an educational institution that employs health care  
5 providers solely for the purpose of providing patient services  
6 to its students if the institution does not receive fee for  
7 service payments or payments for extended coverage.

8 [EFFECTIVE DATE.] This section is effective the day  
9 following final enactment.

10 Sec. 3. Minnesota Statutes 2004, section 296A.22, is  
11 amended by adding a subdivision to read:

12 Subd. 9. [ABATEMENT OF PENALTY.] (a) The commissioner may  
13 by written order abate any penalty imposed under this section,  
14 if in the commissioner's opinion there is reasonable cause to do  
15 so.

16 (b) A request for abatement of penalty must be filed with  
17 the commissioner within 60 days of the date the notice stating  
18 that a penalty has been imposed was mailed to the taxpayer's  
19 last known address.

20 (c) If the commissioner issues an order denying a request  
21 for abatement of penalty, the taxpayer may file an  
22 administrative appeal as provided in section 296A.25 or appeal  
23 to the Tax Court as provided in section 271.06. If the  
24 commissioner does not issue an order on the abatement request  
25 within 60 days from the date the request is received, the  
26 taxpayer may appeal to the Tax Court as provided in section  
27 271.06.

28 [EFFECTIVE DATE.] This section is effective for penalties  
29 imposed on or after the day following final enactment.

30 Sec. 4. Minnesota Statutes 2004, section 297F.08,  
31 subdivision 12, is amended to read:

32 Subd. 12. [CIGARETTES IN INTERSTATE COMMERCE.] (a) A  
33 person may not transport or cause to be transported from this  
34 state cigarettes for sale in another state without first  
35 affixing to the cigarettes the stamp required by the state in  
36 which the cigarettes are to be sold or paying any other excise



1 tax on the cigarettes imposed by the state in which the  
2 cigarettes are to be sold.

3 (b) A person may not affix to cigarettes the stamp required  
4 by another state or pay any other excise tax on the cigarettes  
5 imposed by another state if the other state prohibits stamps  
6 from being affixed to the cigarettes, prohibits the payment of  
7 any other excise tax on the cigarettes, or prohibits the sale of  
8 the cigarettes.

9 (c) Not later than 15 days after the end of each calendar  
10 quarter, a person who transports or causes to be transported  
11 from this state cigarettes for sale in another state shall  
12 submit to the commissioner a report identifying the quantity and  
13 style of each brand of the cigarettes transported or caused to  
14 be transported in the preceding calendar quarter, and the name  
15 and address of each recipient of the cigarettes. This reporting  
16 requirement only relates to cigarettes manufactured by companies  
17 that are not original or subsequent participating manufacturers  
18 in the Master Settlement Agreement with other states.

19 (d) For purposes of this section, "person" has the meaning  
20 given in section 297F.01, subdivision 12. Person does not  
21 include any common or contract carrier, or public warehouse that  
22 is not owned, in whole or in part, directly or indirectly by  
23 such person, and does not include a manufacturer that has  
24 entered-into is an original or subsequent participating  
25 manufacturer in the Master Settlement Agreement with other  
26 states.

27 [EFFECTIVE DATE.] This section is effective the day  
28 following final enactment.

29 Sec. 5. Minnesota Statutes 2004, section 297F.09,  
30 subdivision 1, is amended to read:

31 Subdivision 1. [MONTHLY RETURN; CIGARETTE DISTRIBUTOR.] On  
32 or before the 18th day of each calendar month, a distributor  
33 with a place of business in this state shall file a return with  
34 the commissioner showing the quantity of cigarettes manufactured  
35 or brought in from outside the state or purchased during the  
36 preceding calendar month and the quantity of cigarettes sold or

1 otherwise disposed of in this state and outside this state  
2 during that month. A licensed distributor outside this state  
3 shall in like manner file a return showing the quantity of  
4 cigarettes shipped or transported into this state during the  
5 preceding calendar month. Returns must be made in the form and  
6 manner prescribed by the commissioner and must contain any other  
7 information required by the commissioner. The return must be  
8 accompanied by a remittance for the full unpaid tax liability  
9 shown by it. ~~The return for the May liability and 85 percent of~~  
10 ~~the estimated June liability is due on the date payment of the~~  
11 ~~tax is due.~~ For distributors subject to the accelerated tax  
12 payment requirements in subdivision 10, the return for the May  
13 liability is due two business days before June 30th of the year  
14 and the return for the June liability is due on or before August  
15 18th of the year.

16 [EFFECTIVE DATE.] This section is effective the day  
17 following final enactment.

18 Sec. 6. Minnesota Statutes 2004, section 297F.09,  
19 subdivision 2, is amended to read:

20 Subd. 2. [MONTHLY RETURN; TOBACCO PRODUCTS DISTRIBUTOR.]  
21 On or before the 18th day of each calendar month, a distributor  
22 with a place of business in this state shall file a return with  
23 the commissioner showing the quantity and wholesale sales price  
24 of each tobacco product:

25 (1) brought, or caused to be brought, into this state for  
26 sale; and

27 (2) made, manufactured, or fabricated in this state for  
28 sale in this state, during the preceding calendar month.

29 Every licensed distributor outside this state shall in like  
30 manner file a return showing the quantity and wholesale sales  
31 price of each tobacco product shipped or transported to  
32 retailers in this state to be sold by those retailers, during  
33 the preceding calendar month. Returns must be made in the form  
34 and manner prescribed by the commissioner and must contain any  
35 other information required by the commissioner. The return must  
36 be accompanied by a remittance for the full tax liability

1 shown. ~~The return for the May liability and 85 percent of the~~  
2 ~~estimated June liability is due on the date payment of the tax~~  
3 ~~is due.~~ For distributors subject to the accelerated tax payment  
4 requirements in subdivision 10, the return for the May liability  
5 is due two business days before June 30th of the year and the  
6 return for the June liability is due on or before August 18th of  
7 the year.

8 [EFFECTIVE DATE.] This section is effective the day  
9 following final enactment.

10 Sec. 7. Minnesota Statutes 2004, section 297I.01, is  
11 amended by adding a subdivision to read:

12 Subd. 13a. [REINSURANCE.] "Reinsurance" is insurance  
13 whereby an insurance company, for a consideration, agrees to  
14 indemnify another insurance company against all or part of the  
15 loss which the latter may sustain under the policy or policies  
16 which it has issued.

17 [EFFECTIVE DATE.] This section is effective the day  
18 following final enactment.

19 Sec. 8. Minnesota Statutes 2004, section 297I.05,  
20 subdivision 5, is amended to read:

21 Subd. 5. [HEALTH MAINTENANCE ORGANIZATIONS, NONPROFIT  
22 HEALTH SERVICE PLAN CORPORATIONS, AND COMMUNITY INTEGRATED  
23 SERVICE NETWORKS.] (a) Health maintenance organizations,  
24 community integrated service networks, and nonprofit health care  
25 service plan corporations are exempt from the tax imposed under  
26 this section for premiums received in calendar years 2001 to  
27 2003.

28 (b) For calendar years after 2003, a tax is imposed on  
29 health maintenance organizations, community integrated service  
30 networks, and nonprofit health care service plan corporations.  
31 The rate of tax is equal to one percent of gross premiums less  
32 return premiums on all direct business received by the  
33 organization, network, or corporation or its agents in  
34 Minnesota, in cash or otherwise, in the calendar year.

35 (c) In approving the premium rates as required in sections  
36 62L.08, subdivision 8, and 62A.65, subdivision 3, the

1 commissioners of health and commerce shall ensure that any  
2 exemption from tax as described in paragraph (a) is reflected in  
3 the premium rate.

4 (d) The commissioner shall deposit all revenues, including  
5 penalties and interest, collected under this chapter from health  
6 maintenance organizations, community integrated service  
7 networks, and nonprofit health service plan corporations in the  
8 health care access fund. Refunds of overpayments of tax imposed  
9 by this subdivision must be paid from the health care access  
10 fund. There is annually appropriated from the health care  
11 access fund to the commissioner the amount necessary to make any  
12 refunds of the tax imposed under this subdivision.

13 [EFFECTIVE DATE.] This section is effective January 1, 2005.

14 Sec. 9. [REPEALER.]

15 Minnesota Statutes 2004, section 297E.12, subdivision 10,  
16 is repealed effective the day following final enactment.

17 ARTICLE 13

18 PROPERTY TAXES AND AIDS

19 DEPARTMENT OF REVENUE TECHNICAL PROVISIONS

20 Section 1. Minnesota Statutes 2004, section 168A.05,  
21 subdivision 1a, is amended to read:

22 Subd. 1a. [MANUFACTURED HOME; STATEMENT OF PROPERTY TAX  
23 PAYMENT.] In the case of a manufactured home as defined in  
24 section 327.31, subdivision 6, the department shall not issue a  
25 certificate of title unless the application under section  
26 168A.04 is accompanied with a statement from the county auditor  
27 or county treasurer where the manufactured home is presently  
28 located, stating that all manufactured home personal property  
29 taxes levied on the unit in the name of the current owner at the  
30 time of transfer have been paid. For this purpose, manufactured  
31 home personal property taxes are treated as levied on January 1  
32 of the payable year.

33 [EFFECTIVE DATE.] This section is effective the day  
34 following final enactment.

35 Sec. 2. Minnesota Statutes 2004, section 272.01,  
36 subdivision 2, is amended to read:

1 Subd. 2. (a) When any real or personal property which is  
2 exempt from ad valorem taxes, and taxes in lieu thereof, is  
3 leased, loaned, or otherwise made available and used by a  
4 private individual, association, or corporation in connection  
5 with a business conducted for profit, there shall be imposed a  
6 tax, for the privilege of so using or possessing such real or  
7 personal property, in the same amount and to the same extent as  
8 though the lessee or user was the owner of such property.

9 (b) The tax imposed by this subdivision shall not apply to:

10 (1) property leased or used as a concession in or relative  
11 to the use in whole or part of a public park, market,  
12 fairgrounds, port authority, economic development authority  
13 established under chapter 469, municipal auditorium, municipal  
14 parking facility, municipal museum, or municipal stadium;

15 (2) property of an airport owned by a city, town, county,  
16 or group thereof which is:

17 (i) leased to or used by any person or entity including a  
18 fixed base operator; and

19 (ii) used as a hangar for the storage or repair of aircraft  
20 or to provide aviation goods, services, or facilities to the  
21 airport or general public;

22 the exception from taxation provided in this clause does not  
23 apply to:

24 (i) property located at an airport owned or operated by the  
25 Metropolitan Airports Commission or by a city of over 50,000  
26 population according to the most recent federal census or such a  
27 city's airport authority;

28 (ii) hangars leased by a private individual, association,  
29 or corporation in connection with a business conducted for  
30 profit other than an aviation-related business; or

31 (iii) facilities leased by a private individual,  
32 association, or corporation in connection with a business for  
33 profit, that consists of a major jet engine repair facility  
34 financed, in whole or part, with the proceeds of state bonds and  
35 located in a tax increment financing district;

36 (3) property constituting or used as a public pedestrian

1 ramp or concourse in connection with a public airport; ~~or~~

2 (4) property constituting or used as a passenger check-in  
3 area or ticket sale counter, boarding area, or luggage claim  
4 area in connection with a public airport but not the airports  
5 owned or operated by the Metropolitan Airports Commission or  
6 cities of over 50,000 population or an airport authority  
7 therein. Real estate owned by a municipality in connection with  
8 the operation of a public airport and leased or used for  
9 agricultural purposes is not exempt;

10 (5) property leased, loaned, or otherwise made available to  
11 a private individual, corporation, or association under a  
12 cooperative farming agreement made pursuant to section 97A.135;  
13 or

14 (6) property leased, loaned, or otherwise made available to  
15 a private individual, corporation, or association under section  
16 272.68, subdivision 4.

17 (c) Taxes imposed by this subdivision are payable as in the  
18 case of personal property taxes and shall be assessed to the  
19 lessees or users of real or personal property in the same manner  
20 as taxes assessed to owners of real or personal property, except  
21 that such taxes shall not become a lien against the property.  
22 When due, the taxes shall constitute a debt due from the lessee  
23 or user to the state, township, city, county, and school  
24 district for which the taxes were assessed and shall be  
25 collected in the same manner as personal property taxes. If  
26 property subject to the tax imposed by this subdivision is  
27 leased or used jointly by two or more persons, each lessee or  
28 user shall be jointly and severally liable for payment of the  
29 tax.

30 (d) The tax on real property of the state or any of its  
31 political subdivisions that is leased by a private individual,  
32 association, or corporation and becomes taxable under this  
33 subdivision or other provision of law must be assessed and  
34 collected as a personal property assessment. The taxes do not  
35 become a lien against the real property.

36 [EFFECTIVE DATE.] This section is effective the day

1 following final enactment.

2 Sec. 3. Minnesota Statutes 2004, section 272.02,  
3 subdivision 1a, is amended to read:

4 Subd. 1a. [LIMITATIONS ON EXEMPTIONS.] The exemptions  
5 granted by subdivision 1 are subject to the limits contained in  
6 the other subdivisions of this section, section 272.025, ~~or~~  
7 ~~273.137, subdivision 25, paragraph (e), clause (1) or (2), or~~  
8 ~~paragraph (d), clause (2)~~ and all other provisions of applicable  
9 law.

10 [EFFECTIVE DATE.] This section is effective the day  
11 following final enactment.

12 Sec. 4. Minnesota Statutes 2004, section 272.02,  
13 subdivision 7, is amended to read:

14 Subd. 7. [INSTITUTIONS OF PUBLIC CHARITY.] Institutions of  
15 purely public charity are exempt ~~except parcels of property~~  
16 ~~containing structures and the structures described in section~~  
17 ~~273.137, subdivision 25, paragraph (e), other than those that~~  
18 ~~qualify for exemption under subdivision 26.~~ In determining  
19 whether rental housing property qualifies for exemption under  
20 this subdivision, the following are not gifts or donations to  
21 the owner of the rental housing:

22 (1) rent assistance provided by the government to or on  
23 behalf of tenants, and

24 (2) financing assistance or tax credits provided by the  
25 government to the owner on condition that specific units or a  
26 specific quantity of units be set aside for persons or families  
27 with certain income characteristics.

28 [EFFECTIVE DATE.] This section is effective for taxes  
29 payable in 2005 and thereafter.

30 Sec. 5. Minnesota Statutes 2004, section 272.02, is  
31 amended by adding a subdivision to read:

32 Subd. 68. [PROPERTY SUBJECT TO TACONITE PRODUCTION TAX OR  
33 NET PROCEEDS TAX.] (a) Except for mineral interests taxed under  
34 section 273.165, and except for lands taxed under section  
35 298.26, real and personal property described in section 298.25  
36 is exempt to the extent the tax on taconite and iron sulphides

1 under section 298.24 is described in section 298.25 as being in  
2 lieu of other taxes on such property. This exemption applies  
3 for taxes payable in each year that the tax under section 298.24  
4 is payable with respect to such property.

5 (b) Except for mineral interests taxed under section  
6 273.165, deposits of mineral, metal, or energy resources the  
7 mining of which is subject to taxation under section 298.015 are  
8 exempt. This exemption applies for taxes payable in each year  
9 that the tax under section 298.015 is payable with respect to  
10 such property.

11 [EFFECTIVE DATE.] This section is effective the day  
12 following final enactment.

13 Sec. 6. Minnesota Statutes 2004, section 272.02, is  
14 amended by adding a subdivision to read:

15 Subd. 69. [RELIGIOUS CORPORATIONS.] Personal and real  
16 property that a religious corporation, formed under section  
17 317A.909, necessarily uses for a religious purpose is exempt to  
18 the extent provided in section 317A.909, subdivision 3.

19 [EFFECTIVE DATE.] This section is effective the day  
20 following final enactment.

21 Sec. 7. Minnesota Statutes 2004, section 272.02, is  
22 amended by adding a subdivision to read:

23 Subd. 70. [CHILDREN'S HOMES.] Personal and real property  
24 owned by a corporation formed under section 317A.907 is exempt  
25 to the extent provided in section 317A.907, subdivision 7.

26 [EFFECTIVE DATE.] This section is effective the day  
27 following final enactment.

28 Sec. 8. Minnesota Statutes 2004, section 272.02, is  
29 amended by adding a subdivision to read:

30 Subd. 71. [HOUSING AND REDEVELOPMENT AUTHORITY AND TRIBAL  
31 HOUSING AUTHORITY PROPERTY.] Property owned by a housing and  
32 redevelopment authority described in chapter 469, or by a  
33 designated housing authority described in section 469.040,  
34 subdivision 5, is exempt to the extent provided in chapter 469.

35 [EFFECTIVE DATE.] This section is effective the day  
36 following final enactment.



1           Sec. 9. Minnesota Statutes 2004, section 273.124,  
2 subdivision 8, is amended to read:

3           Subd. 8. [HOMESTEAD OWNED BY OR LEASED TO FAMILY FARM  
4 CORPORATION, JOINT FARM VENTURE, LIMITED LIABILITY COMPANY, OR  
5 PARTNERSHIP.] (a) Each family farm corporation~~7-each~~; each joint  
6 family farm venture~~7~~; and each limited liability company~~7-and~~  
7 each or partnership operating which operates a family farm; is  
8 entitled to class 1b under section 273.13, subdivision 22,  
9 paragraph (b), or class 2a assessment for one homestead occupied  
10 by a shareholder, member, or partner thereof who is residing on  
11 the land, and actively engaged in farming of the land owned by  
12 the family farm corporation, joint family farm venture, limited  
13 liability company, or partnership ~~operating-a-family-farm~~.  
14 Homestead treatment applies even if legal title to the property  
15 is in the name of the family farm corporation, joint family farm  
16 venture, limited liability company, or partnership ~~operating-the~~  
17 ~~family-farm~~, and not in the name of the person residing on it.

18           "Family farm corporation," "family farm," and "partnership  
19 operating a family farm" have the meanings given in section  
20 500.24, except that the number of allowable shareholders,  
21 members, or partners under this subdivision shall not exceed  
22 12. "Limited liability company" has the meaning contained in  
23 sections 322B.03, subdivision 28, and 500.24, subdivision 2,  
24 paragraphs (l) and (m). "Joint family farm venture" means a  
25 cooperative agreement among two or more farm enterprises  
26 authorized to operate a family farm under section 500.24.

27           (b) In addition to property specified in paragraph (a), any  
28 other residences owned by family farm corporations, joint family  
29 farm ventures, limited liability companies, or partnerships  
30 ~~operating-a-family-farm~~ described in paragraph (a) which are  
31 located on agricultural land and occupied as homesteads by its  
32 shareholders, members, or partners who are actively engaged in  
33 farming on behalf of that corporation, joint farm venture,  
34 limited liability company, or partnership must also be assessed  
35 as class 2a property or as class 1b property under section  
36 273.13.

1 (c) Agricultural property that is owned by a member,  
2 partner, or shareholder of a family farm corporation or joint  
3 family farm venture, limited liability company operating a  
4 family farm, or by a partnership operating a family farm and  
5 leased to the family farm corporation, limited liability  
6 company, ~~or partnership operating-a-family-farm~~, or joint farm  
7 venture, as defined in paragraph (a), is eligible for  
8 classification as class 1b or class 2a under section 273.13, if  
9 the owner is actually residing on the property, and is actually  
10 engaged in farming the land on behalf of that corporation, joint  
11 farm venture, limited liability company, or partnership. This  
12 paragraph applies without regard to any legal possession rights  
13 of the family farm corporation, joint family farm venture,  
14 limited liability company, or partnership ~~operating-a-family~~  
15 ~~farm~~ under the lease.

16 **[EFFECTIVE DATE.]** This section is effective the day  
17 following final enactment.

18 Sec. 10. Minnesota Statutes 2004, section 273.19,  
19 subdivision 1a, is amended to read:

20 Subd. 1a. For purposes of this section, a lease includes  
21 any agreement, except a cooperative farming agreement pursuant  
22 to section 97A.135, subdivision 3, or a lease executed pursuant  
23 to section 272.68, subdivision 4, permitting a nonexempt person  
24 or entity to use the property, regardless of whether the  
25 agreement is characterized as a lease. A lease has a "term of  
26 at least one year" if the term is for a period of less than one  
27 year and the lease permits the parties to renew the lease  
28 without requiring that similar terms for leasing the property  
29 will be offered to other applicants or bidders through a  
30 competitive bidding or other form of offer to potential lessees  
31 or users.

32 **[EFFECTIVE DATE.]** This section is effective the day  
33 following final enactment.

34 Sec. 11. Minnesota Statutes 2004, section 274.014,  
35 subdivision 3, is amended to read:

36 Subd. 3. **[PROOF OF COMPLIANCE; TRANSFER OF DUTIES.]** Any

1 city or town that does not provide proof to the county assessor  
 2 by December 1, 2006, and each year thereafter, that it is in  
 3 compliance with the requirements of subdivision 2, and that it  
 4 had a quorum at each meeting of the board of appeal and  
 5 equalization in the ~~prior~~ current year, is deemed to have  
 6 transferred its board of appeal and equalization powers to the  
 7 county under section 274.01, subdivision 3, for the following  
 8 year's assessment.

9 The county shall notify the taxpayers when the board of  
 10 appeal and equalization for a city or town has been transferred  
 11 to the county under this subdivision and, prior to the meeting  
 12 time of the county board of equalization, the county shall make  
 13 available to those taxpayers a procedure for a review of the  
 14 assessments, including, but not limited to, open book meetings.  
 15 This alternate review process shall take place in April and May.

16 A local board whose powers are transferred to the county  
 17 under this subdivision may be reinstated by resolution of the  
 18 governing body of the city or town and upon proof of compliance  
 19 with the requirements of subdivision 2. The resolution and  
 20 proofs must be provided to the county assessor by December 1 in  
 21 order to be effective for the following year's assessment.

22 [EFFECTIVE DATE.] This section is effective the day  
 23 following final enactment.

24 Sec. 12. Minnesota Statutes 2004, section 274.14, is  
 25 amended to read:

26 274.14 [LENGTH OF SESSION; RECORD.]

27 ~~The county board of equalization or the special board of~~  
 28 ~~equalization appointed by it shall meet during the last ten~~  
 29 ~~meeting days in June. For this purpose, "meeting days" are~~  
 30 ~~defined as any day of the week excluding Saturday and Sunday.~~

31 The board may meet on any ten consecutive meeting days in June,  
 32 after the second Friday in June, ~~if~~. The actual meeting dates  
 33 ~~are~~ must be contained on the valuation notices mailed to each  
 34 property owner in the county ~~under~~ as provided in section  
 35 273.121. For this purpose, "meeting days" is defined as any day  
 36 of the week excluding Saturday and Sunday. No action taken by

1 the county board of review after June 30 is valid, except for  
2 corrections permitted in sections 273.01 and 274.01. The county  
3 auditor shall keep an accurate record of the proceedings and  
4 orders of the board. The record must be published like other  
5 proceedings of county commissioners. A copy of the published  
6 record must be sent to the commissioner of revenue, with the  
7 abstract of assessment required by section 274.16.

8 [EFFECTIVE DATE.] This section is effective the day  
9 following final enactment.

10 Sec. 13. Minnesota Statutes 2004, section 275.065,  
11 subdivision 1a, is amended to read:

12 Subd. 1a. [OVERLAPPING JURISDICTIONS.] In the case of a  
13 taxing authority lying in two or more counties, the home county  
14 auditor shall certify the proposed levy and the proposed local  
15 tax rate to the other county auditor by ~~September-20~~ October 5.  
16 The home county auditor must estimate the levy or rate in  
17 preparing the notices required in subdivision 3, if the other  
18 county has not certified the appropriate information. If  
19 requested by the home county auditor, the other county auditor  
20 must furnish an estimate to the home county auditor.

21 [EFFECTIVE DATE.] This section is effective the day  
22 following final enactment.

23 Sec. 14. Minnesota Statutes 2004, section 275.07,  
24 subdivision 1, is amended to read:

25 Subdivision 1. [CERTIFICATION OF LEVY.] (a) Except as  
26 provided under paragraph (b), the taxes voted by cities,  
27 counties, school districts, and special districts shall be  
28 certified by the proper authorities to the county auditor on or  
29 before five working days after December 20 in each year. A town  
30 must certify the levy adopted by the town board to the county  
31 auditor by September 15 each year. If the town board modifies  
32 the levy at a special town meeting after September 15, the town  
33 board must recertify its levy to the county auditor on or before  
34 five working days after December 20. The taxes certified shall  
35 be reduced by the county auditor by the aid received under  
36 section 273.1398, subdivision 3. If a city, town, county,

1 school district, or special district fails to certify its levy  
2 by that date, its levy shall be the amount levied by it for the  
3 preceding year.

4 (b) (i) The taxes voted by counties under sections 103B.241,  
5 103B.245, and 103B.251 shall be separately certified by the  
6 county to the county auditor on or before five working days  
7 after December 20 in each year. ~~The taxes certified shall not~~  
8 ~~be reduced by the county auditor by the aid received under~~  
9 ~~section 273.1398, subdivision 3.~~ If a county fails to certify  
10 its levy by that date, its levy shall be the amount levied by it  
11 for the preceding year.

12 (ii) For purposes of the proposed property tax notice under  
13 section 275.065 and the property tax statement under section  
14 276.04, for the first year in which the county implements the  
15 provisions of this paragraph, the county auditor shall reduce  
16 the county's levy for the preceding year to reflect any amount  
17 levied for water management purposes under clause (i) included  
18 in the county's levy.

19 **[EFFECTIVE DATE.]** This section is effective the day  
20 following final enactment.

21 Sec. 15. Minnesota Statutes 2004, section 275.07,  
22 subdivision 4, is amended to read:

23 Subd. 4. **[REPORT TO COMMISSIONER.]** (a) On or before  
24 October 8 of each year, the county auditor shall report to the  
25 commissioner of revenue the proposed levy certified by local  
26 units of government under section 275.065, subdivision 1. If  
27 any taxing authorities have notified the county auditor that  
28 they are in the process of negotiating an agreement for sharing,  
29 merging, or consolidating services but that when the proposed  
30 levy was certified under section 275.065, subdivision 1c, the  
31 agreement was not yet finalized, the county auditor shall supply  
32 that information to the commissioner when filing the report  
33 under this section and shall recertify the affected levies as  
34 soon as practical after October 10.

35 (b) On or before January 15 of each year, the county  
36 auditor shall report to the commissioner of revenue the final

1 levy certified by local units of government under subdivision 1.

2 (c) The levies must be reported in the manner prescribed by  
3 the commissioner. ~~The reports must show a total levy and the~~  
4 ~~amount of each special levy.~~

5 [EFFECTIVE DATE.] This section is effective the day  
6 following final enactment.

7 Sec. 16. Minnesota Statutes 2004, section 276.112, is  
8 amended to read:

9 276.112 [STATE PROPERTY TAXES; COUNTY TREASURER.]

10 On or before January 25 each year, for the period ending  
11 December 31 of the prior year, and on or before two business  
12 days before June 29 30 each year, for the period ending on the  
13 most recent settlement day determined in section 276.09, and on  
14 or before December 2 each year, for the period ending November  
15 20, the county treasurer must make full settlement with the  
16 county auditor according to sections 276.09, 276.10, and 276.111  
17 for all receipts of state property taxes levied under section  
18 275.025, and must transmit those receipts to the commissioner of  
19 revenue by electronic means.

20 [EFFECTIVE DATE.] This section is effective the day  
21 following final enactment.

22 Sec. 17. Minnesota Statutes 2004, section 282.016, is  
23 amended to read:

24 282.016 [PROHIBITED PURCHASERS.]

25 ~~No~~ (a) A county auditor, county treasurer, court  
26 administrator of the district court, ~~or~~ county assessor ~~or~~,  
27 supervisor of assessments, ~~or~~ deputy or clerk or an employee of  
28 such officer, ~~and no~~ a commissioner for tax-forfeited lands or  
29 an assistant to such commissioner ~~may~~, must not become a  
30 purchaser, either personally or as an agent or attorney for  
31 another person, of the properties offered for sale under the  
32 provisions of this chapter, ~~either personally, or as agent or~~  
33 ~~attorney for any other person, except that~~ in the county for  
34 which the person performs duties.

35 (b) Notwithstanding paragraph (a), such officer, deputy,  
36 ~~court administrator~~ clerk, or employee or commissioner for

1 tax-forfeited lands or assistant to such commissioner may (1)  
2 purchase lands owned by that official at the time the state  
3 became the absolute owner thereof or (2) bid upon and purchase  
4 forfeited property offered for sale under the alternate sale  
5 procedure described in section 282.01, subdivision 7a.

6 [EFFECTIVE DATE.] This section is effective the day  
7 following final enactment.

8 Sec. 18. Minnesota Statutes 2004, section 282.21, is  
9 amended to read:

10 282.21 [FORM OF CONVEYANCE.]

11 When any sale has been made under sections 282.14 to  
12 282.22, upon payment in full of the purchase price, appropriate  
13 conveyance in fee in such form as may be prescribed by the  
14 attorney general shall be issued by the commissioner of finance  
15 to the purchaser or the purchaser's assigns and this conveyance  
16 shall have the force and effect of a patent from the state.

17 [EFFECTIVE DATE.] This section is effective the day  
18 following final enactment.

19 Sec. 19. Minnesota Statutes 2004, section 282.224, is  
20 amended to read:

21 282.224 [FORM OF CONVEYANCE.]

22 When any sale has been made under sections 282.221 to  
23 282.226, upon payment in full of the purchase price, appropriate  
24 conveyance in fee, in such form as may be prescribed by the  
25 attorney general, shall be issued by the commissioner of natural  
26 resources to the purchaser or the purchaser's assignee, and the  
27 conveyance shall have the force and effect of a patent from the  
28 state.

29 [EFFECTIVE DATE.] This section is effective the day  
30 following final enactment.

31 Sec. 20. Minnesota Statutes 2004, section 282.301, is  
32 amended to read:

33 282.301 [RECEIPTS FOR PAYMENTS.]

34 When any sale has been made under sections 282.012 and  
35 282.241 to 282.324, the purchaser shall receive from the county  
36 auditor at the time of repurchase a receipt, in such form as may

1 be prescribed by the attorney general. When the purchase price  
2 of a parcel of land shall be paid in full, the following facts  
3 shall be certified by the county auditor to the commissioner of  
4 revenue of the state of Minnesota: the description of land, the  
5 date of sale, the name of the purchaser or the purchaser's  
6 assignee, and the date when the final installment of the  
7 purchase price was paid. Upon payment in full of the purchase  
8 price, the purchaser or the assignee shall receive a quitclaim  
9 deed from the state, to be executed by the commissioner of  
10 revenue. The deed must be sent to the county auditor who shall  
11 have it recorded before it is forwarded to the purchaser.  
12 Failure to make any payment herein required shall constitute  
13 default and upon such default and cancellation in accord with  
14 section 282.40, the right, title and interest of the purchaser  
15 or the purchaser's heirs, representatives, or assigns in such  
16 parcel shall terminate.

17 [EFFECTIVE DATE.] This section is effective the day  
18 following final enactment.

19 Sec. 21. Minnesota Statutes 2004, section 477A.03,  
20 subdivision 2b, is amended to read:

21 Subd. 2b. [COUNTIES.] (a) For aids payable in calendar  
22 year 2005 and thereafter, the total aids paid to counties under  
23 section 477A.0124, subdivision 3, are limited to \$100,500,000.  
24 Each calendar year, \$500,000 shall be retained by the  
25 commissioner of revenue to make reimbursements to the  
26 commissioner of finance for payments made under section 611.27.  
27 ~~For-calendar-year-2004,-the-amount-shall-be-in-addition-to-the~~  
28 ~~payments-authorized-under-section-477A-0124,-subdivision-1.~~ For  
29 calendar year 2005 and subsequent years, the amount shall be  
30 deducted from the appropriation ~~under-this-paragraph~~ for section  
31 477A.0124, subdivision 1. The reimbursements shall be to defray  
32 the additional costs associated with court-ordered counsel under  
33 section 611.27. Any retained amounts not used for reimbursement  
34 in a year shall be included in the next distribution of county  
35 need aid that is certified to the county auditors for the  
36 purpose of property tax reduction for the next taxes payable



1 year.

2 (b) For aids payable in 2005 and thereafter, the total aids  
3 under section 477A.0124, subdivision 4, are limited to  
4 \$105,000,000. The commissioner of finance shall bill the  
5 commissioner of revenue for the cost of preparation of local  
6 impact notes as required by section 3.987, not to exceed  
7 \$207,000 in fiscal year 2004 and thereafter. The commissioner  
8 of education shall bill the commissioner of revenue for the cost  
9 of preparation of local impact notes for school districts as  
10 required by section 3.987, not to exceed \$7,000 in fiscal year  
11 2004 and thereafter. For aids payable in 2005 and thereafter,  
12 the commissioner of revenue shall deduct the amounts billed  
13 under this paragraph from the appropriation under this paragraph  
14 section for section 477A.0124, subdivision 4. The amounts  
15 deducted are appropriated to the commissioner of finance and the  
16 commissioner of education for the preparation of local impact  
17 notes.

18 [EFFECTIVE DATE.] This section is effective for aids  
19 payable in 2005 and thereafter.

20 Sec. 22. Laws 2003, First Special Session chapter 21,  
21 article 6, section 9, is amended to read:

22 Sec. 9. [DEFINITIONS.]

23 (a) For purposes of sections 9 to 15, the following terms  
24 have the meanings given them in this section.

25 (b) The 2003 and 2004 "levy plus aid revenue base" for a  
26 county is the sum of that county's certified property tax levy  
27 for taxes payable in 2003, plus the sum of the amounts the  
28 county was certified to receive in the designated calendar year  
29 as:

30 (1) homestead and agricultural credit aid under Minnesota  
31 Statutes, section 273.1398, subdivision 2, plus any additional  
32 aid under section 16, minus the amount calculated under section  
33 273.1398, subdivision 4a, paragraph (b), for counties in  
34 judicial districts one, three, six, and ten, and 25 percent of  
35 the amount calculated under section 273.1398, subdivision 4a,  
36 paragraph (b), for counties in judicial districts two and four;

1 (2) the amount of county manufactured home homestead and  
2 agricultural credit aid computed for the county for payment in  
3 2003 under section 273.166;

4 (3) criminal justice aid under Minnesota Statutes, section  
5 477A.0121;

6 (4) family preservation aid under Minnesota Statutes,  
7 section 477A.0122;

8 (5) taconite aids under Minnesota Statutes, sections 298.28  
9 and 298.282, including any aid which was required to be placed  
10 in a special fund for expenditure in the next succeeding year;  
11 and

12 (6) county program aid under section 477A.0124, exclusive  
13 of the attached machinery aid component.

14 [EFFECTIVE DATE.] This section is effective for aids  
15 payable in 2004.

16 Sec. 23. [REPEALER.]

17 Minnesota Statutes 2004, sections 273.19, subdivision 5;  
18 274.05; 275.15; and 283.07, are repealed effective the day  
19 following final enactment.

20 ARTICLE 14

21 MISCELLANEOUS

22 DEPARTMENT OF REVENUE TECHNICAL CHANGES

23 Section 1. Minnesota Statutes 2004, section 270.65, is  
24 amended to read:

25 270.65 [DATE OF ASSESSMENT; DEFINITION.]

26 For purposes of taxes administered by the commissioner, the  
27 term "date of assessment" means the date a liability reported on  
28 a return was entered into the records of the commissioner or the  
29 date a return should have been filed, whichever is later; or, in  
30 the case of taxes determined by the commissioner, "date of  
31 assessment" means the date of the order assessing taxes or date  
32 of the return made by the commissioner; or, in the case of an  
33 amended return filed by the taxpayer, the assessment date is the  
34 date additional liability reported on the return, if any, was  
35 entered into the records of the commissioner; or, in the case of  
36 a consent agreement signed by the taxpayer under section 270.67,

1 subdivision 3, the assessment date is the notice date shown on  
 2 the agreement; or, in the case of a check from a taxpayer that  
 3 is dishonored and results in an erroneous refund being given to  
 4 the taxpayer, remittance of the check is deemed to be an  
 5 assessment and the "date of assessment" is the date the check  
 6 was received by the commissioner.

7 [EFFECTIVE DATE.] This section is effective the day  
 8 following final enactment.

9 Sec. 2. Minnesota Statutes 2004, section 289A.19,  
 10 subdivision 4, is amended to read:

11 Subd. 4. ~~[ESTATE TAX RETURNS.] When-in-the-commissioner's~~  
 12 ~~judgment-good-cause-exists,-the-commissioner-may-extend-the-time~~  
 13 ~~for-filing-an-estate-tax-return-for-not-more-than-six-months.~~

14 When an extension to file the federal estate tax return has been  
 15 granted under section 6081 of the Internal Revenue Code, the  
 16 time for filing the estate tax return is extended for that  
 17 period. If the estate requests an extension to file an estate  
 18 tax return within the time provided in section 289A.18,  
 19 subdivision 3, the commissioner shall extend the time for filing  
 20 the estate tax return for six months.

21 [EFFECTIVE DATE.] This section is effective for estates of  
 22 decedents dying after December 31, 2004.

23 Sec. 3. Minnesota Statutes 2004, section 289A.37,  
 24 subdivision 5, is amended to read:

25 Subd. 5. [SUFFICIENCY OF NOTICE.] An order of assessment,  
 26 sent postage prepaid by United States mail to the taxpayer at  
 27 the taxpayer's last known address, or sent by electronic mail to  
 28 the taxpayer's last known electronic mailing address as provided  
 29 for in section 325L.08, is sufficient even if the taxpayer is  
 30 deceased or is under a legal disability, or, in the case of a  
 31 corporation, has terminated its existence, unless the department  
 32 has been provided with a new address by a party authorized to  
 33 receive notices of assessment.

34 [EFFECTIVE DATE.] This section is effective the day  
 35 following final enactment.

36 Sec. 4. Minnesota Statutes 2004, section 289A.60,

1 subdivision 6, is amended to read:

2 Subd. 6. [PENALTY FOR FAILURE TO FILE, FALSE OR FRAUDULENT  
3 RETURN, EVASION.] If a person, with intent to evade or defeat a  
4 tax or payment of tax, fails to file a return, files a false or  
5 fraudulent return, or attempts in any other manner to evade or  
6 defeat a tax or payment of tax, there is imposed on the person a  
7 penalty equal to 50 percent of the tax, less amounts paid by the  
8 person on the basis of the false or fraudulent return, if any,  
9 due for the period to which the return related.

10 [EFFECTIVE DATE.] This section is effective the day  
11 following final enactment.

12 Sec. 5. Minnesota Statutes 2004, section 290.01,  
13 subdivision 19a, is amended to read:

14 Subd. 19a. [ADDITIONS TO FEDERAL TAXABLE INCOME.] For  
15 individuals, estates, and trusts, there shall be added to  
16 federal taxable income:

17 (1)(i) interest income on obligations of any state other  
18 than Minnesota or a political or governmental subdivision,  
19 municipality, or governmental agency or instrumentality of any  
20 state other than Minnesota exempt from federal income taxes  
21 under the Internal Revenue Code or any other federal statute;  
22 and

23 (ii) exempt-interest dividends as defined in section  
24 852(b)(5) of the Internal Revenue Code, except the portion of  
25 the exempt-interest dividends derived from interest income on  
26 obligations of the state of Minnesota or its political or  
27 governmental subdivisions, municipalities, governmental agencies  
28 or instrumentalities, but only if the portion of the  
29 exempt-interest dividends from such Minnesota sources paid to  
30 all shareholders represents 95 percent or more of the  
31 exempt-interest dividends that are paid by the regulated  
32 investment company as defined in section 851(a) of the Internal  
33 Revenue Code, or the fund of the regulated investment company as  
34 defined in section 851(g) of the Internal Revenue Code, making  
35 the payment; and

36 (iii) for the purposes of items (i) and (ii), interest on

1 obligations of an Indian tribal government described in section  
2 7871(c) of the Internal Revenue Code shall be treated as  
3 interest income on obligations of the state in which the tribe  
4 is located;

5 (2) the amount of income taxes paid or accrued within the  
6 taxable year under this chapter and ~~income~~ the amount of taxes  
7 based on net income paid to any other state or to any province  
8 or territory of Canada, to the extent allowed as a deduction  
9 under section 63(d) of the Internal Revenue Code, but the  
10 addition may not be more than the amount by which the itemized  
11 deductions as allowed under section 63(d) of the Internal  
12 Revenue Code exceeds the amount of the standard deduction as  
13 defined in section 63(c) of the Internal Revenue Code. For the  
14 purpose of this paragraph, the disallowance of itemized  
15 deductions under section 68 of the Internal Revenue Code of  
16 1986, income tax is the last itemized deduction disallowed;

17 (3) the capital gain amount of a lump sum distribution to  
18 which the special tax under section 1122(h)(3)(B)(ii) of the Tax  
19 Reform Act of 1986, Public Law 99-514, applies;

20 (4) the amount of income taxes paid or accrued within the  
21 taxable year under this chapter and ~~income taxes~~ based on net  
22 income paid to any other state or any province or territory of  
23 Canada, to the extent allowed as a deduction in determining  
24 federal adjusted gross income. For the purpose of this  
25 paragraph, income taxes do not include the taxes imposed by  
26 sections 290.0922, subdivision 1, paragraph (b), 290.9727,  
27 290.9728, and 290.9729;

28 (5) the amount of expense, interest, or taxes disallowed  
29 pursuant to section 290.10;

30 (6) the amount of a partner's pro rata share of net income  
31 which does not flow through to the partner because the  
32 partnership elected to pay the tax on the income under section  
33 6242(a)(2) of the Internal Revenue Code; and

34 (7) 80 percent of the depreciation deduction allowed under  
35 section 168(k) of the Internal Revenue Code. For purposes of  
36 this clause, if the taxpayer has an activity that in the taxable

1 year generates a deduction for depreciation under section 168(k)  
2 and the activity generates a loss for the taxable year that the  
3 taxpayer is not allowed to claim for the taxable year, "the  
4 depreciation allowed under section 168(k)" for the taxable year  
5 is limited to excess of the depreciation claimed by the activity  
6 under section 168(k) over the amount of the loss from the  
7 activity that is not allowed in the taxable year. In succeeding  
8 taxable years when the losses not allowed in the taxable year  
9 are allowed, the depreciation under section 168(k) is allowed.

10 [EFFECTIVE DATE.] This section is effective for tax years  
11 beginning after December 31, 2004.

12 Sec. 6. Minnesota Statutes 2004, section 290.06,  
13 subdivision 22, is amended to read:

14 Subd. 22. [CREDIT FOR TAXES PAID TO ANOTHER STATE.] (a) A  
15 taxpayer who is liable for taxes based on or-measured-by net  
16 income to another state, as provided in paragraphs (b) through  
17 (f), upon income allocated or apportioned to Minnesota, is  
18 entitled to a credit for the tax paid to another state if the  
19 tax is actually paid in the taxable year or a subsequent taxable  
20 year. A taxpayer who is a resident of this state pursuant to  
21 section 290.01, subdivision 7, ~~clause-(2)~~ paragraph (b), and who  
22 is subject to income tax as a resident in the state of the  
23 individual's domicile is not allowed this credit unless the  
24 state of domicile does not allow a similar credit.

25 (b) For an individual, estate, or trust, the credit is  
26 determined by multiplying the tax payable under this chapter by  
27 the ratio derived by dividing the income subject to tax in the  
28 other state that is also subject to tax in Minnesota while a  
29 resident of Minnesota by the taxpayer's federal adjusted gross  
30 income, as defined in section 62 of the Internal Revenue Code,  
31 modified by the addition required by section 290.01, subdivision  
32 19a, clause (1), and the subtraction allowed by section 290.01,  
33 subdivision 19b, clause (1), to the extent the income is  
34 allocated or assigned to Minnesota under sections 290.081 and  
35 290.17.

36 (c) If the taxpayer is an athletic team that apportions all

1 of its income under section 290.17, subdivision 5, the credit is  
2 determined by multiplying the tax payable under this chapter by  
3 the ratio derived from dividing the total net income subject to  
4 tax in the other state by the taxpayer's Minnesota taxable  
5 income.

6 (d) The credit determined under paragraph (b) or (c) shall  
7 not exceed the amount of tax so paid to the other state on the  
8 gross income earned within the other state subject to tax under  
9 this chapter, nor shall the allowance of the credit reduce the  
10 taxes paid under this chapter to an amount less than what would  
11 be assessed if such income amount was excluded from taxable net  
12 income.

13 (e) In the case of the tax assessed on a lump sum  
14 distribution under section 290.032, the credit allowed under  
15 paragraph (a) is the tax assessed by the other state on the lump  
16 sum distribution that is also subject to tax under section  
17 290.032, and shall not exceed the tax assessed under section  
18 290.032. To the extent the total lump sum distribution defined  
19 in section 290.032, subdivision 1, includes lump sum  
20 distributions received in prior years or is all or in part an  
21 annuity contract, the reduction to the tax on the lump sum  
22 distribution allowed under section 290.032, subdivision 2,  
23 includes tax paid to another state that is properly apportioned  
24 to that distribution.

25 (f) If a Minnesota resident reported an item of income to  
26 Minnesota and is assessed tax in such other state on that same  
27 income after the Minnesota statute of limitations has expired,  
28 the taxpayer shall receive a credit for that year under  
29 paragraph (a), notwithstanding any statute of limitations to the  
30 contrary. The claim for the credit must be submitted within one  
31 year from the date the taxes were paid to the other state. The  
32 taxpayer must submit sufficient proof to show entitlement to a  
33 credit.

34 (g) For the purposes of this subdivision, a resident  
35 shareholder of a corporation treated as an "S" corporation under  
36 section 290.9725, must be considered to have paid a tax imposed

1 on the shareholder in an amount equal to the shareholder's pro  
2 rata share of any net income tax paid by the S corporation to  
3 another state. For the purposes of the preceding sentence, the  
4 term "net income tax" means any tax imposed on or measured by a  
5 corporation's net income.

6 (h) For the purposes of this subdivision, a resident  
7 partner of an entity taxed as a partnership under the Internal  
8 Revenue Code must be considered to have paid a tax imposed on  
9 the partner in an amount equal to the partner's pro rata share  
10 of any net income tax paid by the partnership to another state.  
11 For purposes of the preceding sentence, the term "net income"  
12 tax means any tax imposed on or measured by a partnership's net  
13 income.

14 (i) For the purposes of this subdivision, "another state":

15 (1) includes:

16 (i) the District of Columbia; and

17 (ii) a province or territory of Canada; but

18 (2) excludes Puerto Rico and the several territories  
19 organized by Congress.

20 (j) The limitations on the credit in paragraphs (b), (c),  
21 and (d), are imposed on a state by state basis.

22 (k) For a tax imposed by a province or territory of Canada,  
23 the tax for purposes of this subdivision is the excess of the  
24 tax over the amount of the foreign tax credit allowed under  
25 section 27 of the Internal Revenue Code. In determining the  
26 amount of the foreign tax credit allowed, the net income taxes  
27 imposed by Canada on the income are deducted first. Any  
28 remaining amount of the allowable foreign tax credit reduces the  
29 provincial or territorial tax that qualifies for the credit  
30 under this subdivision.

31 **[EFFECTIVE DATE.] This section is effective for tax years**  
32 **beginning after December 31, 2004.**

33 Sec. 7. Minnesota Statutes 2004, section 290.0674,  
34 subdivision 1, is amended to read:

35 Subdivision 1. [CREDIT ALLOWED.] An individual is allowed  
36 a credit against the tax imposed by this chapter in an amount



1 equal to 75 percent of the amount paid for education-related  
2 expenses for a qualifying child in kindergarten through grade  
3 12. For purposes of this section, "education-related expenses"  
4 means:

5 (1) fees or tuition for instruction by an instructor under  
6 section 120A.22, subdivision 10, clause (1), (2), (3), (4), or  
7 (5), or a member of the Minnesota Music Teachers Association,  
8 and who is not a lineal ancestor or sibling of the dependent for  
9 instruction outside the regular school day or school year,  
10 including tutoring, driver's education offered as part of school  
11 curriculum, regardless of whether it is taken from a public or  
12 private entity or summer camps, in grade or age appropriate  
13 curricula that supplement curricula and instruction available  
14 during the regular school year, that assists a dependent to  
15 improve knowledge of core curriculum areas or to expand  
16 knowledge and skills under the ~~graduation-rule-under-section~~  
17 ~~120B.027, paragraph (e), clauses (1) to (7), (9), and (10)~~  
18 required academic standards under section 120B.021, subdivision  
19 1, and the elective standard under section 120B.022, subdivision  
20 1, and that do not include the teaching of religious tenets,  
21 doctrines, or worship, the purpose of which is to instill such  
22 tenets, doctrines, or worship;

23 (2) expenses for textbooks, including books and other  
24 instructional materials and equipment purchased or leased for  
25 use in elementary and secondary schools in teaching only those  
26 subjects legally and commonly taught in public elementary and  
27 secondary schools in this state. "Textbooks" does not include  
28 instructional books and materials used in the teaching of  
29 religious tenets, doctrines, or worship, the purpose of which is  
30 to instill such tenets, doctrines, or worship, nor does it  
31 include books or materials for extracurricular activities  
32 including sporting events, musical or dramatic events, speech  
33 activities, driver's education, or similar programs;

34 (3) a maximum expense of \$200 per family for personal  
35 computer hardware, excluding single purpose processors, and  
36 educational software that assists a dependent to improve

1 knowledge of core curriculum areas or to expand knowledge and  
2 skills under the ~~graduation-rule-under-section-120B-02~~ required  
3 academic standards under section 120B.021, subdivision 1, and  
4 the elective standard under section 120B.022, subdivision 1,  
5 purchased for use in the taxpayer's home and not used in a trade  
6 or business regardless of whether the computer is required by  
7 the dependent's school; and

8 (4) the amount paid to others for transportation of a  
9 qualifying child attending an elementary or secondary school  
10 situated in Minnesota, North Dakota, South Dakota, Iowa, or  
11 Wisconsin, wherein a resident of this state may legally fulfill  
12 the state's compulsory attendance laws, which is not operated  
13 for profit, and which adheres to the provisions of the Civil  
14 Rights Act of 1964 and chapter 363A.

15 For purposes of this section, "qualifying child" has the  
16 meaning given in section 32(c)(3) of the Internal Revenue Code.

17 [EFFECTIVE DATE.] This section is effective for tax years  
18 beginning after December 31, 2004.

19 Sec. 8. Minnesota Statutes 2004, section 290.92,  
20 subdivision 1, is amended to read:

21 Subdivision 1. [DEFINITIONS.] (1) [WAGES.] For purposes  
22 of this section, the term "wages" means the same as that term is  
23 defined in section 3401(a) and (f) of the Internal Revenue Code.

24 (2) [PAYROLL PERIOD.] For purposes of this section the  
25 term "payroll period" means a period for which a payment of  
26 wages is ordinarily made to the employee by the employee's  
27 employer, and the term "miscellaneous payroll period" means a  
28 payroll period other than a daily, weekly, biweekly,  
29 semimonthly, monthly, quarterly, semiannual, or annual payroll  
30 period.

31 (3) [EMPLOYEE.] For purposes of this section the term  
32 "employee" means any resident individual performing services for  
33 an employer, either within or without, or both within and  
34 without the state of Minnesota, and every nonresident individual  
35 performing services within the state of Minnesota, the  
36 performance of which services constitute, establish, and

1 determine the relationship between the parties as that of  
2 employer and employee. As used in the preceding sentence, the  
3 term "employee" includes an officer of a corporation, and an  
4 officer, employee, or elected official of the United States, a  
5 state, or any political subdivision thereof, or the District of  
6 Columbia, or any agency or instrumentality of any one or more of  
7 the foregoing.

8 (4) [EMPLOYER.] For purposes of this section the term  
9 "employer" means any person, including individuals, fiduciaries,  
10 estates, trusts, partnerships, limited liability companies, and  
11 corporations transacting business in or deriving any income from  
12 sources within the state of Minnesota for whom an individual  
13 performs or performed any service, of whatever nature, as the  
14 employee of such person, except that if the person for whom the  
15 individual performs or performed the services does not have  
16 legal control of the payment of the wages for such services, the  
17 term "employer," except for purposes of paragraph (1), means the  
18 person having legal control of the payment of such wages. As  
19 used in the preceding sentence, the term "employer" includes any  
20 corporation, individual, estate, trust, or organization which is  
21 exempt from taxation under section 290.05 and further includes,  
22 but is not limited to, officers of corporations who have legal  
23 control, either individually or jointly with another or others,  
24 of the payment of the wages.

25 (5) [NUMBER OF WITHHOLDING EXEMPTIONS CLAIMED.] For  
26 purposes of this section, the term "number of withholding  
27 exemptions claimed" means the number of withholding exemptions  
28 claimed in a withholding exemption certificate in effect under  
29 subdivision 5, except that if no such certificate is in effect,  
30 the number of withholding exemptions claimed shall be considered  
31 to be zero.

32 [EFFECTIVE DATE.] This section is effective the day  
33 following final enactment.

34 Sec. 9. Minnesota Statutes 2004, section 290C.05, is  
35 amended to read:

36 290C.05 [ANNUAL CERTIFICATION.]

1 On or before July 1 of each year, beginning with the year  
2 after the claimant has received an approved application, the  
3 commissioner shall send each claimant enrolled under the  
4 sustainable forest incentive program a certification form. The  
5 claimant must sign the certification, attesting that the  
6 requirements and conditions for continued enrollment in the  
7 program are currently being met, and must return the signed  
8 certification form to the commissioner by August 15 of that same  
9 year. ~~Failure to~~ If the claimant does not return an annual  
10 certification form by the due date ~~shall result in removal of~~  
11 ~~the lands from the provisions of the sustainable forest~~  
12 ~~incentive program, and the imposition of any applicable removal~~  
13 ~~penalty,~~ the provisions in section 290C.11 apply. ~~The claimant~~  
14 ~~may appeal the removal and any associated penalty according to~~  
15 ~~the procedures and within the time allowed under this chapter.~~

16 [EFFECTIVE DATE.] This section is effective the day  
17 following final enactment.

18 Sec. 10. [290C.055] [LENGTH OF COVENANT.]

19 The covenant remains in effect for a minimum of eight  
20 years. If land is removed from the program after it has been  
21 enrolled for less than four years, the covenant remains in  
22 effect for eight years from the date recorded.

23 In the case of land that has been enrolled for more than  
24 four years and is removed from the program for any reason, there  
25 is a four-year waiting period to end the covenant. The covenant  
26 remains in effect until January 1 of the fifth calendar year  
27 that begins after the date that:

28 (1) the commissioner receives notification from the  
29 claimant that the claimant wishes to be removed from the program  
30 under section 290C.10, or

31 (2) the date that land is removed from the program under  
32 section 290C.11.

33 Notwithstanding the other provisions of this section, the  
34 covenant is terminated at the same time that land is removed  
35 from the program due to acquisition of title or possession for a  
36 public purpose under section 290C.10.

1           [EFFECTIVE DATE.] This section is effective the day  
2 following final enactment.

3           Sec. 11. Minnesota Statutes 2004, section 325D.33,  
4 subdivision 6, is amended to read:

5           Subd. 6. [VIOLATIONS.] If the commissioner determines that  
6 a distributor is violating any provision of this chapter, the  
7 commissioner must give the distributor a written warning  
8 explaining the violation and an explanation of what must be done  
9 to comply with this chapter. Within ten days of issuance of the  
10 warning, the distributor must notify the commissioner that the  
11 distributor has complied with the commissioner's recommendation  
12 or request that the commissioner set the issue for a hearing  
13 pursuant to chapter 14. If a hearing is requested, the hearing  
14 shall be scheduled within 20 days of the request and the  
15 recommendation of the administrative law judge shall be issued  
16 within five working days of the close of the hearing. The  
17 commissioner's final determination shall be issued within five  
18 working days of the receipt of the administrative law judge's  
19 recommendation. If the commissioner's final determination is  
20 adverse to the distributor and the distributor does not comply  
21 within ten days of receipt of the commissioner's final  
22 determination, the commissioner may order the distributor to  
23 immediately cease the stamping of cigarettes. As soon as  
24 practicable after the order, the commissioner must remove the  
25 meter and any unapplied cigarette stamps from the premises of  
26 the distributor.

27           If within ten days of issuance of the written warning the  
28 distributor has not complied with the commissioner's  
29 recommendation or requested a hearing, the commissioner may  
30 order the distributor to immediately cease the stamping of  
31 cigarettes and remove the meter and unapplied stamps from the  
32 distributor's premises.

33           ~~If, within any 12-month period, the commissioner has issued~~  
34 ~~three written warnings to any distributor, even if the~~  
35 ~~distributor has complied within ten days, the commissioner shall~~  
36 ~~notify the distributor of the commissioner's intent to revoke~~

1 ~~the distributor's license for a continuing course of conduct~~  
2 ~~contrary to this chapter. For purposes of this paragraph, a~~  
3 ~~written warning that was ultimately resolved by removal of the~~  
4 ~~warning by the commissioner is not deemed to be a warning. The~~  
5 ~~commissioner must notify the distributor of the date and time of~~  
6 ~~a hearing pursuant to chapter 14 at least 20 days before the~~  
7 ~~hearing is held. The hearing must provide an opportunity for~~  
8 ~~the distributor to show cause why the license should not be~~  
9 ~~revoked. If the commissioner revokes a distributor's license,~~  
10 ~~the commissioner shall not issue a new license to that~~  
11 ~~distributor for 180 days.~~

12 [EFFECTIVE DATE.] This section is effective the day  
13 following final enactment.

14 Sec. 12. Minnesota Statutes 2004, section 349.12,  
15 subdivision 25, is amended to read:

16 Subd. 25. [LAWFUL PURPOSE.] (a) "Lawful purpose" means one  
17 or more of the following:

18 (1) any expenditure by or contribution to a 501(c)(3) or  
19 festival organization, as defined in subdivision 15a, provided  
20 that the organization and expenditure or contribution are in  
21 conformity with standards prescribed by the board under section  
22 349.154, which standards must apply to both types of  
23 organizations in the same manner and to the same extent;

24 (2) a contribution to an individual or family suffering  
25 from poverty, homelessness, or physical or mental disability,  
26 which is used to relieve the effects of that poverty,  
27 homelessness, or disability;

28 (3) a contribution to an individual for treatment for  
29 delayed posttraumatic stress syndrome or a contribution to a  
30 program recognized by the Minnesota Department of Human Services  
31 for the education, prevention, or treatment of compulsive  
32 gambling;

33 (4) a contribution to or expenditure on a public or private  
34 nonprofit educational institution registered with or accredited  
35 by this state or any other state;

36 (5) a contribution to a scholarship fund for defraying the

1 cost of education to individuals where the funds are awarded  
2 through an open and fair selection process;

3 (6) activities by an organization or a government entity  
4 which recognize humanitarian or military service to the United  
5 States, the state of Minnesota, or a community, subject to rules  
6 of the board, provided that the rules must not include mileage  
7 reimbursements in the computation of the per diem reimbursement  
8 limit and must impose no aggregate annual limit on the amount of  
9 reasonable and necessary expenditures made to support:

10 (i) members of a military marching or color guard unit for  
11 activities conducted within the state;

12 (ii) members of an organization solely for services  
13 performed by the members at funeral services; or

14 (iii) members of military marching, color guard, or honor  
15 guard units may be reimbursed for participating in color guard,  
16 honor guard, or marching unit events within the state or states  
17 contiguous to Minnesota at a per participant rate of up to \$35  
18 per diem;

19 (7) recreational, community, and athletic facilities and  
20 activities intended primarily for persons under age 21, provided  
21 that such facilities and activities do not discriminate on the  
22 basis of gender and the organization complies with section  
23 349.154;

24 (8) payment of local taxes authorized under this chapter,  
25 taxes imposed by the United States on receipts from lawful  
26 gambling, the taxes imposed by section 297E.02, subdivisions 1,  
27 4, 5, and 6, and the tax imposed on unrelated business income by  
28 section 290.05, subdivision 3;

29 (9) payment of real estate taxes and assessments on  
30 permitted gambling premises wholly owned by the licensed  
31 organization paying the taxes, or wholly leased by a licensed  
32 veterans organization under a national charter recognized under  
33 section 501(c)(19) of the Internal Revenue Code, not to exceed:

34 (i) for premises used for bingo, the amount that an  
35 organization may expend under board rules on rent for bingo; and

36 (ii) \$35,000 per year for premises used for other forms of

1 lawful gambling;

2 (10) a contribution to the United States, this state or any  
3 of its political subdivisions, or any agency or instrumentality  
4 thereof other than a direct contribution to a law enforcement or  
5 prosecutorial agency;

6 (11) a contribution to or expenditure by a nonprofit  
7 organization which is a church or body of communicants gathered  
8 in common membership for mutual support and edification in  
9 piety, worship, or religious observances;

10 (12) payment of the reasonable costs of an audit required  
11 in section 297E.06, subdivision 4, provided the annual audit is  
12 filed in a timely manner with the Department of Revenue;

13 (13) a contribution to or expenditure on a wildlife  
14 management project that benefits the public at-large, provided  
15 that the state agency with authority over that wildlife  
16 management project approves the project before the contribution  
17 or expenditure is made;

18 (14) expenditures, approved by the commissioner of natural  
19 resources, by an organization for grooming and maintaining  
20 snowmobile trails and all-terrain vehicle trails that are (1)  
21 grant-in-aid trails established under section 85.019, or (2)  
22 other trails open to public use, including purchase or lease of  
23 equipment for this purpose;

24 (15) conducting nutritional programs, food shelves, and  
25 congregate dining programs primarily for persons who are age 62  
26 or older or disabled;

27 (16) a contribution to a community arts organization, or an  
28 expenditure to sponsor arts programs in the community, including  
29 but not limited to visual, literary, performing, or musical  
30 arts;

31 (17) an expenditure by a licensed veterans organization for  
32 payment of water, fuel for heating, electricity, and sewer costs  
33 for a building wholly owned or wholly leased by and used as the  
34 primary headquarters of the licensed veterans organization;

35 (18) expenditure by a licensed veterans organization of up  
36 to \$5,000 in a calendar year in net costs to the organization



1 for meals and other membership events, limited to members and  
2 spouses, held in recognition of military service. No more than  
3 \$5,000 can be expended in total per calendar year under this  
4 clause by all licensed veterans organizations sharing the same  
5 veterans post home; or

6 (19) payment of fees authorized under this chapter imposed  
7 by the state of Minnesota to conduct lawful gambling in  
8 Minnesota.

9 (b) Notwithstanding paragraph (a), "lawful purpose" does  
10 not include:

11 (1) any expenditure made or incurred for the purpose of  
12 influencing the nomination or election of a candidate for public  
13 office or for the purpose of promoting or defeating a ballot  
14 question;

15 (2) any activity intended to influence an election or a  
16 governmental decision-making process;

17 (3) the erection, acquisition, improvement, expansion,  
18 repair, or maintenance of real property or capital assets owned  
19 or leased by an organization, unless the board has first  
20 specifically authorized the expenditures after finding that (i)  
21 the real property or capital assets will be used exclusively for  
22 one or more of the purposes in paragraph (a); (ii) with respect  
23 to expenditures for repair or maintenance only, that the  
24 property is or will be used extensively as a meeting place or  
25 event location by other nonprofit organizations or community or  
26 service groups and that no rental fee is charged for the use;  
27 (iii) with respect to expenditures, including a mortgage payment  
28 or other debt service payment, for erection or acquisition only,  
29 that the erection or acquisition is necessary to replace with a  
30 comparable building, a building owned by the organization and  
31 destroyed or made uninhabitable by fire or natural disaster,  
32 provided that the expenditure may be only for that part of the  
33 replacement cost not reimbursed by insurance; (iv) with respect  
34 to expenditures, including a mortgage payment or other debt  
35 service payment, for erection or acquisition only, that the  
36 erection or acquisition is necessary to replace with a

1 comparable building a building owned by the organization that  
2 was acquired from the organization by eminent domain or sold by  
3 the organization to a purchaser that the organization reasonably  
4 believed would otherwise have acquired the building by eminent  
5 domain, provided that the expenditure may be only for that part  
6 of the replacement cost that exceeds the compensation received  
7 by the organization for the building being replaced; or (v) with  
8 respect to an expenditure to bring an existing building into  
9 compliance with the Americans with Disabilities Act under item  
10 (ii), an organization has the option to apply the amount of the  
11 board-approved expenditure to the erection or acquisition of a  
12 replacement building that is in compliance with the Americans  
13 with Disabilities Act;

14 (4) an expenditure by an organization which is a  
15 contribution to a parent organization, foundation, or affiliate  
16 of the contributing organization, if the parent organization,  
17 foundation, or affiliate has provided to the contributing  
18 organization within one year of the contribution any money,  
19 grants, property, or other thing of value;

20 (5) a contribution by a licensed organization to another  
21 licensed organization unless the board has specifically  
22 authorized the contribution. The board must authorize such a  
23 contribution when requested to do so by the contributing  
24 organization unless it makes an affirmative finding that the  
25 contribution will not be used by the recipient organization for  
26 one or more of the purposes in paragraph (a); or

27 (6) a contribution to a statutory or home rule charter  
28 city, county, or town by a licensed organization with the  
29 knowledge that the governmental unit intends to use the  
30 contribution for a pension or retirement fund.

31 **[EFFECTIVE DATE.] This section is effective for taxes**  
32 **payable in 2005 and thereafter.**

33 Sec. 13. Minnesota Statutes 2004, section 473.843,  
34 subdivision 5, is amended to read:

35 Subd. 5. **[PENALTIES; ENFORCEMENT.]** The audit, penalty, and  
36 enforcement provisions applicable to corporate franchise taxes

1 imposed under chapter 290 apply to the fees imposed under this  
2 section. The commissioner of revenue shall administer the  
3 provisions.

4 [EFFECTIVE DATE.] This section is effective the day  
5 following final enactment.

6 Sec. 14. [APPROPRIATION REDUCTION.]

7 Notwithstanding any other law to the contrary, if  
8 amendments to this act adopted on ..... result in an increase  
9 to the deficit for the 2006-2007 biennium as reflected in the  
10 February 2005 state general fund budget forecast, the amount of  
11 the appropriation under article 3, section 52, is reduced by an  
12 amount equal to the increase in the deficit. If amendments to  
13 this act adopted on ..... result in an increase to the deficit  
14 for the 2008-2009 biennium as reflected in the February 2005  
15 state general fund budget forecast, the distribution under  
16 article 2, section 51, is reduced by an amount equal to the  
17 increase in the deficit.

18 Sec. 15. [REPEALER.]

19 Minnesota Rules, parts 8093.2000 and 8093.3000, are  
20 repealed.

21 [EFFECTIVE DATE.] This section is effective the day  
22 following final enactment.

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TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) *83A*

DATE: February 15, 2005

RE: 2004 Bill Redraft

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Attached is a document that incorporates nearly all of the provisions that were included in the 2004 Senate Omnibus Tax bill. These provisions have been updated to incorporate any amendments to these statutes that were enacted by the 2004 Legislature and also to advance effective dates by one year, unless the content of the provision dictated that the effective date should be left as it was in the 2004 bill.

In two areas of the bill, provisions were removed. The first is a series of amendments to the law governing the Public Safety Radio system that were included in last year's Public Finance bill and then in the Public Finance article of the 2004 Tax bill. Laws 2004, chapter 201, addressed this issue. The provisions of chapter 201 were different from those included in the Public Finance article, but since they did relate to the same issue, the Public Finance article provisions were removed from this draft. The provision in the Department of Revenue's Property Tax article dealing with data privacy was enacted in Laws 2004, chapter 290, so it is not included in this draft.

A substantive change was made to the provision extending the duration of limited market value because the progression of the phase out of limited market value had advanced by one year beyond that which was used as the basis for retention of limited market value in the 2004 Tax bill. The phaseout stage in the current draft is advanced by one year.

We realize that many of the provisions in the 2004 bill have been introduced as separate bills during the 2005 Session. In some instances, the 2005 version may differ in some respects from what is incorporated in this draft, which was intended to reflect strictly what was in the 2004 version. This draft was an effort to present to the

committee the work that had been completed during the 2004 Session by the Senate Tax Committee and the full Senate.

Please feel free to contact me if you have any questions or comments on this draft.

JSZ:rer

Enclosure