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Senate
State of Minnesota

Agenda #1

Tax 2: Updated 2004 Senate Omnibus Tax Bill

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Article 1
Income Tax

Section 1. Internal Revenue Code. Amends Minnesota Statutes, section 289A.02, subdivision 7, to update the reference to the Internal Revenue Code to conform to the Military Family Tax Relief Act of 2003.
Effective Date: For actions required on or after November 11, 2003.

Section 2. Minimum Filing Requirements. Amends section 289A.08, subdivision 1, the general filing requirements for income tax returns, to provide that a Minnesota resident who receives compensation as a member of the armed forces of the United States or United Nations for active duty performed outside Minnesota, is not required to file a state income tax return if their Minnesota income, without regard to the active duty pay, is below the income filing requirements for a single Minnesota resident.
Effective Date: For taxable years beginning after December 31, 2004.

Section 3. Extensions for Service Members. Amends section 289A.39, subdivision 1, to extend the time for filing returns, and the time for appealing orders affecting state taxes or property taxes for service members.
Effective Date: For taxable years beginning after December 31, 2003, and for property taxes payable after 2002.

Section 4. Resident Status of Military Service Personnel. Amends section 290.01, subdivision 7, to remove from the definition of a nonresident member of the armed forces of the United States or United Nations while on active duty performed outside Minnesota.
Effective Date: For taxable years beginning after December 31, 2004.

Section 5. Net Income. Amends section 290.01, subdivision 19, to adopt the federal exclusions from taxable income contained in the Military Family Tax Relief Act of 2003, and to update references to the Internal Revenue Code to conform to the Military Family Tax Relief Act of 2003.
Effective Date: The day following final enactment, the provisions of the Military Family Tax Relief Act of 2003 are effective at the same time it became effective for federal purposes.

Section 6. Additions to Taxable Income. Amends section 290.01, subdivision 19a, to require that a taxpayer who has deducted on their federal tax return more than $25,000 in mortgage interest for a residential home with a market value in excess of $500,000, add back to taxable income the amount that exceeds $25,000. This section also requires an add-back for expenses not allowed under section 290.10, subdivision 10, for fines, penalties, or expenses paid to the government for violation of a law.
Effective Date: For taxable years beginning after December 31, 2004.

Section 7. Subtractions from Taxable Income. Amends section 290.01, subdivision 19b, to exclude from federal taxable income up to $10,000 of unreimbursed expenses related to donation of organs for human organ transplantation, provided that these expenses are not included in the medical expense deduction on the taxpayer's federal return. Expenses allowed include travel, lodging, and lost wages not covered by sick pay. The subtraction may be claimed one time for each instance of organ donation during the taxable year. This section also excludes from taxable income compensation paid to members of the Minnesota National Guard or United States military reserves for active service performed in Minnesota, and compensation paid to members of the armed force of the United States or United Nations for active service performed outside of the state.
Effective Date: For taxable years beginning after December 31, 2004.

Section 8. Additions to Corporate Taxable Income. Amends section 290.01, subdivision 19c, by adding clause (17), to require corporate taxpayers to adjust the computation of taxable income by adding back any deduction taken on the federal return that is not allowed under new section 290.10, subdivision 2.
Effective Date: For taxable years beginning after December 31, 2004.

Section 9. Internal Revenue Code. Amends section 290.01, subdivision 31, to update the reference to the Internal Revenue Code.
Effective Date: The day following final enactment, the changes incorporated by federal changes are effective at the same times as the changes were effective for federal purposes.

Section 10. Exempt Entities. Amends section 290.05, subdivision 1, to include in the definition of entities exempt from state income tax, corporations operating a personal rapid transit system. Income of the corporation that is not derived from the personal rapid transit system is not exempt under this section.
Effective Date: For taxable years beginning after December 31, 2008.

Section 11. Individual Income Tax Rates. Amends section 290.06, subdivision 2c, to increase the income tax rate from 7.85 percent to 8.0 percent for the highest income bracket.
Effective Date: For taxable years beginning after December 31, 2005, but only if the changes to the individual alternative minimum tax are enacted.

Section 12. Transit Pass Refund. Under current law, a taxpayer is allowed to take a credit against income tax or corporate franchise tax equal to 30 percent of the cost to provide transit passes to the taxpayer's employees. The credit is limited to the tax liability for the tax year and is not refundable. This section converts the tax credit to a refund that will be claimed independent of the income tax return. Employers who are exempt from income taxes under chapter 290 will be eligible for a refund. The Commissioner of Revenue will administer the refund program.
Effective Date: For tax years beginning after December 31, 2005.

Section 13. Regional Investment Credit. Amends section 290.06, by adding a subdivision that creates a nonrefundable income tax credit for investments into a "Regional Angel Investment Network Fund." The credit equals 25 percent of the amount invested in the fund, limited to the lesser of the tax imposed or the amount certified by the Commissioner of Trade and Economic Development, unused credit amounts may be carried forward to the 15 succeeding taxable years. An investment fund qualifies as a R.A.I.N. fund if it is a limited liability company whose members are accredited by the Securities and Exchange Commission, it primarily invests in emerging and expanding small businesses or cooperative associations located in communities outside the metro area, and does not invest in residential real estate. The Commissioner may certify up to ten qualifying funds that are located outside of the metro area. Investors in the qualifying funds may receive tax credits not to exceed $250,000 per fund. A total of $2,500,000 in credits are available for all 10 funds.
Effective Date: For taxable years beginning after December 31, 2004, and for investments made after certification of a fund.

Section 14. Carsharing Credit. Amends section 290.06, by adding a subdivision that creates a nonrefundable income tax credit for a membership fee and dues to a nonprofit carsharing organization. The maximum amount of the credit for an individual is $390. An employer may also claim the credit for carsharing membership and dues paid for its employees. An owner of a parking facility that donates parking space to a nonprofit carsharing organization to park the motor vehicles used for carsharing may claim a credit for the value of the parking space, based on the minimum charge to other customers for parking in the facility.
Effective Date: For taxable years beginning after December 31, 2005.

Section 15. Education Credit. Amends section 290.0674, subdivision 2, to eliminate the $2,000 maximum education credit per family, and allow a maximum credit of $1,000 per child, regardless of the number of children. Education expenses are not limited to $1,000 per child, the aggregate of the expenses may not exceed the maximum credit allowed for all children. The credit amount if reduced by $1 for each $4 of household income over $33,500, and no credit is allowed for income greater than $37,500.

Effective Date: For taxable years beginning after December 31, 2005.

Section 16. Alternative Minimum Tax. Amends section 290.091, subdivision 2, to increase the amount of the charitable deduction from alternative minimum taxable income (AMT). The current deduction for charitable contributions is only allowed if the total of the contributions exceed one percent of adjusted gross income. This section allows the full charitable deduction to be taken without regard to the amount of adjusted gross income. This section also allows a deduction for the amount of the federal exemption for dependents.
Effective Date: Taxable years beginning after December 31, 2005, only if the increase in the top individual income tax rate and the increased exemption amounts for AMT are also enacted.

Section 17. AMT Exemption Amounts. Amends section 290.091, subdivision 3, to increase the amount of income that is exempt from AMT to $66,300 for married filing joint returns, and to $33,150 for single filers. The exemption amount is reduced by 25 percent of the income that exceeds $248,600 for joint filers, and $124,300 for single filers. The exempt amounts will be adjusted for inflation.
Effective Date: Taxable years beginning after December 31, 2005, only if the increase in the top individual income tax rate and the additional deductions for AMT are also enacted.

Section 18. Nondeductible Payments to Government. Adds a subdivision to section 290.10 that provides that amounts paid to a government entity associated with a violation of a law are not deductible business expenses whether characterized as fines, penalties, damages, restitution, legal fees or expenses. These payments are not deductible when paid under a criminal or civil court order, an administrative action, a plea agreement, or settlement agreement.
Effective Date: For taxable years beginning after December 31, 2004.

Section 19. Apportionment Formula. Amends section 290.191, subdivision 2, the apportionment formula to business income. Minnesota utilizes a three-factor apportionment formula consisting of property, payroll, and sales to determine the amount of business income that is taxable in this state. Each of these three factors are then weighted in proportion to how much each factor best represents the amount of activity taking place in this state. Under current law, the three factors are weighted as 75 percent sales, 12.5 percent property, and 12.5 percent payroll. Current law allows certain mail order businesses to use a single sales apportionment factor. This section increases the sales factor to 100 percent and decreases the property and payroll factors to 0 percent. Businesses would apportion their taxable income to Minnesota based only on the percentage of total sales that are made in Minnesota.
Effective Date: For taxable years beginning after December 31, 2005, only if section 21 of this article is enacted.

Section 20. Apportionment Formula for Financial Institutions. Amends section 290.191, subdivision 3, to change the apportionment formula for income of financial institutions by increasing the sales factor to 100 percent and decreasing the property and payroll factors to 0 percent. Financial institutions would apportion their taxable income to Minnesota based only on

the percentage of total sales that are made in Minnesota.
Effective Date: For taxable years beginning after December 31, 2005, only if section 21 of this article is enacted.

Section 21. Determination of Sales Factor. Amends section 290.191, subdivision 5, to require that corporations that apportion their income, include in the income attributable to Minnesota, sales that originate in this state that are not taxed in another state. Sales for services are attributable to Minnesota, when the greater proportion of the service is performed in this state, and is not taxed in the state of the purchaser.
Effective Date: For taxable years beginning after December 31, 2004, only if sections 19 and 20 of this article are enacted.

Section 22. Global War on Terrorism Checkoff. Provides for a checkoff on the individual and corporate income tax return, and the property tax refund claim form. The amounts donated under these checkoffs would be annually appropriated to the Commissioner of Veterans Affairs to be used to pay bonuses to veterans of the global war on terrorism.

Section 23. Publicly Traded Partnerships. Amends section 290.92, subdivision 4b, to exclude publicly traded partnerships from the existing withholding tax requirements for nonresident individuals of a partnership.
Effective Date: Taxable years beginning after December 31, 2004.

Section 24. Rent Credit. Amends section 290A.03, subdivision 11, to reduce the percentage of rent paid that is considered "rent constituting property taxes" from 19 percent to 17 percent in calculating the rent credit. If the actual property taxes paid by the claimant exceeds 17 percent of rent paid, the property tax credit is based on the actual taxes paid, up to 50 percent of rent paid.
Effective Date: For property taxes payable in 2005 and for refund claims based on property taxes payable in 2005, and thereafter.

Section 25. Rent Credit. Amends section 290A.03, by adding a subdivision that provides the calculation for determining the "total scheduled rent" used to calculate a rent credit based on actual property tax paid by a claimant.
Effective Date: For property taxes payable in 2005 and for refund claims based on property taxes payable in 2005, and thereafter.

Section 26. Internal Revenue Code. Amends section 290A.03, subdivision 15, to update the reference to the Internal Revenue Code to incorporate the provisions of the Military Family Tax Relief Act of 2003, when calculating income for the property tax refund or the rent credit.
Effective Date: The day following final enactment, the provisions of the Military Family Tax Relief Act of 2003 are effective at the same time it became effective for federal purposes.

Section 27. Rent Credit. Amends section 290A.19, to require that when the "rent constituting property taxes" exceeds 17 percent of the rent paid, the property owner must include on the

certificate of rent paid the calculation for the credit based on actual property taxes paid.
Effective Date: For refund claims based on property taxes payable in 2005, and thereafter.

Section 28. Internal Revenue Code. Amends section 291.005, subdivision 1, to update the reference to the Internal Revenue Code, for estate tax purposes, to incorporate the provisions of the Military Family Tax Relief Act of 2003.
Effective Date: For estates of decedents dying after January 31, 2004.

Section 29. Distribution of Revenue. Distributes the tax revenues collected from taxable years beginning after December 31, 2004, and before January 1, 2006, that are attributable to the change in the amount of mortgage interest that may be deducted for income tax purposes, to the Department of Human Services to use for emergency service programs, transitional housing operations and transitional housing operations targeted to unaccompanied youths; and to the Minnesota Housing Finance Agency to use for the Minnesota housing trust fund, rental housing and family homeless prevention and assistance programs.

Section 30. Corporate Franchise Tax Study. Directs the Commissioners of Finance and Revenue to conduct a study to identify the reasons for the decline in corporate tax receipts, including the effect of each corporate tax law, how tax provisions change business practices and the impact of outsourcing or relocation of business operations and jobs. The Commissioners will report their findings, and make recommendations for changes to the tax laws, to the chairpersons of the House and Senate Tax Committees by February 1, 2006.

Section 31. Repealer. Repeals the special provision for mail order businesses which is not necessary with the change for all businesses to a single sales apportionment factor.

Article 2
Sales Tax

Section 1. Personal Rapid Transit System. Adds a definition to Minnesota Statutes, section 297A.61, for "personal rapid transit system," to mean a computer-controlled system of small vehicles used to transport one to three passengers on elevated guideways on demand and nonstop to the passengers' station.
Effective Date. For sales and purchases made on and after July 1, 2008.

Section 2. Geothermal Systems. Creates an exemption from sales tax for a geothermal heating and cooling system.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 3. Biomass Stoves. Creates an exemption from sales tax for stoves that burn fuel pellets made from biomass materials.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 4. Capital Equipment. Amends section 297A. clarifies that the sales tax exemption for capital equipment does not apply to telecommunications equipment, and does not apply to wire, cable, fiber, poles, or conduit for telecommunications.
Effective Date. For sales and purchases made on and after July 31, 2001.

Section 5. Petroleum Products. Creates an exemption from sales tax for petroleum products used as fuel for a commuter rail system, the tax must be paid at the time of purchase and a refund claim filed for the exempt amount.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 6. Movies and Television. Amends section 297A.68, the business sales tax exemptions, to add an exemption from sales and use tax for property used or consumed in the production of movies and television shows. The exemption does not include property used in administration, general management or marketing. Purchases of machinery and equipment, and fuel, electricity, gas, or steam used for heating and lighting are not exempt under this subdivision.
Effective date: For purchases made on or after July 1, 2005.

Section 7. Personal Rapid Transit System. Adds an exemption from sales and use tax for all machinery, equipment, and supplies purchased or leased that are used directly to provide a personal rapid transit system. The exemption does not include purchases for nonproduction purposes, including operation support and administration.
Effective Date. For sales and purchases made on and after July 1, 2008.

Section 8. Public Safety Radio System. Expands the exemption from sales tax for a regional public safety radio communication system to include statewide public safety radio system.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 9. Donated Meals. Amends section 297A.70, by adding a subdivision that exempts from sales and use tax meals that are donated by a retailer to a nonprofit group for fund-raising purposes.
Effective date: For donations after June 30, 2005.

Section 10. Commuter Rail System. Adds an exemption from sales and use tax for all materials, equipment, and supplies used in construction, expansion or improvement of a commuter rail transportation system.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 11. Waste Recovery Facility. Adds an exemption from sales and use tax for all materials, equipment, and supplies used in construction, expansion or improvement of a waste-to-energy resource recovery facility that uses biomass or mixed municipal solid waste.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 12. Personal Rapid Transit System. Adds an exemption from sales and use tax for all

materials, equipment, and supplies used in construction, expansion or improvement of a personal rapid transit system.
Effective Date. For sales and purchases made on and after July 1, 2008.

Section 13. Hospital. Amends section 297A.71, to add an exemption from sales and use tax for construction of the hospital portion of the St. Mary's Duluth Clinic Health System.
Effective date: July 1, 2005, through December 31, 2007.

Section 14. Commuter Rail System. Amends section 297A.75, subdivision 1, to include in the list of exempt items that must pay the sales tax at the time of purchase, petroleum products used as fuel for a commuter rail system.
Effective Date. For sales and purchases made on and after July 1, 2005.

Section 15. Tax Refund. Amends section 297A.75, subdivision 2, to provide for a refund of sales tax paid on petroleum products used as fuel for a commuter rail system.
Effective Date. For sales and purchases made on and after July 1, 2005.

Sections 16 and 17. Seller's Permit. Expands the occasional sale provisions and the seller's permit requirements to provide that a person who participates for three or fewer days in one event per year and makes less than $500 in sales may provide to the operator of the event a written statement that they are qualified for the occasional sales exemption.
Effective date: For selling event occurring after June 30, 2005.

Sections 18 to 22. Local Option Sales Tax. Provides general authority for local sales taxes of up to one-half of one percent.

Section 18. Amends Minnesota Statutes section 297A.99, subdivision 1, by removing the requirement that a special law be enacted before a local government may impose a general sales tax. New provisions allow a city of the first class to impose, by ordinance, a general sales tax of up to one-half of one percent, without a special law. Duluth is allowed a one percent sales tax. A city of the first class may also extend the length of time that a sales tax enacted before July 1, 2004, may be imposed. A city of the first class may, by ordinance, impose a $20 excise tax on the sale of motor vehicles within the city boundaries.

Section 19. Amends section 297A.99, subdivision 2, by removing the requirement that the local government adopt a resolution to request legislation authorizing a local sales tax. The new provisions allow cities of the second or third class to impose by ordinance a general sales tax of up to one-half of one percent, or extend an existing sales tax, without a special law, subject to specific limitations. The proceeds of the tax must be dedicated for payment of a specific capital improvement, in one of eight categories, that provides a regional benefit. The city must provide to the Commissioner of Revenue a copy of the ordinance and other official documentation, that shows compliance with this section.

Section 20. Amends section 297A.99, subdivision 3, by removing the requirement that the imposition of a local sales tax be approved by the local voters. The new provisions require cities of the second or third class to obtain special legislation to enact a local sales tax if the proceeds of the tax are to be used to fund projects that are not covered by subdivision 2. The local government must adopt a resolution that includes the proposed tax rate, how the revenues will be used, the total revenues to be raised and the length of time the tax will be in effect. Imposition of a tax under this subdivision must receive local voter approval. The proceeds from a tax imposed under this subdivision must be used for a specific capital improvement.

Section 21. Amends section 297A.99, subdivision 5, to include the tax rates imposed under subdivision 1 or 2.

Section 22. Amends section 297A.99, subdivision 12, to require that a new local sales tax may only be imposed starting on January 1.

Section 23. Fuel Efficient Vehicles. Amends section 297B.03, by exempting from motor vehicle excise tax sales of vehicles to the state or a political subdivision that have a highway fuel efficiency greater than 45 miles per gallon, and a city fuel efficiency greater than 35 miles per gallon
Effective Date. For sales made after June 30, 2005, and before July 1, 2008.

Section 24. Local Tax Prohibition. Strikes the general prohibition for local governments to levy sales taxes.

Section 25. St. Cloud. Amends the authority of the city of St. Cloud to impose a sales tax on retail on-sales of intoxicating liquor, food, and non-alcoholic beverages. The current law allows a one percent sales tax. This section authorizes the city to increase the sales tax to two percent if the increase is approved by the voters of the city at the next general election.

Section 26. St. Cloud. Amends the authority of the city of St. Cloud to impose a lodging tax. The current law allows a two percent tax. This section authorizes the city to increase the lodging tax to three percent if the increase is approved by the voters of the city at the next general election.

Sections 27 and 28. Mankato. Allows the city of Mankato to issue bonds for Riverfront 2000 in an aggregate amount of $25 million.

Section 29. **Hermantown.** Amends the use of the revenues from the Hermantown sales tax to allow the city to use one-half of the revenue for construction of a community center, civic center, public works facility, roads, street improvements, acquisition, and improvement of parks and trails. Requires the city to conduct a referendum if the city proposes to increase the sales tax rate, authorizes bonding in an amount not to exceed $12,900,000. The additional tax expires when sufficient revenues have been raised by it to pay the cost of the project, including debt service.

Sections 30 and 31. Rochester. Amends the use of the revenues from the Rochester sales tax to include construction of a regional highway and higher education facilities, and authorizes bonding in an amount not to exceed $111,500,000.

Sections 32 to 34. Proctor. Authorizes the city of Proctor to impose an additional sales and use tax of up to one-half of one percent if approved by the city voters at a general or special election. The tax revenues must be used for construction and improvements of city streets, public utilities, sidewalks, bikeways and trails. The city may issue bonds in an amount not to exceed $7,200,000.

Section 35. Biomass Generation Facility. Extends the termination date for the sales tax exemption for construction of a poultry litter and other biomass generation facility until July 1, 2006.

Section 36. Alcoholic Beverages and Rental Cars. Repeals the sunset of the additional rate of sales tax on alcoholic beverages and rental cars. Under current law, the taxes are repealed effective January 1, 2005.

Section 37. Thief River Falls. Amends the authority of the city of Thief River Falls nonprofit corporation to clarify that the nonprofit corporation is exempt from sales and use tax on the construction of the community or regional center. A contractor is prohibited from charging the nonprofit for sales or use taxes if the contractor does not pay tax on the items.

Section 38. Albert Lea. Authorizes the city of Albert Lea to impose a sales and use tax of one-half of one percent if approved by the city voters at the next general election. The tax revenues must be used to pay for lake improvement projects. The tax terminates 10 years after imposition or when the revenues meet or exceed the sum of $15,000,000, whichever is earlier.

Section 39. Beaver Bay. Authorizes the city of Beaver Bay to impose a sales and use tax of up to one-half of one percent if approved by the city voters at the next general election. The tax revenues must be used to pay for indebtedness on the community building, fund the recreational facilities, upgrade water and sewer systems, upgrade fire equipment, and improvement of streets. The tax terminates when the revenues meet or exceed the sum of $1,500,000.

Section 40. Bemidji. Authorizes the city of Bemidji to impose a sales and use tax of one-half of one percent that was approved by the city voters at a November, 2002, election. The tax revenues must be used to pay for construction and improvement of parks and trails. The city may issue bonds in an amount not to exceed $9,826,000. The tax terminates when the revenues are sufficient to retire the bonds.

Section 41. Cloquet. Authorizes the city of Cloquet to impose a sales tax of up to one-half of one percent, and a motor vehicle excise tax of up to $20 per vehicle on vehicles sold within the city. The revenues will be used to pay for costs of improvements of Veteran's Park and riverfront parks, water and sewer lines, city infrastructure improvements, and the cost of closure of a municipal landfill. The city will issue bonds not to exceed $7,000,000 to pay for these projects. The city voters must approve the tax. The tax expires the earlier of 12 years, or when the bonds have been retired.

Section 42. Clearwater. Authorizes the city of Clearwater to impose a sales tax of one-half of one percent to pay for costs of development, acquisition, construction and improvements of parks, trails, parkland, open space and a regional community and recreation center. The city will issue bonds not to exceed $3,000,000 to pay for these projects. The city voters must approve the tax. The tax expires when project costs have been paid and the bonds have been retired.

Section 43. Medford. Authorizes the city of Medford to impose a sales tax of one-half of one percent to pay for $5,000,000 in improvements to the city's wastewater system and wastewater treatment plant. The city will issue bonds to pay for the improvements. The city voters must approve the additional tax. The tax expires at the earlier of 20 years or when the project costs have been paid and the bonds have been retired.

Section 44. Park Rapids. Authorizes the city of Park Rapids to impose a sales tax of one percent. The revenues will be used to pay for costs of development, acquisition, construction and improvements of the following projects: a community center if one-third of the cost is received from private sources; capital improvements including water, sewer, streets, water tower and well, trunk highway 43 improvements, and parks. The city will issue bonds to pay for the improvements. The city voters must approve the tax. The tax expires July 1, 2023.

Section 45. Proctor. Authorizes the city of Proctor to use up to ten percent of the city lodging tax receipts for preservation of the Caboose, the Baldwin Locomotive, and the F-101F aircraft.

Section 46. St. Cloud Area Cities. Subdivision 1. Authorizes the St. Cloud area cities, St. Cloud, Sartell, Sauk Rapids, St. Augusta, St. Joseph, and Waite Park to impose a one-half of one percent sales tax within the respective city boundaries. Before a city may impose the tax, it must be approved by the voters of the city at the next general election.

Subdivision 2. The revenues collected from the sales taxes must be used to finance regional projects: St. Cloud Regional Airport, transportation, arts, libraries, community centers, park land and open space, and $20,000,000 for the St. Cloud Civic Center remodeling and expansion.

Subdivision 3. Provides for annual allocation between the cities of the revenues from the sales taxes. The first $900,000 of collections are designated to St. Cloud for the expansion of the St. Cloud Civic Center or the construction of the Great River Regional Library. The remaining revenue is returned to the cities pursuant to a joint powers agreement.

Subdivision 4. Authorizes St. Cloud to issue general obligation bonds, not to exceed $80 million, to pay for the projects in subdivision 2.

Subdivision 5. The St. Cloud sales tax expires when the bonds have been retired or redeemed. The sales taxes imposed by the remaining cities expire the earlier of 20 years or when the projects listed in subdivision 2 are complete.

Effective Date. For sales and purchases on and after January 1, 2006, if approved by the voters of the city.

Section 47. Sales Tax Compliance Gap. The Commissioner of Revenue is required to close the compliance gap in the payment of sales and use tax, reducing it by 25 percent by December 31, 2007, and an additional 25 percent by December 31, 2008, and must establish an effective method for individuals to pay sales and use tax.

Section 48. Waite Park. Authorizes the city of Waite Park to impose a sales and use tax of one-half of one percent that was approved by the city voters at a November, 2003, general election. The tax revenues must be used to pay for the city's portion of the funding for the St. Cloud Regional airport, not to exceed $25,000 per quarter, and for other regional projects approved by the voters in 2003. The tax terminates when the revenues meet or exceed the amount necessary to pay for the regional projects.

Section 49. Waseca. Authorizes the city of Waseca to impose a sales tax of one percent. The revenues will be used to pay for costs of improvements to water quality and lakes, the community center, an industrial incubator and improvements to downtown. The city will issue bonds in an amount not to exceed $1,820,000, to pay for the improvements. The city voters must approve the tax. The tax expires the earlier of 10 years or when sufficient funds have been raised to retire the bonds.

Section 50. Winona. Authorizes the city of Winona to impose a sales tax of one percent, and a motor vehicle excise tax of $20 per vehicle sold within the city boundaries. The revenues will be used to pay for costs of transportation projects or improvements. The city voters must approve the tax. The tax expires the earlier of 10 years or when sufficient funds have been raised to retire the bonds.

Section 51. Distribution of Revenue. Seventy percent of the receipts from the sales tax in excess of 6.5 percent imposed on the sale of alcoholic beverages from January 1, 2006, through December 31, 2006, are distributed to the counties for property tax reduction. One-half of the total is distributed among counties on a per capita basis and the remainder is allocated to the counties where the sales occurred. To qualify for the distribution, a county must increase its funding by at least 10 percent for chemical dependency treatment programs that will reduce the tax burden caused by chemically dependent individuals. The total distribution amount to the counties in future years equals the amount distributed for sales in 2006.

Section 52. Repealer. Repeals Minnesota Statutes, section 297A.99, subdivision 13, which provides that all local sales taxes are subject to the general rules in that section.

Article 3
Property Taxes

Sections 1-4. School Capital Levies. Permits school districts that are considering capital levies to choose to impose the levy on either net tax capacity or on referendum market value. Under current law, capital levies are imposed on net tax capacity only. Debt service equalization will continue to be based on net tax capacity so there will be no distributional impacts between districts.

Sections 5-8. Referendum Equalization. Provides a new definition of "local effort level" for referendum equalization that includes income tax revenues from a school district referendum imposed on income tax liability under section 37.

Section 9. Referendum Ballot and Notice. Provides optional ballot language for income tax-based referenda stating that voting yes on the ballot question may result in an income tax increase. A referendum may be conducted on the question of converting an existing property tax levy to an income tax. Notices of an income tax referendum must be mailed to taxpayers shown to be domiciled in the district. Space must be provided on the individual income tax form for taxpayers to identify their school district domicile. Surplus ballot language is eliminated.

Section 10. Manufactured Home Delinquent Taxes. Provides that a manufactured home park owner is not required to pay the delinquent or current year's personal property taxes as a condition of transferring title on a manufactured home to the park owner.

Section 11. Commissioner to Notify County Auditor. Requires the Commissioner of Transportation to notify the county auditor of property acquired by the Department of Transportation.

Section 12. Wind Energy Conversion Systems. Provides that if approved by the county where the property is located, the value of land on which a wind energy conversion system is located must not be increased or decreased for property tax purposes. The land must be classified based on the most probable use of the property if it were not improved with the wind energy conversion system.

Section 13. Poultry Litter Biomass Generation Facility. Extends the construction date requirement that applies to a poultry litter biomass generation facility personal property exemption by one year. Under this section, construction must begin during calendar after January 1, 2003 and before December 31, 2004.

Section 14. Electric Generation Facility Personal Property. Alters the requirements that apply to an exemption from the tax on personal property of an electric generation facility that was enacted in 2003. The capacity of the plant is reduced from 550 megawatts to 300 megawatts. Current law provides that the exemption applies to a facility at which the construction is begun between January 1, 2004, and December 31, 2006. This section provides that any expansion of the facility would be eligible for the exemption under this provision, without regard to the date when the construction of the expansion begins.

Section 15. Electric Generation Facility Personal Property. Provides an exemption from the property tax for personal property and attached machinery that is part of a simple-cycle, combustion-turbine electric generation facility that exceeds 290 megawatts of installed capacity. The facility must be designed to use natural gas as a primary fuel, not be owned by a public utility, be located outside of the metropolitan area but within five miles of an existing natural gas pipeline, and within five miles of an existing electrical transmission substation. It must be designed to provide peaking capacity energy and ancillary services, and meet the certificate of need requirement that apply to large energy facilities. Construction must begin between January 1, 2005, and December 31, 2008.

Section 16. Electric Generation Facility Personal Property. Provides a property tax exemption for attached machinery and other personal property that is part of a simple-cycle, combustion-turbine electric generation facility that exceeds 300 megawatts. The facility must be designed to use natural gas as a primary fuel, be owned by a public utility, and located at or interconnected with an existing generating plant of the utility. It must be designed to provide peaking, emergency backup or contingency services, and satisfy a resource need identified in an approved integrated resource plan. Construction must begin during calendar year 2005.

Section 17. Electric Generation Facility Personal Property. Provides a tax exemption for attached machinery and other personal property that is part of an electric generation facility that exceeds 150 megawatts of installed capacity. The facility must be designed to use natural gas as a primary fuel, be owned and operated by a municipal power agency, have a certificate of need from the Public Utilities Commission, be located outside of the metropolitan area, and be designed to be a combined-cycle facility, even though, initially, the facility may be operated as a simple-cycle, combustion turbine. In order to receive the exemption, the municipal power agency and the host city must enter into an agreement for payment in lieu of property taxes to the host city. Construction of the material must be commenced between January 1, 2004, and December 31, 2005.

Section 18. Biomass Electric Generation Facility Personal Property. Provides an exemption for attached machinery and other personal property that is part of an electric generation facility that generates up to 30 megawatts of installed capacity. The facility must be designed to utilize at least 90 percent waste biomass as a fuel, not be owned by a public utility, be located within a city of the first class, have its primary location at a former garbage transfer station, and be designed to have the capability to provide baseload energy and district heating. Construction of the facility must be commenced between January 1, 2004, and December 31, 2007.

Section 19. Electric Generation Facility Personal Property. Provides an exemption for attached machinery and other personal property that is part of either a simple-cycle, combustion-turbine electric generation facility that provides at least 150 megawatts or a combined-cycle, combustion-turbine electric generation facility that provides at least 225 megawatts of installed capacity. The facility must be designed to use natural gas as a primary fuel, not be owned by a public utility, be located in a metropolitan county that has a population between 190,000 and 225,000, and be within one mile of an existing natural gas pipeline, and within one mile of an existing electrical transmission substation. It must be designed to provide energy and ancillary services, and received a certificate of need for a large energy facility. Construction must begin between January 1, 2005, and December 31, 2007.

Section 20. Personal Rapid Transit System. Provides that property used in the operation and support of a personal rapid transit system is exempt, provided that the system provided service to the public on a continuous basis and is operated independent of any government subsidies.

Section 21. Reports. Requires owners of wind energy conversion systems to file their annual report to the Commissioner of Revenue by February 1 rather than March 1. The Commissioner of Revenue must notify the owners of wind energy conversion systems of the amount of tax due for the current year and notify the counties of the amount of tax due from wind property owners by February 28 rather than March 31.

Section 22. Distribution of Revenues. Provides that the county treasurer will distribute the wind energy production tax based on the local tax rates for the previous year, rather than on the current year tax rates.

Section 23. Limited Market Value. Eliminates the current law phase-out of the limited market value law. Instead, for assessment year 2005 and thereafter, the limited market value system would continue to apply as it has for assessment year 2004; that is, the amount of the market value increase would be limited to the greater of 15 percent of the value in the preceding assessment or 25 percent of the difference between the current assessment and the preceding assessment. The current law termination date on limited market value, for taxes payable in 2008, is eliminated. This section also extends limited market value to homestead resort property and to commercial-industrial property having a total market value less than $500,000.

Section 24. Homestead Resorts; 2005 Assessment. Provides that for the 2005 assessment, the market value on homestead resorts cannot increase by more than the greater of 15 percent of the 2002 assessment or 25 percent of the difference between the 2004 assessment and the 2002 assessment. For the 2006 and 2007 assessments, homestead resorts will be included in the classes which receive the regular limited market value treatment.

Section 25. Valuation Exclusion for Sewage Treatment Systems. Provides a valuation exclusion for sewage treatment system improvements. The exclusion would apply to property that is classified as homestead or nonhomestead residential, including rental residential property with three or fewer units and cabins. It is available for property in counties that have authorized these valuation exclusions. A notice of noncompliance must have been issued by a licensed compliance inspector with regard to the individual sewage treatment system serving the property. The owner of the property must furnish proof to the assessor that the property's individual treatment system has been replaced or refurbished between May 1, 2005, and December 31, 2007, and a certificate of compliance has been issued for the new or refurbished system. If it qualifies for the exclusion, it would be in the amount of 50 percent of the costs incurred, to a maximum exclusion of $7,500 for five taxable years. The valuation exclusion would terminate when the property is sold.

Section 26. Valuation Exclusion for Lead Hazard Reduction. Provides that owners of residential homesteads and non-homestead property of up to three units may apply for a valuation exclusion for lead hazard reduction. This would be available only in cities that authorized valuation exclusions under this program. If it authorizes the valuation exclusions, the city must establish guidelines for qualifying lead hazard reduction projects and must designate a city agency to issue certificates of completion of qualifying projects. A qualifying property is eligible for a valuation exclusion equal to 50 percent of the cost incurred for the lead hazard reduction project to a maximum exclusion of $15,000 for five years. The valuation exclusion is available only for projects that begin after April 30, 2005. The exclusion terminates when the property is sold.

Sections 27 and 31. Aggregate Resource Preservation Property Tax Law. Establishes an Aggregate Resource Preservation Property Tax Program. Real estate will be classified under this program if it is classified as homestead or agricultural property, it contains at least ten contiguous acres, and there are no delinquent taxes on the property. In applying for the valuation deferment, the owner must provide proof that the land contains a restrictive covenant limiting its use for the property surface to that which exists on the date of the application, and limiting its future use to the preparation and removal of the aggregate commercial deposit under its surface. If it qualifies, the property would be valued as if it were agricultural property using a per acre valuation equal to the current year's per acre valuation of agricultural land in the county. The assessor must not consider additional value that would result from potential alternative and future uses of the property. Buildings would continue to be assessed as they are under current law. The covenant may be canceled by the owner or by the municipality in which the property is located. If the owner cancels, there is a recapture of the difference between the taxes that had been imposed on the property under this program and what would have been payable over the years that the property has been in the program. If the municipality cancels the covenant there is no recapture of the taxes. A county government is allowed to terminate the application of these sections prospectively within the county after giving notice and public hearing. When land that was in the program begins to be mined, it will be eliminated from the program but with no recapture of taxes, and it will be assessed as commercial-industrial property.

Section 28. Homestead Resorts Valuation and Deferment. Establishes a valuation and tax deferment program for class 1c homesteaded resorts similar to the agricultural "Green Acres" program. The taxes imposed are based on the use as a resort, and when the property no longer qualifies, the property is subject to additional taxes for the current year and for the six previous years. The amount due for each of those years is the difference between the amount of taxes actually paid and the amount that would have been paid if the valuation and deferment program had not existed. Special local assessments levied after June 30, 2005, are deferred (with interest) until the property no longer qualifies. Effective for taxes levied in 2005, payable in 2006 and thereafter.

Section 29. Open Space Valuation; Polo. Includes real estate devoted to polo in the list of uses which qualify for the Open Space valuation and deferment program.

Section 30. Homestead Used for Licensed Child care. Provides that a portion of a homestead property used to provide licensed child care must be classified as homestead property.

Sections 32, 33, and 45. Class 4d Low-Income Rental Housing. Provides that qualifying low income rental housing will have a property tax class rate of 0.55 percent for taxes payable in 2007 and thereafter. In order to qualify, 75 percent of the units in a rental property must meet one of the following criteria: 1) the units are subject to a section 8 housing contract; 2) the units are rent and income restricted units of a qualified low-income housing project receiving tax credits under section 42(g) of the Internal Revenue Code; 3) the units are financed by the Rural Housing Service of the Department of Agriculture and rental assistance program payments; or 4) the units are subject to rent and income restrictions under terms of government-provided financial assistance. The restrictions must require the units to be occupied by residents whose household income at the time of occupancy does not exceed 60 percent of the greater of area or state median income as adjusted for family size and require that rents for the assisted units must not exceed 30 percent of the same income threshold. The value of qualifying property must be determined on the basis of the restricted use of the property by capitalizing net operating income prior to payment of debt service. The Commissioners of Revenue and the Housing Finance Agency must determine the capitalization rate to be applied. Application for the income-based assessment must be made filed by February 28 of the levy year with MHFA.

Section 34. Vacant Commercial-Industrial Properties. Authorizes a city to establish a program by ordinance, to encourage redevelopment, better utilization of property, and elimination of blighting influences. The city would have authority to revoke eligibility of individual commercial-industrial properties to receive the disparity reduction credit. A property is subject to this loss of the credit only if for the previous three or more years it has been condemned, dangerous, or having multiple housing or building code violations; condemned and illegally occupied; either occupied or unoccupied, during which time the local enforcement officer has issued an order to correct nuisance conditions. A property is also subject to loss of the credit if it was unoccupied and unutilized for a commercial-industrial purpose for at least five years prior to the current assessment year. The city program must provide standards for determining whether a property is vacant, written assessment notice by the city or county to the property owner informing the owner that the property's eligibility will be revoked, and opportunity to appeal the revocation at the board of equalization. Effective for taxes payable in

2007 and thereafter.

Section 35. Market Value Credit Reimbursement Reduction. Provides that for homestead property located within a city, the reimbursement for the market value credit to the county and the city will be reduced if the net tax on the property is less than a specified percentage of its taxable market value. For taxes payable in 2007 and 2008, the percentage is 0.7 percent of market value. The percentage increases to 0.8 percent for taxes payable in 2009 and 2010, to 0.9 percent for taxes payable in 2011 and 2012, and to 1.0 percent for taxes payable in 2013 and thereafter. The reduction in the reimbursement must be allocated to the county and the city in proportion to their levies.

Section 36. Valuation of Electric and Transmission Pipeline Utility Property. Provides that rules adopted by the Commissioner of Revenue prescribing the method of valuing electric and transmission pipeline utility property may not take effect before the end of the regular legislative session in the calendar year following adoption of the rules.

Section 37. State General Levy; Tax Rate. Fixes the rate of the state property tax levy on commercial-industrial property at the rate imposed for taxes payable in 2002. The amount of the state levy on seasonal recreational property would continue to be increased based on the rate of inflation as under current law. Beginning with taxes payable in 2008, the Commissioner of Finance is required to deposit the increase in the state general levy over the amount levied in 2002 in the Education Reserve Account.

Section 38. Proposed Tax Notice; Ramsey County Library. Provides that on the notice of proposed property taxes for Ramsey County, any amount levied for library purposes must be listed separately from the remainder of the county's levy.

Section 39. Property Tax Statement; Ramsey County Library. Provides that for Ramsey County property tax statements, any amount levied for library purposes must be listed separately from the remainder of the county's levy.

Section 40. Petitions Involving Low-Income Rental Property. Provides that property tax petitions involving qualified low-income rental housing property may include all qualifying parcels within the county owned by the petitioner. Under current law, multiple parcels in a petition must all be within the same city or township.

Sections 41 to 43. Resort Tax Due Date. Provides that property taxes may be paid on class 1c or 4c resort properties by June 15 without incurring a penalty. Under current law, the taxes must be paid by May 15. The change is effective for taxes payable in 2006 and 2007 only.

Section 44. School Referendum Tax. Imposes a tax on the income tax liability of residents of a school district in which voters approved an income tax increase at a referendum in 2006 or a subsequent year. The tax is imposed on individuals who are domiciled within the school district on the last day of the taxable year. The Commissioner of Revenue is required to determine the rate of the tax as a percentage of state income tax liability. The rate is determined as the ratio of the district's local effort revenue to the income tax liability of all individuals domiciled in the district on the last day of the taxable year. Revenue generated by the tax must be placed in a special account in the general fund to be used to make payments to the school districts.

Section 46. Uncompensated Care Reimbursement. Provides for a partial reimbursement of the cost of uncompensated care provided by qualifying hospitals in the metropolitan area. In order to qualify, a hospital must have a licensed bed capacity greater than 400 and must either be owned or operated by a local unit of government; be formerly owned by a university; or be a private nonprofit hospital that leases its building from the county in which it is located. The county is eligible for reimbursement of the portion of gross charges for uncompensated care determined by multiplying the hospital's total gross charges during the base year by its percentage of uncompensated care, subtracting one-half of one percent of gross charges, dividing the result by two and then multiplying by the hospital's cost-to-charge ratio during the base year. The county is required to notify its county auditor by July 15 of each year of the amount of qualifying uncompensated care provided, adjusted to cost using the cost-to-charge ratio. The amount of qualifying uncompensated care is certified by the county auditor to the fiscal disparities administrative auditor as an addition to the fiscal disparities areawide levy. The section is effective for taxes payable in 2007 and 2008.

Section 47. Hennepin County Public Defender Cost Reimbursement. Provides that Hennepin County is eligible for reimbursement of costs incurred for public defenders. For the year ending June 30, 2006, the reimbursement is equal to 25 percent of the costs. The reimbursement increases to 50 percent for 2007. The county is required to notify its county auditor by July 15 of each year of the cost incurred. The public defender cost is certified by the county auditor to the fiscal disparities administrative auditor as an addition to the fiscal disparities areawide levy. The section is effective for taxes payable in 2007 and 2008.

Sections 48 and 49. Caponi Art Park. Modifies the conditions under which the property tax and special assessment deferral will apply to the Caponi Art Park in the city of Eagan. A 1998 law provided that this property will receive the benefit of a deferral of property taxes and special assessments if certain conditions are met. First, it must continue to be owned by the current owner of the property or that owner's spouse or child. Second, the current owner, spouse or child must convey ownership of the property to a non-profit foundation or corporation that will continue to operate the property as an art park by July 1, 2007. Third, that operation must continue for at least ten years after the conveyance. Under this proposal, the ownership of the property may be conveyed in part to a non-profit organization and in part to a local government. Those entities may separately or jointly operate the property both as an art park and for other public purposes as determined by the local government. The special assessments must be paid in full or a payment agreement must be entered into and approved by the city if the ownership is transferred. The county board will determine the amount of additional taxes due on the portion of the property that is no longer used as an art park, subject to city council approval. The additional taxes must not be greater than the difference between the taxes determined under the special deferral law on the portion of the property that had been used as an art park, and the amount that would have otherwise have been due during all the years when the taxes were deferred.

Section 50. Lakes Area EDA Levy. Authorizes the Lakes Area Economic Development Authority to levy a property tax as a special taxing district. Under current law, the authority requests its members to levy taxes for the benefit of the authority. The amount of the levy is not changed from current law.

Section 51. Local Approval. Extends the date by which St. Louis County is required to certify local approval of the law creating the Southern St. Louis County Special Taxing District for the Chris Jensen Nursing Home until January 1, 2006.

Section 52. Education Reserve Account. Establishes an Education Reserve Account in the state treasury. An unspecified amount is appropriated to the education reserve in FY 2006. An unspecified appropriation is made to the Commissioner of Education to supplement general education aid for FY 2006 and FY 2007. Beginning with taxes payable in 2008, the Commissioner of Finance is required to deposit in the education reserve account the increase in the state general levy over the base amount of the levy for taxes payable in 2002. The amounts in the education reserve account do not lapse or cancel, but remain until appropriated for education aid or higher education funding.

Section 53. Study of Pollution Control Exemption. Requires the Commissioner of Revenue to study the property tax exemption for pollution control equipment that is part of an electric generation system. The Commissioner must present a recommendation to the legislature by January 15, 2006, limiting the exemption to property directly and exclusively used for pollution control purposes.

Section 54. Prinsburg Levy Authority. Authorizes the Prinsburg Common School District to continue operating provided that the district adopts a resolution by May 1 each year declaring that it will operate for the following school year; the proposed budget shows that the district will not return to statutory operating debt; and the district has passed a referendum authorizing levy authority for the coming school year. Before the Prinsburg district is allowed to levy, the boards of the Prinsburg district and the MACCRAY district must mutually agree to the amount of outstanding tuition owed by the Prinsburg district to the MACCRAY district. The Prinsburg district is authorized to levy for taxes payable in 2005, 2006 and 2007 to eliminate statutory operating debt. The district is authorized to conduct a referendum for the purpose of eliminating the previous year's estimated operating deficit. (Updated version in 2005, S.F. No. 485)

Section 55. Sauk River Watershed District. Authorizes the Sauk River Watershed District to levy up to 0.01 percent of taxable market value for its administrative fund.

Section 56. Commercial-industrial Land Value Taxation – Local Option. Provides that a municipality over 70,000 population or a municipality in the taconite tax relief area may adopt by resolution a system of valuing commercial-industrial property based on land value excluding improvements. The election must be made by December 31, 2005, based on a finding that converting to the land value taxation system will enhance economic development within the municipality. A municipality that makes the election must notify the Commissioner of Revenue and the legislature must enact legislation necessary to implement the system.

Section 57. Fiscal Disparities Study. Requires legislative fiscal staff to conduct a study of the fiscal disparities program that applies to the Twin Cities metropolitan area and report to the chairs of the House and Senate Tax Committees on the findings by March 1, 2006. The primary object of the study will be to address the question of whether the program is achieving the purposes from which it was created. The study must also consider how the program has affected property tax disparities in the Twin Cities metropolitan area and whether the formula for contributing tax base to the area-wide pool is reasonable. The study must address whether certain commercial-industrial tax bases should continue to be exempt from the contribution to the area-wide pool. These exemptions include the pre-1979 commercial-industrial tax base, the value of pre-1979 tax increment financing districts and property located at the Twin Cities International Airport. The study must also examine whether the formula for distributing the tax base is reasonable, whether the program helps to promote orderly growth and encourage environmentally sound land use, whether it reduces competition for commercial and industrial tax base between communities, whether this system prevents local governments from deriving sufficient commercial-industrial tax revenues to cover the cost of providing services to those properties and whether improvements could be made in the administration of the program.

Section 58. Township Levy Adjustment for Wind Production Tax. Allows townships in Lincoln and Pipestone counties to adjust their payable 2004 levy for all or a portion of their estimated 2004 wind energy production tax. The Lincoln and Pipestone county auditors are authorized to make the necessary adjustments for those towns that have recertified their levies by March 15, 2004.

Section 59. Study of Fees. Requires commissioners of state agencies that impose fees on individuals or businesses to report to the Commissioner of Revenue by January 15, 2006, on the amount and type of fees imposed, amount and type of fee increases since January 1, 2003, revenues derived from each fee for the four most recent fiscal years and the uses of fee revenues. The Commissioner or Revenue is required to provide a report on all state agency fees to the Tax, Finance and Appropriation Committees of the Senate and the House of Representatives by February 15, 2006. The Department of Education is required to provide a report on fees collected under the Public School Fee Law to the Education Finance Divisions and Tax Committees of the House and Senate. Requires home rule and statutory cities to report to the Commissioner of Revenue by January 15, 2006, on the amount and type of fees imposed, amount and type of fee increases since January 1, 2003, revenues derived from each fee for the four most recent fiscal years and the uses of fee revenues.

Article 4
Aids to Local Governments

Section 1. City Revenue Need. Changes the inflation factor applied to the city revenue need. Under current law, the inflation factor is the most recent annual implicit price deflator (IPD) compared to the 2003 annual IPD. Under this section, the ratio will be based on the most recently available first quarter IPD to the first quarter IPD for 2000.

Section 2. City Aid Base Definition. Corrects an error in the 2003 Omnibus Tax Act. Striking this paragraph was unintentionally missed when the 2003 Legislature redefined Local Government Aid for cities. Retaining paragraph (f) would have the effect of preserving the grandfathered aid base. This section also provides for an increase in the city aid base of $250,000 for the city of Osseo in calendar years 2006 to 2015 and an increase in the city aid base of $25,000 for the city of Champlin in calendar year 2006. This section also changes the city aid base for nonmetro cities having a population greater than 10,000. Under current law, a city's population must have been greater than 10,000 according to the 2000 census in order to qualify for additional aid. This section allows cities to receive the additional aid based on their current population.

Section 3. City Revenue Base; Taconite Aid. Eliminates the addition of taconite aid to the city revenue base. Under current law, taconite aids are added into the city revenue base beginning in 2005 (25 percent in 2005, 50 percent in 2006, 75 percent in 2007, and 100 percent in 2008 and thereafter).

Section 4. City Aid Distribution. Eliminates the maximum LGA increase to a city in any year. Current law limits aid increases to 10 percent of a city's levy in the previous year. The current law limiting aid decreases for both large and small cities is retained. Obsolete language relating to the 2004 aid distribution is eliminated.

Section 5. LGA Appropriation. Increases the appropriation for city LGA from $437,052,000 to $497,052,000 for aids payable in 2006. For aids payable in 2007 and subsequent years, the appropriation is increased by $6,000,000 each year until the need increase percentage equals one.

Sections 6 through 10. LUP Lands. Establishes a new category of land, "land utilization project land" under the law providing payments to counties for natural resources land. Under current law, this type of land, which is leased by the state from the United States through the Secretary of Agriculture under Title III of the Bankhead Jones Farm Tenant Act, qualifies for payments of 75 cents per acre within the category of "county-administered other natural resources land." This section establishes a separate category for this type of land and increases the payments to $3.00 per acre adjusted for inflation.

Section 11. 2004 City Aid Reductions. Clarifies that a city's 2004 initial aid reduction amount is not "applied to" its 2004 local government aid because that amount already includes the initial aid reduction amount.

Article 5
Local Development

Section 1. Business Subsidy. Updates the items listed in statute that are not a business subsidy by adding language providing that assistance to provide job readiness and training services if the sole purpose of the assistance is to provide those services is not a subsidy except when the assistance is paid for by expenditures of tax increments under new section 15.

Section 2. Residence. Adds a new subdivision to define "residence" as the place where an individual has established a permanent home from which the person has no current intention of moving.

Section 3. Wage and Job Goals. Amends Minnesota Statutes, section 116J.994, subdivision 4, the wage and job goals provisions for the business subsidy agreement, to require that the wage and job goals result in job creation or retention by the recipient of the subsidy within the jurisdiction of the state or local government that grants the subsidy. This section is effective August 1, 2004 and applies to subsidy agreements entered into on or after that date.

Section 4. Public Notice and Hearing. Provides that the public notice of any public meeting about a business subsidy agreement must include notice that a person with residence in or the owner of taxable property in the granting jurisdiction may file a written complaint with the grantor if the grantor fails to comply with requirements of the business subsidy law. No action may be filed against the grantor for failure to comply unless a written complaint is filed.

Section 5. Reports. Amends section 116J.994, subdivision 9, to require the Commissioner of Employment and Economic Development to put the business subsidy reports submitted by local and state agencies on the department Web site by October 1 of the year in which they were submitted.

Section 6. Enforcement. Allows a resident of or a person who owns a business in a jurisdiction that grants business subsidies to file a civil action for equitable relief if the grantor does not comply with the business subsidy law. The action must be filed within 180 days after a business subsidy agreement is approved. Costs and attorney fees may be awarded to the prevailing party. This section is effective August 1, 2005, and applies to subsidy agreements entered into on or after that date.

Section 7. Transfer of Ownership. Directs the Commissioner of Transportation to transfer ownership of the I-394 parking facilities to the city of Minneapolis at the earliest feasible date after receiving payment. The payment amount must be equal to the amount of state funds spent by the DOT commissioner for construction of the facilities. After assuming ownership of the facilities, the city is directed to operate them in accordance with procedures and rules in current law. The city also must assume the authority to collect fees for the use of the facilities as provided in current law. The DOT commissioner shall take no action under this section that would result in federal sanctions against Minnesota or require the repayment of any state funds to the federal government. All money received under this section shall be deposited in the trunk highway fund.

Section 8. General Obligation Bonds. Allows a housing and redevelopment authority to pledge the full faith and credit of a governmental unit for bonds issued to finance housing development projects that are owned by a limited partnership or other entity of the HRA. In order for the HRA to pledge the full faith and credit, the limited partnership or other entity would have to receive (1) an allocation from the Department of Finance or an entitlement issuer of tax exempt bonding authority for the project and receive a preliminary determination by the Minnesota Housing Finance Agency or the applicable suballocator of tax credits that the project will qualify for 4 percent low-income housing credits, or (2) a reservation of 9 percent low-income housing tax credits from the Minnesota Housing Finance Agency or a suballocator of tax credits for the project.

Section 9. Redevelopment District. Modifies the definition of structurally substandard buildings within the definition of a redevelopment district in the tax increment financing law. The new provision specifies that a building that was originally constructed for use as a school is deemed to be structurally substandard if 50 percent or more of the square footage of the school building was constructed 30 or more years before approval of the tax increment financing plan, if the plan provides for demolition or substantial renovation of the building. The bill also provides that a building is not structurally substandard if the plan provides for demolition or substantial renovation of the building and the cost of abating or removing asbestos and lead is less than 15 percent of the cost of constructing a similar new structure at that site.

Section 10, and 16. Urban Renewal. Provides exemptions from certain general law restrictions on tax increment financing districts for areas that are established as urban renewal areas within a city. The bill defines an "urban renewal area" to be a contiguous geographic area designated within a tax increment financing project. Within that area, all parcels must be eligible for inclusion in a redevelopment, renewal and renovation, or soils condition district, or must be currently located within such a district that had been certified within ten years of the approval of the urban renewal district. Redevelopment, renewal and renovation, or soils condition districts created within an urban renewal area must be established within ten years from the city or county approval of the urban renewal area. The bill authorizes an authority to create an urban renewal area pursuant to the procedures required for approval of the original project. The authority must also obtain written approval from the county in which the urban renewal area is located. Within the area, the following tax increment financing restrictions are modified:

- first, the five-year rule that restricts the period when activities related to the district must occur, is extended to ten years;

• second, the pooling limitations do not apply provided that the increments must be expended on improvements or activities within the urban renewal area; and

• third, the local tax rate certification does not apply.

Section 11-13 and 15. Tax Increment Financing Plan. These sections authorize expenditures of tax increments for job training activities.

Section 11. provides that the tax increment financing plan must identify any job training costs that are intended to be paid for by use of tax increments. The identification must include the name of the employer whose employees will be trained, and the nature and cost of the training, but is not required to identify the provider of the job training.

Section 12 provides that the modification of a tax increment financing plan pursuant to a decision to pay for job training must follow the process required for approval of the original plan.

Section 13 provides that the annual financial report that is made for each tax increment financing district to the state auditor must include the amount expended during the year for the job training.

Section 15. Authorizes the use of tax increment financing for job training that is intended to result in new job growth within a tax increment financing district. This authorization essentially overrides the general law limitation on the use of tax increments, that is, that they must be authorized under the law that provides the powers of the authority or the municipality that is creating the district. Specific limitations on the types of expenditures that may be made in soils condition districts, economic development districts, and redevelopment districts are also overridden for this purpose. The authority may make the expenditures for the job training activities or may reimburse an employer located within the district or municipality in which the district is located for job training expenditures. The expenditures are restricted to job training programs that are approved by the local workforce council. For purposes of the restrictions on pooling of increments, the expenditure of increments for job training purposes are considered to be expended on activities within the district. This expenditure is authorized for any district created after July 31, 1979, provided that existing districts must modify their plans in order to expend the increments for job training purposes.

Section 14. Pre-1979 Districts. A city is allowed to expend increments from a pre-1979 TIF district after April 1, 2001 if the captured tax capacity of all TIF districts in the city is less than 6 percent of the city's total tax capacity for taxes payable in 2003 and if the city's population exceeds 50,000.

Section 17. Mixed-Income Occupancy Projects. Authorizes the creation of tax increment financing housing districts for developments that contain both owner-occupied and residential rental units for mixed-income residents. Twenty percent of the units in the development in the housing district must be occupied by individuals whose family income is no greater than 50 percent of the area median gross income and an additional 60 percent of the units must be occupied by individuals whose family income is no greater than 115 percent of the area median gross incomes. Twenty percent of the units may not be subject to any income limitations for residential rental units. The income requirements apply to rental units for the duration of the tax increment district, and to the original purchaser of owner-occupied units. The fair market value of improvements that are constructed for commercial uses or other nonhousing unit uses is limited to twenty percent of the total fair market value of the improvements in the development plan.

Section 18. Special Deficit Authority. Defines "affordable housing account" as an account in which increment is deposited solely for affordable housing activities and provides for expenditures from an affordable housing account. The section also defines "hazardous substance pollutant or contaminant remediation account" and provides for expenditures from these accounts.

Section 19. Qualified Business. Adds a provision to the JOBZ statute to provide that a business is not a qualified business for the purpose of qualifying for JOBZ benefits if at its location or locations in the zone the business is primarily engaged in making retail sales to purchasers who are physically present at the business's zone location.

Section 20. Duration of District. Changes the limitation on the duration of a redevelopment district in the city of Minneapolis for a Lake Street project. Under the 1998 law that authorized this project, the duration of the district was limited to 18 years from the date of receipt by the authority of the first increment generated from the final phase of redevelopment in the district, subject to an additional limitation of 30 years from approval of the tax increment plan. This bill eliminates the limitation relating to 18 years from the date of receipt of the first increment from the final phase of redevelopment. The 30-year overall limit remains in effect. This extension of the duration requires the approval of the city, the school district, and the county in which the tax increment is located.

Section 21-22. Special Rules. Modifies a 1998 law that authorized the city of New Brighton to establish a tax increment financing district or districts subject to certain special rules. This proposal clarifies that the authority applies to one or more districts, but restrict it to application to redevelopment districts and removes the authority to apply this to soil conditions districts. The certified original tax rate restriction that would apply under general law would not apply to this district. The requirements that normally apply for inclusion of property within a redevelopment district, do not apply to sixteen specifically identified parcels or to railroad property within the district. The limitation on the exemption from pooling restrictions which is currently eighteen years after the receipt of the first increment is stricken. The time for the authority to approve tax increment financing plans to establish districts under this provision is extended from December 31, 2008 to December 31, 2013.

Section 23. Anoka County Regional Railroad Authority Powers. Authorizes the Anoka

County Regional Railroad Authority to exercise the powers and duties of an economic development authority for transit-oriented development. This authorization does not extend to the taxation powers, and does not change or impair the powers or duties of any other municipality or housing and redevelopment authority or economic authority in the area of its jurisdiction. If any economic development project is constructed in Anoka County under this authorization, the project must be approved by the governing body of the city or town in which the project is located.

Section 24. City of Detroit Lakes Redevelopment Tax Increment Financing District. Authorizes the city of Detroit Lakes, or the Detroit Lakes Development Authority, to create one or more redevelopment districts within a geographic area that is described in the bill. The district is deemed to be a redevelopment district, and all buildings that must be removed in order to facilitate the Highway 10 realignment project are deemed to be structurally substandard for purposes of the tax increment financing law. The limitation in current law that a parcel is deemed to be occupied by a structurally substandard building if it had been occupied by the building within three years of the filing of the request for certification of the parcel as part of the district is made inapplicable to this district. The authority to approve tax increment financing plans to establish any of these districts expires on December 31, 2014.

Section 25. Elgin, Eyota, Byron, and Oronoco. Allows the cities to be considered "small cities," for purposes of the tax increment financing law, notwithstanding the existing statutory restriction that a small city must be located at least ten miles away from a Minnesota city with a population of 10,000 or more. The tax increment financing law provides that tax increment from an economic development district in a small city may be used to provide assistance for up to 15,000 square feet of any separately owned commercial facility within the small city. Cities other than small cities are restricted in the uses of tax increments from economic development districts. Those revenues may not be used to provide improvements or other assistance to developments consisting of buildings and facilities if more than 15 percent of the buildings and facilities are used for purposes other than manufacturing, warehousing, research and development related to the manufacturing or warehousing, telemarketing, tourism facilities, qualified border retail facilities or space necessary for those activities.

Section 26. City of Brooklyn Center: Extension of Time to Expend TIF Increment. Provide that for a specific tax increment financing district created in 1994 in Brooklyn Center, the five-year rule which requires certain activities to be commenced within the district within a five-year period would be extended to 13 years.

Section 27. City of Fairmont: Tax Increment Financing District. Authorizes the city of Fairmont to elect to reduce the original tax capacity of a previously tax-exempt parcel in a tax increment district in the city to the value of the land alone.

Section 28. City of Fergus Falls: Economic Development Property. Applies the provision that allows a property tax exemption for property held by a political subdivision for later resale for economic development purposes to the city of Fergus Falls as if the city had a population of 5,000 or less. For property located in a city of 5,000 population or less, outside of the metropolitan area, the holding period is up to 15 years; for other cities, the maximum holding period is eight years.

Section 29. Minneapolis Special Service Districts. Authorizes a municipal ordinance that establishes a special service district to provide that the activities of the district will be managed by a nonprofit corporation that has been created to act on behalf of the city in providing the services authorized within the special service district, but only if the city certifies that no city employees are available to perform the services. If the city intends to operate its special service district with a nonprofit corporation, it must state that intention in the notice of the hearing on the issue of establishment of a special service district. The city must certify that no current city employee is able and available to perform services called for by the contract with the nonprofit.

Section 30. St. Michael TIF. Authorizes the city of St. Michael to establish a redevelopment tax increment financing district within a described area, including the downtown and town center areas, as well as all parcels adjacent to Highway 241 within the city. The bill provides that this district will be considered a redevelopment district, notwithstanding the requirements that would ordinarily apply to the area to be designated as a redevelopment district. The bill provides that tax increments from this district may be used for land acquisition, removal of buildings in the highway right-of-way acquisition area, and other costs incurred by the city of St. Michael in the expansion and improvement of Highway 241 within the city. Thus, the expenditures would not be subject to the usual restrictions in the tax increment financing law that provide that the revenues must be used for the general purposes of the authority, as well as the requirement that within a redevelopment district, 90 percent of the revenues must be used to finance the cost of correcting conditions that allow designation of the area as a redevelopment district. The limitation on the amount of acreage that may be acquired and held by a redevelopment agency at any one time is made inapplicable to this project.

Section 31. Wabasha TIF. Authorizes the governing body of the city of Wabasha to extend the duration of a redevelopment tax increment financing district by up to an additional five years. The requirement that certain activities must be undertaken in a tax increment financing within a five-year period from the date of certification will be considered to be met if the activities are undertaken within ten years from the date of certification. The bill authorizes the city of Wabasha to spend the proceeds of tax increment bonds issued before January 1, 2000, to pay the cost of acquiring and constructing a National Eagle Center in the city. The city may also use tax increments to pay the debt service on the bonds or any bonds issued to refund them, although the pooling restrictions would apply to these increments. The duration extension will require the approval of the city, the county board, and school board.

Section 32. JOBZ Expenditure Limits and Audits. Requires the commissioners of revenue and employment and economic development to estimate the total amount of tax expenditures projected to have been obligated for all JOBZ projects that have been approved before June 1,

2005. The estimate must be completed by September 1, 2005. This section further provides that if the revenue commissioner determines that the estimated amount of tax expenditures for fiscal years 2005-2007 exceeds $13,780,000, the commissioner of revenue must inform the chairs of the House and Senate Tax Committees. The section also directs the Tax Increment Financing, Investment and Finance Division of the Office of the State Auditor must annually audit the creation and operation of all JOBZ zones and business subsidy agreements.

Article 6
Public Finance

Sections 1, 3, and 4 amend the provisions relating to the use of capital notes by counties, home rule charter, and statutory cities for purchases of computer software that were enacted in 2003. These sections clarify the items that may be purchased in this manner to include software, whether bundled with machinery or equipment or unbundled, together with application development services and training relating to the use of the computer.

Section 2 clarifies the use of bonds for the acquisition of development rights in the form of conservation easements providing that this financing may be used for acquisition but not betterment of the easements.

Section 5 extends the sunset that applies to the formation of special service districts without requiring special legislation from June 30, 2005, to June 30, 2009.

Section 6 extends the sunset on the ability to create housing improvement districts from June 30, 2005, to June 30, 2009. Creation of housing improvement areas would still require special legislation authorizing the establishment of the area.

Section 7 authorizes a municipal utility, if approved by the municipal utilities commission or city council, to enter into a joint venture with other private investors to provide utility services. Current law limits municipal utilities joint venture powers to other municipal utilities, municipal power agencies, cooperative associations, or investor-owned utilities. The current law governing these joint ventures provides that a corporation formed for this purpose must comply with certain requirements that apply to corporations created by political subdivisions before May 31, 1997. This section provides that for purposes of this provision "corporation" means a corporation organized under the laws dealing with business corporations and nonprofit corporations.

Section 8 provides that general obligation revenue bonds issued to finance qualified housing development projects of a housing and redevelopment authority may have a maximum maturity of 40 years except that bonds issued to finance housing for the elderly (which are not typically subject to income limitations) remain subject to the current year limit of 30 years from the estimated date of completion of the project.

Section 9 to 11 authorize a city to establish a water submetering program under which the city would provide loans and grants to property owners to assist the owners in financing the costs of abating inflow and infiltration and water conservation and leak detection projects on their property. "Water submetering" is defined to mean water metering devices in multifamily dwellings that detect water leaks and monitor water usage of specific units or areas. The city is authorized to finance the program with federal, state, private, or city funds including general fund appropriations, sanitary or storm sewer utility funds and fees or charges. Cities are also authorized to issue revenue obligations which would be payable only from fees and charges imposed for the costs of these programs and loan repayments to finance the programs. This financing ability would extend both to the new submetering programs and to existing inflow and infiltration prevention programs.

Section 12 authorizes the Metropolitan Council to issue $32 million in obligations for capital expenditures prescribed in the Council's regional transit master plan and transit capital improvement programs.

Section 13 modifies the deadline for filing a notice of issue with respect to bonds for which an allocation of issuance authority was granted from the last Monday in December to the last business day in December, and specifies that these must be provided by 4:30 p.m. on that day.

Sections 14 to 16 change punctuation to clarify lists of eligible projects for cities, counties, and towns.

Section 17 modifies the limit in the amount of debt that may be issued by a city under its capital improvement program. The current law, enacted in 2003, mistakenly provided that the limit would be .05367 percent of the taxable market value of property in the county. This section provides that the limitation will be 0.16 percent of the taxable market value of property in a city that has a population less than 2,500 and 0.05367 percent of taxable market value of property in a city that has a population of 2,500 or more.

Section 18 expands the permissible use of bonds in street reconstruction projects to permit uses for turn lanes, improvements having a substantial public safety function, realignments, other modifications to intersect with state and county roads, and the local share of state and county road projects.

Section 19 requires that where submetering is installed, the equipment used must comply with safety and technical standards established by a professional group and must be installed in accordance with the manufacturer's instructions and code. If tenants are billed separately from rent for utilities, the person or entity that bills the tenants may not collect for this purpose more than the amount billed by the utility for the utility service. Administrative capital or other expenses related to the provision of utility service may not be collected from the tenant. The tenant must be charged the same rate for utility service that is imposed on the bill payer of record by the utility. If a resident requests, the owner must provide a copy of any bills received from the utility showing the rate and total consumption over the past 12 months. A violation of these requirements is considered a violation of laws prohibiting deceptive trade practices and consumer fraud.

Section 20 authorizes the city of Saint Paul to participate in the creation of a nonprofit organization for the operation of the RiverCentre complex. The mayor, with the approval of the city council, must appoint a majority of the members of the governing board of the nonprofit organization. The mayor will also designate two members of the city council to serve on the governing board. The city is authorized to enter into an agreement with this nonprofit organization to equip, manage, maintain, and operate all or a portion of the RiverCentre complex and to manage and operate a convention bureau that would market and promote the city as a tourist or convention center. Contracting and expenditures by the nonprofit organization are subject to the direction of the governing board and other conditions that the city may prescribe in a contract made between the city and the nonprofit organization. The nonprofit organization is authorized to use the services of the city attorney and the city's purchasing department. Its activities are deemed to be for a public purpose. The city is required to protect the rights of holders of bonds issued for the RiverCentre complex including preserving the tax exempt status of the bonds. The use and operation of the RiverCentre complex is deemed to be for municipal purposes and the complex will be exempt from taxation to the extent that it would be exempt if the complex was operated by the city. The receipts from tickets and admissions to events at the complex that are sponsored by the nonprofit organization do not qualify for the sales tax exemption that applies to certain tickets sold to entertainment events by nonprofit organization. The nonprofit organization will be subject to the Minnesota Open Meeting law and the Government Data Practices act. The nonprofit organization is a successor to all the rights and privileges of the RiverCentre authority and will be treated as a municipality under the Municipal Tort liability law.

Section 21 authorizes the Minnesota Housing Finance agency to enter into an agreement with the Higher Education Services Office under which the Higher Education Services Office issues up to $50 million of qualified student loan bonds that would be issued under bonding authority that was allocated to the Minnesota Housing Finance agency in 2004. Bonding authority that is carried forward by the Minnesota Housing Finance agency from its 2004 allocation is exempt from the requirement that bonding authority must be issued by the December 31 of the following calendar year.

Article 7
International Economic Development Zone

Section 1 requires that a revision of the state transportation plan must include a chapter setting out a state aviation plan. The plan must include an analysis of the projected commercial aviation needs of the state over the next 20 years and a description of the present capacity, function, and activity at each commercial service airport or at other airports that are likely to become commercial service airports in the next 20 years or that the Commissioner of Transportation determines should be included because of the airport's commercial passenger or cargo service levels. The plan would include a description of the capacity, function, and levels of activity that each of these airports must have in order to carry out the plan's goals and objectives, considering both commercial passenger service and cargo service.

Section 2 requires the Commissioner of Transportation to create an advisory council on aviation planning. The Commissioner would appoint members of the council, including one member of the Metropolitan Airports Commission, and representatives of major commercial airlines, independent pilots who fly for small businesses, the air cargo industry, the business community, environmental interests, neighborhoods that are affected by airplane noise, and tier 2 airports, as well as an employee of the Department of Transportation's Office of Aeronautics. The advisory council on aviation planning must advise the Commissioner of Transportation on the plan required under section 1. In this draft the council must consider present and anticipated capacity needs of commercial service airports, the needs of Minnesota residents and businesses for passenger and cargo services, anticipated changes in commercial aircraft noise and other environmental impacts of aviation at commercial service airports, trends in the aviation and airline industries, and the relationship between aviation and other forms of transportation. The council may make recommendations to the Commissioner, Metropolitan Airports Commission, and the Legislature concerning policy changes needed to implement the plan. The council must be appointed by July 1, 2005, and make its recommendation to the Legislature by January 15, 2006. The terms of the original council will expire on January 1, 2007, and the Commissioner of Transportation must then appoint a new advisory council at least two years before each required revision of the State Transportation Plan.

Sections 3 and 11 provide a jobs credit to a qualified business operating within an international economic development zone. The credit would be equal to seven percent of the lesser of: (1) the increase in the payroll in the zone since the year when the zone was designated; or (2) the increase in total Minnesota payroll since the year of designation, provided that the credit applies to compensation between $30,000 and $70,000, with these amount adjusted for inflation. The credit is refundable and an appropriation is provided to pay for refunds.

Section 4 provides an income tax credit for individuals or corporations equal to 50 percent of the amount of qualifying investment in a regional distribution center developed within the zone. Unused portions of the credit may be carried over for five years.

Section 5 provides a special apportionment formula for corporations, partnerships, or proprietorships that are qualified businesses operating within the international economic development zone. Property and payroll from the zone would be excluded from calculations used to determine the apportionment percentage that applies to the taxpayer's income.

Section 6 provides that purchases of tangible personal property or taxable services by a qualified business are exempt if they are primarily used or consumed in an international economic development zone. Purchases of construction materials and supplies for construction of improvements to real property in a zone are exempt if the property is used in the conduct of a qualified business; this exemption applies to purchases by the business or a contractor. These exemptions extend to any local sales taxes.

Section 7 provides definitions of terms used in the bill. The most significant definitions include the following:

1. "Foreign trade zone authority" means the Greater Metropolitan Foreign Trade Zone Commission number 119, a joint powers authority created by Hennepin County, Minneapolis, Bloomington, and the Metropolitan Airports Commission. Other jurisdictions that choose to join into this authority in the future will also be considered to be a part of it.

2. "Qualified business" means a person carrying on a trade or business at a place of business located within an international economic development zone. The trade or business must be engaged in the furtherance of international export or import of goods and be certified by the foreign trade zone authority as a trade or business that furthers the purpose of developing international distribution capacity and capability. The definition specifies that a person that relocates a trade or business from within Minnesota into the zone qualifies only if it increases full-time employment in the first full year of operation within the zone by at least 20 percent, or makes a capital investment in property within a zone equal to at least ten percent of the gross revenues of the operations that were relocated. Such a relocated business will be deemed to be a qualified business only if it has entered into a binding written agreement with the foreign trade zone authority that pledges that the business will meet these requirements and will repay all tax benefits if the requirements are not met. Freight forwarding businesses are not subject to the restrictions on relocated businesses. Qualified businesses are required to pay their employees total compensation, including benefits not mandated by law, equal to at least 110 percent of the federal family poverty guidelines for a family of four.

3. "Regional distribution center" is a distribution center developed within an foreign trade zone that has as its primary purpose the facilitation of gathering of freight for the purpose of centralizing the functions necessary for shipment of freight in international commerce, including security and customs functions.

Section 8 provides that an area designated as a foreign trade zone may be designated by the foreign trade zone authority as an international economic development zone if a regional distribution center is being developed within that zone. The zone must be between 500 and 1,000 acres in size. In making the designation, the foreign trade zone authority must consider factors, including access to major transportation routes and airport facilities, adequacy of the size of the site, and access to other infrastructure and financial incentives. The zone must be no more than 60 miles distant or 90 minutes drive time from the Minneapolis-St. Paul International Airport. The county within which the zone is located will become a member of the authority.

Section 9 provides that the foreign trade zone authority is responsible for creating a development plan for the regional distribution center. The authority must consult with municipalities that have indicated an interest in locating the zone within their boundaries and a willingness to establish a tax increment financing district for the zone. The authority must prepare a business plan for the zone, including analysis of the economic feasibility of the regional distribution center and businesses in the zone. The authority is authorized to create a port authority with its governing body exercising the powers of a city under the port authority law. Tax incentives are subject to the business subsidy law.

Section 10 lists the tax incentives available within the zone and provides that each of the incentives is available for no more than 12 years or for no more than six years for freight forwarders. The income tax credits are subject to apportionment based on the proportion of the taxpayer's total business activity that is international business activity.

Section 12 provides for recapture of the amount of state tax incentives as well as local sales and use tax exemptions that were provided during the two years before a business ceases to operate in the zone or ceases to be a qualified business.

Section 13 requires the Commissioner of Employment and Economic Development to study the issues of the potential benefit to the state from having more than one international economic development zone.

Article 8
Miscellaneous

Section 1. General Powers of Commissioners. Provide that the delegations of authority granted by any commissioner remain in effect until revoked by that commissioner or a successor commissioner, or the employment of the person to whom the authority was delegated terminates. One order may cover delegates to up to ten years. Effective the day following final enactment.

Sections 2-5 to be deleted; enacted in Laws 2004, chapter 224, sections 1-4.

Section 6. Tax Preparers. Exempts persons who prepare few returns, or who prepare returns only for close relatives or employers from requirements imposed upon tax preparers.

Sections 7, 10, 11, and 25. Uniform Dollar Threshold for Paying Taxes Electronically. Establishes a uniform tax liability threshold of $20,000 or more per fiscal year before a taxpayer is required to make payments electronically for that tax type in the following calendar year. Applies to all tax types that currently utilize a dollar threshold, which is $120,000 for most business taxes and $50,000 for withholding tax. Individual income, estate, and air flight property taxes are excluded. All the existing threshold requirements in the various tax statutes are repealed. Effective for payments due in calendar year 2006 and thereafter, based upon liabilities incurred in fiscal year ending June 30, 2005, and thereafter.

Section 8. Tax Refund or Return Preparers. Stipulates that, for purposes of the requirement that tax preparers must file electronic returns, the tax refund or return preparer does not include a 501(c)(3) organization, or an individual hired by a 501(c)(3) organization for the purpose of preparing tax returns.

Section 9. Filing of Electronic Partnerships Returns. Amends section 289A.12, subdivision 3, so that if a partnership is required to file its partnership return electronically by federal regulations because it has more than 100 partners, then it is also required to file its Minnesota partnership return electronically. If a paper return is filed instead the return is still valid, but a penalty of $50 for each partner over 100 partners is imposed. The penalty can be waived if the partnership can demonstrate that filing electronically creates a hardship. Effective for 2004 partnership returns due in 2005.

Sections 12-14 and 21. Out of State Tobacco Retailers. Defines "out of state retailer" as a person engaged outside of this state in the business of selling or offering cigarettes or tobacco products for sale to consumers located in Minnesota. This provision requires retailers to file a statement with the Department of Revenue with the retailer's name, trade name and address and requires the retailer to report to the commissioner of revenue the name and address of the purchaser and the brand or brands and quantity of tobacco products sold. Requirements for accepting orders for shipping and delivery sales are imposed on tobacco retailers.

Section 15. Direct Business. Defines "direct business" as all insurance provided by an insurance company or its agents and specifically includes stop-loss insurance purchased in connection with a self-insurance plan for employee health benefits or for other purposes. This section excluded reinsurance where the company assumes the liability of another insurance company and self insurance.

Section 16. Insurance Taxes. Clarifies that the current law rate of 1.26 percent of gross premiums less return premiums applies only to insurance companies that sell both property and casualty insurance.

Section 17. Insurance Premiums Tax. Reduces the life insurance premiums tax rate to 1.5 percent of gross premiums less return premiums on all direct business received by the insurer or agents of the insurer in Minnesota for life insurance.

Section 18-19. Occupation Taxes. Maintains the current law apportionment formula for occupation tax, and taxes on iron ore and taconite concentrates.

Section 20. Misrepresentation of Employee Status. Prohibits employers from misrepresenting the nature of its employment relationship with its employees, and from coercing employees to aid in a misrepresentation of their employment status.

Section 22. Biotechnology Zone Credits. Disallows the carry forward of bioscience zone tax credits from fiscal year 2004 to fiscal year 2005 and prohibits the commissioner of DEED from awarding additional tax credits after June 30, 2005.

Section 23. Bioscience Grants. The Commissioner of Employment and Economic Development is authorized to make grants to startup or expand businesses in the biotechnology and health sciences industry. To qualify for a grant, a business must engage in research, development or manufacturing, promoting, supplying or servicing a biotechnology product or service, or a biotechnology medical device or service. The business must commit to increasing full time high paying employment by at least 20 percent, and show a viable link to a higher education/research institution, provides for bioscience grants totaling $5,000,000 in fiscal year 2008.

Section 24 and 26, 27. Population Estimates. Amends chapter 473, by enacting the new section 473.24, to provide procedures and dates by which the Metropolitan Council must annually produce estimates of population and the number of households for cities and towns in the seven-county metropolitan area. Estimates may be appealed by the governing body of a city or town. Amends section 473F.02, subdivision 7, to specify that the annual population estimates used for purposes of the metropolitan fiscal disparities program are the estimates produced according to the new section 473.24. Amends section 477A.011, subdivision 3, to specify that the annual population estimates used for purposes of the "local government aid" program for cities are the estimates produced according to the new section 473.24. Sets July 15 (was July 1) as the new cut-off date for when the estimates become final for these purposes. Effective the day following final enactment.

Section 28-29. Judicial Vacancies. Adds Tax Court judgeships to the list of positions that are filled by the judicial selection process that applies to district court judges.

Section 30. Compacts. Authorized the commissioner of revenue to enter into compact agreements with other states to eliminate retaliatory insurance premiums tax provisions between Minnesota and other states.

Section 31. Appropriations. Provides for appropriations for Bioscience grants in the amount of $5,000,000 in fiscal year 2007 and an appropriation of $3,000,000 each year beginning with fiscal year 2005 to the Department of Revenue for the operation of the agency.

Section 32. Repealers of provisions relating to electronic payments and accelerated payments of taxes and to tax preparers.

Article 9
Department of Revenue Policy Provisions

Section 1. Taxpayer Rights Advocate Assumes Duties of Case Reviewer. Amends Minnesota Statutes, section 16D.10 to transfer the duties of the case reviewer for the collection of non-tax debts to the taxpayer rights advocate, and authorizes the advocate to issue debtor assistance orders if the advocate determines that the manner in which the state debt collection laws are being administered will create an unjust and inequitable result for the debtor. Effective the day following final enactment.

Section 2. Delegations of Authority Carry Over to a New Commissioner. Amends section 270.02, subdivision 3, to provide that the delegations of authority granted by one commissioner of revenue remain in effect until revoked by that commissioner or a successor commissioner. Effective the day following final enactment.

Section 3. Mailing of Notices to the Last Known Address. Adds a new section 270.0611 to provide that when a method of giving notice is not specifically provided for in another law, notice of a determination or action of the commissioner of revenue can be sent to the last known address of the taxpayer or person affected by the notice. The language is essentially the same as the manner of giving notice of orders of assessment in section 289A.37, subdivision 5, but is made applicable to all tax types by having this section added to Chapter 270. Effective for notices sent on or after the day following final enactment.

Section 4. Transcription of Liens to the Secretary of State. Amends section 270.69, subdivision 4, to provide that state tax liens filed in a county may be transcribed to the secretary of state. Effective the day following final enactment.

Sections 5 and 6 to be deleted; enacted in Laws 2004, chapter 290, sections 8 and 9.

Section 7. Limits on Requirement for Commissioner to Recalculate Separate Spouse Liability. Amends section 289A.31, subdivision 2, to provide that the commissioner need not recalculate separate liability for an ex-spouse where the tax was first due six years or more before the date of the request or where the remaining unpaid liability to recalculate is $100 or less. Effective for requests for relief made on or after day following final enactment.

Section 8. Refund Interest. Amends section 289A.56 to provide that the interest on refund claims for qualifying purchases made by businesses in Biotechnology and Border City zones would be computed from 90 days after the refund claims are filed with the commissioner. The statute is currently silent on when interest begins to accrue on Biotechnology refunds and the general refund provision for tax overpayments is being used currently. Effective for refund claims filed on or after July 1, 2005.

Section 9. Research and Development Subtraction. Amends section 290.01, subdivision 19d, paragraph (13), so that the subtraction allowed in the computation of taxable income of a corporation for expenses used to generate the federal research and development credit is limited to the amount that those expenses exceed not just the research and development credit under section 290.068, but also the biotechnology and health sciences industry zone credit calculated under section 469.339. Effective for tax years beginning after December 31, 2004.

Section 10. Withholding on Payments to NonMinnesota Residents on Construction Contracts. Amends section 290.9705, subdivision 1, to reduce the dollar threshold for contracts this section applies to from $100,000 to $50,000 and makes the threshold applicable to aggregate contracts in a year to the extent the contract payments exceed $50,000. Effective for payments made after December 31, 2005.

Section 11. Sustainable Forest Incentive Act; Acquisition of Land for a Public Purpose. Amends section 290C.10 to allow early withdrawal of land from the program if a government entity or any other entity that has the power of eminent domain acquires title or possession for a public purpose. The proposed change also clarifies that when land is acquired in this manner, only the land acquired is removed from the program and land not so acquired remains in the program. The current language allows early withdrawal from the program "in cases of condemnation for a public purpose." Effective the day following final enactment

Section 12. Refund Interest. Amends section 469.1734 to provide that the interest on refund claims for qualifying purchases made by businesses in Biotechnology and Border City zones would be computed from 90 days after the refund claims are filed with the commissioner. The statute is currently silent on when interest begins to accrue on Biotechnology refunds and the general refund provision for tax overpayments is being used currently. Effective for refund claims filed on or after July 1, 2005.

Section 13. Qualified Business for Purposes of Job Opportunity Building Zones. Amends section 469.310, subdivision 11, to clarify that a business is eligible for tax benefits under the job opportunity building zone laws only on those parcels of land for which it has signed a business subsidy agreement with the appropriate local government unit. Effective retroactively to June 9, 2003, which is the original effective date of section 469.310.

Section 14. Qualified Business for Purposes of the Biotechnology and Health Sciences Zone. Amends section 469.330, subdivision 11, to clarify that a business is eligible for tax benefits under the biotechnology and health sciences industry zone laws only on parcels of land for which it has signed a business subsidy agreement with the appropriate local government unit. Effective retroactively to June 9, 2003, which is the original effective date of section 469.330.

Section 15. Biotechnology and Health Sciences Zone Corporate Minimum Fee Exemption. Amends section 469.337 to provide that an entity with all of its Minnesota payroll treated as biotechnology and health sciences zone payroll and all of its Minnesota property located within a biotechnology and science industry zone is exempt from the minimum fee. Effective for tax years beginning after December 31, 2004.

Section 16. Alternative Tax Base. Repeals 1975 Minn. Laws, ch. 287, sec. 5 and 2003 Minn. Laws, ch. 127, art. 9, sec. 9, subdivision 4, to eliminate the option for the Alexandria Lake Area sanitary sewer district and the recently created Central Lakes Region sanitary sewer district to levy property taxes on an alternative tax base that includes only 25 percent of the net tax capacity of agricultural property. Effective without local approval for taxes payable in 2006 and thereafter.

Article 10
Minerals; Aggregate

Section 1 provides that property that is used in the business of mining, other than taconite and aggregate, would be exempt from taxation. The exemption extends to deposits of ores, metals, and minerals and the lands in which they are contained as well as real and personal property used in mining, producing, or refining the ores, minerals, or metals and the land on which that property is located.

Section 2 provides that businesses engaged in producing or refining nonferrous metals or minerals are exempt from the corporate franchise tax and individual income taxes.

Section 3 excludes income of a mining operation subject to the net proceeds tax from the income of a unitary business of which it is a part.

Section 4 excludes the apportionment factors associated with any entity's exempt activities from the apportionment formula.

Section 5 provides a sales tax exemption for mill liners, grinding rods, and grinding balls that are consumed in the production of ores, metals, or minerals. Current law provides this treatment for these items used in the production of taconite.

Section 6 provides a definition of "refining" for purposes of the chapter dealing with minerals taxation.

Section 7 provides a definition of "a precious minerals tax relief area," which is composed of 13 school districts in northeastern Minnesota.

Section 8 expands the scope of taxpayers subject to the occupation tax to include persons engaged in the business of refining ores and also persons engaged in the business of mining or producing metals or minerals. This would include the application of the hydrometallurgical processes.

Section 9 provides that sales of nonferrous metals and minerals are deemed to be sales outside of Minnesota if they are transported out of the state for further processing or refining by the person engaged in the mining if the ores, metals, or minerals have been converted to a marketable quality before they have been transported out of the state. Transfers of ores, metals, or minerals are deemed to be sales within the state if they are received by a purchaser at a point within the state and the taxpayer is taxable in the state.

Section 10 provides that the taconite and iron mining companies will not be subject to the alternative minimum tax.

Section 11 increases the rate of the occupation tax on nonferrous mining from two to four percent.

Section 12 provides that the deductions in the computation of the net proceeds tax are the same as those used under the occupation tax.

Section 13 amends the definition of "metal or mineral products" used in the gross proceeds tax to refer to "ores, metals, and minerals" rather than "mineral and energy resources."

Section 14 provides for distribution of the proceeds of the tax paid on the nonferrous minerals within the precious minerals assistance area. The current law distribution of 20 percent to a group of school districts where the nonferrous minerals are mined is stricken; instead, a distribution of 30 percent to the state general fund to represent the portion of the tax that is in lieu of the state general tax is provided. The 20 percent distribution to be used for taconite homestead credit is stricken and the distributions to the Douglas J. Johnson economic protection trust fund and the taconite environmental protection fund are each increased from five to ten percent.

Section 15 imposes a 12 percent royalty tax on royalties paid for nonferrous minerals.

Section 16 modifies the purpose of the taconite environmental protection fund by striking the reference to distributions for local economic development projects, and providing that permissible expenditures for public works include sewer and water systems.

Section 17 provides that for taxes payable in 2005 through 2007, the three-year averaging provision that applies to the computation of the taconite production tax will be suspended. This section also provides that no tax will be imposed for the first two years of a plant's commercial production of direct reduced ore. "Commercial production" is defined as production of more than 50,000 tons of direct reduced ore per year. Under current law, this exemption applies to the first two years of the plant's production without regard to the level of that production.

Section 18 provides that the second half of the taconite production tax payments must be paid in equal installments on the first of April, May, June, July, and August. Under current law, the entire second half payment is due August 24.

Section 19 eliminates the distribution of 30.1 cents per ton to the taconite economic development fund; instead, this distribution, beginning in 2006, will be paid to a mineral processing and energy development assistance fund.

Section 20 provides that the five cent per ton distribution to the taconite environmental fund, which was terminated after 2003 distributions, will resume in 2005, and continue for later years.

Section 21 provides that beginning with distributions in 2006, except for distribution to certain school districts in current law, the amount of increased taconite production tax proceeds that is attributable to the escalator that applies to the tax rate will be distributed to the taconite environmental protection fund.

Section 22 establishes a new grant and loan fund. The grants or loans from this fund must be approved by a majority of the members of the Iron Range Resources and Rehabilitation Board. Distributions in calendar year 2005 are allocated to the City of Virginia for improvements and repairs to the city's steam heating system. Distributions in 2006 are allocated to a project of the public utilities commissions of the cities of Virginia and Hibbing to convert their electrical generating plants to use of biomass products. Distributions in 2007 and later years will be allocated to joint ventures with mining companies for reclamation of lands containing abandoned or worked out mines.

Section 23 establishes the Mineral Processing and Energy Development Assistance fund. The Commissioner of Iron Range Resources and Rehabilitation must use the money in the fund to make grants, loans, or equity investments in mineral processing and energy generating facilities such as taconite processing, direct reduction processing, steel production, and energy generation facilities. Money in the fund may be used for the cost of carrying out the Commissioner's due diligence duties under this section. Grants, loans, and equity investments from this fund must be approved by a majority of the members of the IRRRB. The Commissioner may provide that the grants, loans, or equity investments are matched by an investment made by the owner of a facility.

Section 24 amends the definition of operators that are subject to the tax on aggregate materials to provide an exemption for persons engaged in transactions in which the person is allowed to remove or produce aggregate without a mining permit or the aggregate is moved within a project's construction limits to other locations within that same construction area.

Section 25 authorizes counties or towns to exempt operators from the aggregate production tax if the operator has removed less than 2,500 tons or 1,750 yards of aggregate from the county in the year and no other operator has removed material from the same site that year.

Section 26 provides that alternative minimum tax credits that a taxpayer has at the end of 2004 may be taken against the occupation tax.

Section 27, paragraph (a), repeals the alternative minimum tax and the alternative minimum tax credit under the occupation tax.

> **Paragraph (b)** repeals the specific deductions and limitations on deductions under the net proceeds tax.
>
> **Paragraph (c)** repeals the taconite economic development fund.

Article 11
Sales and Use Taxes
Department of Revenue Technical Changes

Section 1. Omission of Use Tax. Amends section 289A.38, subdivision 6, to clarify that if a taxpayer omits an amount in excess of 25 percent from a use tax return, the period for assessing additional taxes is 6½ years. Currently the statute only references sales and withholding tax returns. Effective the day following final enactment.

Section 2. Definition of "Bad Debt." Amends section 289A.40, subdivision 2, to clarify that while the definition of "bad debt," for purposes of refund claims that relate to overpayment attributable to a loss from a bad debt, in general has the same meaning as used federally, the exclusions listed are only for claims relating to an overpayment of taxes under Chapter 297A. The definition of "bad debt" passed during the 2003 legislative session as part of the Streamlined Sales Tax project, and is effective for "sales and purchases made on or after January 1, 2004." Arguably, however, the definition of bad debt, with exclusions, is effective on or after July 1, 2003 for taxes other than sales tax. Therefore, the effective date of this section is on or after January 1, 2004, for sales tax, and on or after July 1, 2003, for all other taxes.

Section 3. Sourcing of Watercraft, Aircraft, Modular Homes, Manufactured Homes, or Mobile Homes. Amends section 297A.668, subdivision 1, to clarify that this section covers the sourcing for watercraft, aircraft, modular homes, manufactured homes, and mobile homes. While the Streamlined Sales Tax Agreement provides that member states are not required to apply the sourcing rules to these items, Minnesota does so. Effective the date following final enactment.

Section 4 to be deleted; enacted in Laws 2004, chapter 228, article 1, section 49.

Section 5. Sourcing of Transportation Equipment Purchases. Amends section 297A.668, subdivision 5, the sourcing and definition of transportation equipment, to include "aircraft that are operated by air carriers" that transport "persons or property in interstate commerce" and "containers designed for use on and component parts attached or secured on" the transportation equipment listed. These items are included in the definition of transportation equipment in the Streamlined Sales Tax Agreement, and were inadvertently omitted from the 2003 legislation. This section is effective for sales and purchases made on or after January 1, 2004, to be consistent with the effective date of the language from the 2003 legislative session.

Section 6 to be deleted; enacted in Laws 2004, chapter 228, article 1. section 50.

Section 7. Industrial Production. Amends section 297A.68, subdivision 2, to clarify that materials and supplies used or consumed in providing services added to the sales tax base in 1987 do not qualify for the industrial production exemption. The amendment would clarify that these services are not considered to be tangible personal property for purposes of this exemption.

Effective the day following final enactment.

Section 8. Capital Equipment. Amends section 297A.68, subdivision 5, to clarify that machinery and equipment used in providing services added to the sales tax base in 1987 and machinery and equipment used primarily in the furnishing, preparing, and serving of prepared food by restaurants does not qualify as capital equipment. This amendment would clarify that these services and prepared foods are not considered to be tangible personal property for purposes of this exemption. The amendment also corrects a reference to equipment used primarily in providing online data retrieval services that was inadvertently omitted during recodification. Effective the day following final enactment.

Section 9. Preexisting Construction Contracts and Bids. Amends section 297A.68, subdivision 39, to provide that transition period for preexisting construction contracts and construction bids also applies to tax rate increases in addition to sales tax base changes. Effective the day following final enactment.

Section 10. Repeal of Obsolete Sales and Use Tax Rules. Repeals the following sales and use tax rules that are obsolete or that merely duplicate statutory language: Minnesota Rules, parts 8130.0110, subp. 4; 8130.0200, subps. 5 and 6; 8130.0400, subp. 9; 8130.1200, subps. 5 and 6; 8130.2900; 8130.3100, subp. 1; 8130.4000, subps. 1 and 2; 8130.4200, subp. 1; 8130.4400, subp. 3; 8130.5200; 8130.5600, subp. 3; 8130.5800, subp. 5; 8130.7300, subp. 5; and 8130.8800, subp. 4. Effective the day following final enactment.

Article 12
Special Taxes
Department of Revenue Technical Changes

Section 1. Mortgage Registry Tax Exemption. Amends section 287.04 which sets forth exemptions to the mortgage registry tax to reference section 193.147 which deals with armories. Effective the day following final enactment.

Section 2. Minnesota Care Health Care Provider Definition. Amends section 295.50, subdivision 4, to eliminate the reference to residential care homes licensed under Minn. Stat. chapter 144B which has been repealed, and replace it with a reference to housing with services establishment registered under chapter 144D. These facilities are generally also licensed as foster homes or board and lodging establishments and are already excluded from the definition of a health care provider. Effective the day following final enactment.

Section 3. Petroleum Tax Penalty Abatement. Amends section 296A.22 by adding a new subdivision to provide general penalty abatement authority and a time frame for making appeals of penalty abatement denials. This section is effective for penalties imposed on or after the day following final enactment.

Section 4. Cigarettes in Interstate Commerce. Amends section 297F.08, subdivision 12, to clarify that the reports are only required in relation to cigarettes manufactured by companies that are not original or subsequent participating manufacturers in the Master Settlement Agreement with other states. Effective the day following final enactment.

Section 5. Cigarette Tax Return; June Acceleration. Amends section 297F.09, subdivision 1, regarding acceleration to clarify the return due dates for those distributors subject to the accelerated payment requirements. Effective the day following final enactment.

Section 6. Tobacco Products Tax Return; June Acceleration. Amends section 297F.09, subdivision 2, regarding acceleration to clarify the return due dates for those distributors subject to the accelerated payment requirements. Effective the day following final enactment.

Section 7. Reinsurance. Amends section 297I.01, by adding a new subdivision 13a, to define reinsurance. Effective the day following final enactment.

Section 8. Gross Premiums Tax. Clarifies that the gross premiums tax on health maintenance organizations, nonprofit health service plan corporations, and community integrated service networks does not apply to return premiums on direct business whether received in cash or otherwise.

Section 9. Repealer. Repeals a lawful gambling tax provision set forth in Minn. Stat. § 297E.12, subd. 10, dealing with allocation of payments since Minn. Stat. § 270.652 already deals with allocation of payments. Effective the day following final enactment.

Article 13
Property Taxes and Aids
Department of Revenue Technical Provisions

Section 1. Payment of Current Taxes Requirement for Manufactured Homes. Amends section 168A.05, subdivision 1a, to clarify the requirement added last year that certain outstanding personal property tax amounts must be paid for a purchaser to obtain a new certificate of title for a manufactured home. Last year's change requires "taxes levied on the unit in the name of (the seller)" to be paid prior to issuing a new certificate. The proposed changes will clarify that these include taxes payable in the current year, whether or not they have been levied. Since the levy date for manufactured home taxes is May 30, there would otherwise be a five-month window during which the new owner could obtain a certificate of title without paying all the personal liability taxes assessed to the seller. Collection problems can arise if these taxes are not paid at the time title is transferred because neither the property nor the new owner will be liable for those taxes. Effective the day following final enactment.

Section 2. Cross Reference to Exemption for Leased Housing and Redevelopment Authority Property and to Exemption for Cooperative Farming Agreements. Amends section 272.01, subdivision 2, to provide that the use of property under a cooperative farming agreement pursuant to section 97A.135 does not subject the property to taxation under this subdivision, and that HRA property leased under section 272.68, subdivision 4, is not subject to tax under this subdivision. These are cross references to existing laws and do not create new exemptions. Effective the day following final enactment.

Sections 3 and 4. Institutions of Purely Public Charity. Amends sections 272.02, subdivision 1a and 272.02, subdivision 7, to remove obsolete references to repealed provisions and to insert statements which clarify that government rent assistance and government contract payments are not donations or gifts for the purposes of this exemption. Section 5 is effective the day following final enactment, and Section 6 is effective for taxes payable in 2005 and thereafter.

Section 5. Property Subject to Taconite Production Tax or Net Proceeds Tax. Amends section 272.02 by adding a new subdivision that describes the property tax exemptions related to the taconite production tax and net proceeds tax in chapter 298. Effective the day following final enactment.

Section 6. Cross Reference to Exemption for Religious Corporations. Amends section 272.02 by adding a new subdivision cross-referencing section 317A.909, subdivision 3, which exempts personal and real property that a religious corporation formed under section 317A.909 necessarily uses for a religious purpose. Effective the day following final enactment.

Section 7. Cross Reference to Exemption for Children's Homes. Amends section 272.02 by adding a new subdivision cross-referencing section 317A.907, subdivision 7, which exempts property owned by children's home corporations formed under section 317A.907. Effective the day following final enactment.

Section 8. Cross Reference to Exemption for Housing and Redevelopment Authority Property and Tribal Housing Authority Property. Amends section 272.02 by adding a new subdivision cross-referencing the exemptions contained in chapter 469 for property owned by a housing and redevelopment authority or a tribal housing authority. Effective the day following final enactment.

Section 9. Agricultural Homesteads for Entity-Owned Land. Amends section 273.124, subdivision 8, by clarifying that in order to receive an agricultural homestead classification under this statute, limited liability companies must operate a "family farm" as defined in section 500.24. Effective the day following final enactment.

Section 10. Cross Reference to Exemption for Cooperative Farming Agreements and Leased HRA Property. Amends section 273.19, subdivision 1a, to provide that cooperative farming agreements pursuant to section 97A.135, subdivision 3, and occupancy agreements pursuant to section 272.68, subdivision 4, are not considered leases for purposes of section 273.19 and therefore do not cause the property to become subject to property tax. These are cross references to existing laws and do not create new exemptions. Effective the day following final enactment.

Section 11. Local Boards of Appeal and Equalization; Documentation of Attainment of Annual Quorum and Training Requirements. Amends section 274.014, subdivision 3, to clarify that proofs of compliance with annual quorum and training requirements that local boards must provide in December of each year, beginning in 2006, refer to compliance in the current year, rather than to compliance in the prior year. Effective the day following final enactment.

Section 12. County Board Meeting Dates. Amends section 274.14 to delete obsolete language. Current law states that the County Board of Equalization may meet on any ten consecutive meeting days in June after the second Friday in June "if the actual meeting dates are contained on the valuation notices." Actual meeting dates are now required to be on the valuation notices, so the stricken language, limiting the Board meetings to the last ten business days of June, is superfluous. Effective the day following final enactment.

Section 13. Date to Certify Levies and Tax Rates. Amends section 275.065, subdivision 1a, to change the date by which county auditors must certify levy and tax rate information to other county auditors with respect to taxing jurisdictions that cross county boundaries. Current law sets this date at September 20. This is not workable because school districts do not certify their levies until September 30. The proposal changes the date to October 5. Effective the day following final enactment.

Section 14. Disparity Reduction Aid Levy Adjustment. Amends section 275.07, subdivision 1, to remove duplicative language. Section 275.07, subdivision 1, reduces the levy for Disparity Reduction Aid ("DRA"), and section 275.08, subdivision 1c, makes the same adjustment to tax rates. The levy-reduction language is stricken because the purpose of DRA is to reduce the disparity in local tax rates, not levies. Effective the day following final enactment.

Section 15. Reporting Special Levies on Surveys. Amends section 275.07, subdivision 4, to allow the commissioner the option of excluding special levy information from the information reported on the levy surveys required under this statute. Effective the day following final enactment.

Section 16. Transmittal of State Property Tax Levy Receipts. Amends section 276.112 to require that county treasurers transmit the state's share of property tax receipts from the first half of the year, on or before two business days before June 30, rather than on or before June 29. This is necessary to insure that property taxes are transmitted to the state within the fiscal year of receipt by the county, even during years in which June 29 falls on a Saturday. Effective the day following final enactment.

Section 17. Tax-Forfeited Property; Prohibited Purchasers. Amends section 282.016 to clarify that the prohibitions in this statute preventing county auditors, treasurers, court administrators, assessors, and the other county officers and employees from purchasing tax forfeited land only apply to tax forfeited land in the county for which they perform duties. Effective the day following final enactment.

Section 18. Tax Forfeited Land; Duties of the Commissioner of Finance. Amends section 282.21 to clarify that the duties of the commissioner of finance with respect to issuing a conveyance for tax forfeited land under section 282.21 relate to sections 282.14 to 282.22 dealing with lands in conservation areas. Effective the day following final enactment.

Section 19. Tax Forfeited Land; Duties of the Commissioner of Natural Resources. Amends section 282.224 to clarify that the duties of the commissioner of natural resources with respect to issuing a conveyance of tax forfeited property pursuant to section 282.224 relate to sections 282.221 to 282.226 dealing with tax forfeited agricultural lands in the Red Lake Preserve. Effective the day following final enactment.

Section 20. Tax Forfeited Land; Duties of the Commissioner of Revenue. Amends section 282.301 to clarify that the procedures in that statute, and the duties of the commissioner of revenue under that statute, relate to all repurchases of tax forfeited land authorized in chapter 282. Effective the day following final enactment.

Section 21. Local Impact Note and Public Defender Costs. Amends section 477A.03, subdivision 2b, to clarify the appropriations for local impact note costs and public defender costs in this statute. Effective for aid payable 2005 and thereafter.

Section 22. Levy Plus Aid Revenue Base for Counties. Amends 2003 Minn. Laws, First Special Session chapter 21, article 6, section 9, to exclude attached machinery aid from the "levy plus aid revenue base" used to compute the 2004 aid reductions for counties. Effective for aids payable in 2004.

Section 23. Repealers.

Repeals Minn. Stat. § 273.19, subdivision 5, which is a limited exemption for some hydroelectric facilities on government owned sites. It is no longer needed because a non-limited exemption already exists in Minn. Stat. § 272.02, subdivision 15. Effective the day following final enactment.

Repeals Minn. Stat. § 274.05, an obsolete section relating to auditor's certificate of assessment books.

Repeals Minn. Stat. § 275.15 because it is obsolete. It originally provided that Minn. Stat. §§ 275.124 to 275.16 do not increase levy limits but are additional limitations. However, those statutes currently do not contain a levy limit. Effective the day following final enactment.

Repeals Minn. Stat. § 283.07 because it is obsolete. This section allows for refunding property taxes related to exempt railroad land mistakenly believed to have been sold, and thereby to have become taxable. Railroad land is no longer exempt from property taxes so this provision is no longer needed. Effective the day following final enactment.

Article 14
Miscellaneous
Department of Revenue Technical Changes

Section 1. Date of Assessment of a Consent Agreement. Amends section 270.65 by adding language to the date of assessment statute that in the case of a consent agreement under section 270.67, subdivision 3, when the taxpayer is agreeing to a change in tax as the result of an audit, the date of assessment is the notice date shown on the consent form signed by the taxpayer. Effective the day following final enactment.

Section 2. Extension to File Estate Tax Return. Amends section 289A.19, subdivision 4, to change the extension to file a Minnesota estate tax return from an extension based on reasonable cause to an automatic extension upon a timely request. Effective for estates of decedents dying after December 31, 2004.

Section 3. Sending Orders of Assessment by Electronic Mail. Amends section 289A.37, subdivision 5, by providing that notice of an order of assessment can be sent by electronic mail to the taxpayer's electronic mailing address, as set forth in the Uniform Electronic Transactions Act. Effective the day following final enactment.

Section 4. Civil Fraud Penalty. Amends section 289A.60, subdivision 6, to clarify that the imposition and calculation of the 50 percent civil fraud penalty is the same for someone who fails to file a return with intent to evade tax as it is for someone who files a fraudulent return. Effective the day following final enactment.

Sections 5 and 6. Income Taxes Paid to Other States. Amends section 290.01, subdivision 19a (additions to federal taxable income) and 290.06, subdivision 22 (credit for taxes paid to another state), to make the language describing income taxes paid to another state more consistent within chapter 290. Section 6 also corrects the cite to section 290.01, subdivision 7 (definition of resident) in the credit for taxes paid another state caused by 2001 legislation which changed the paragraphs in section 290.01, subdivision 7. Effective for tax years beginning after December 31, 2004.

Section 7. Education Credit Cite to Education Code. Amends section 290.0674, subdivision 1, to change the cite in the education credit to the list of curriculum areas of study for which fees for instruction qualify for the education credit. The changes are needed because 2003 education legislation changed where the list is found in chapter 120B from 120B.02 to 120B.021 and 120B.022. Effective for tax years beginning after December 31, 2004.

Section 8. Personal Liability Standard for Withholding Tax. Amends section 290.92, subdivision 1(4), to clarify the definition of employer in the withholding tax law to mean someone who has control, rather than "legal" control, over the payment of wages, so that both legal and actual control are covered. This makes the personal liability standard in the withholding tax statute consistent with the general standard of personal liability for trust taxes as set forth in section 270.101. Effective the day following final enactment.

Section 9. Annual Sustainable Forest Incentive Act Annual Certification. Amends section 290C.05 to clarify how claimants who fail to send in the annual certification by the due date, are treated. Adds a cross reference to section 290C.11 (penalties). Current language requires that land be removed from the program immediately upon failure to return the annual certification by the due date. This language makes it clear that failure to return an annual certification is treated the same way as any other program violation. The change codifies current practice, which is not to immediately remove the claimant from the program. Effective the day following final enactment.

Section 10. Sustainable Forest Incentive Act; Length of the Covenant Amends chapter 290C by adding a new section to make the chapter easier to understand by dealing with the length of the covenant in one section. As currently provided in sections 290C.04 and 290C.10 the covenant remains in effect for a minimum of 8 years, unless an exception applies. The new section explains how the 4-year waiting period in section 290C.10 functions and explains how to determine when the covenant ends. Effective the day following final enactment.

Section 11. Unfair Cigarette Sales Act. Amends section 325D.33, subdivision 6, which is part of the Unfair Cigarette Sales Act, to repeal language authorizing repeal of license since this is under the commissioner of revenue's authority not the department of commerce. Effective the day following final enactment.

Section 12. Lawful Purpose. Strikes language requiring that gambling premises must be wholly owned by the licensed organization in order for payment of the real estate taxes to be a lawful purpose for use of gambling revenues.

Section 13. Metropolitan Solid Waste Landfill Fee Penalty. Amends section 473.843, subdivision 5, to clarify that the penalty provisions related to the metropolitan solid waste landfill fee are those applicable to the corporate franchise taxes. This is similar to the change recently enacted to the hazardous waste generator tax. Effective the day following final enactment.

Section 14 to be deleted; no longer relevant.

Section 15. Rule Repealer. Repeals Minnesota Rules, parts 8093.2000 and 8093.3000. Part

8093.2000, Contents of Declaration of Estimated Tax, was promulgated to give guidance for corporate taxpayers subject to the estimated tax provisions of Minn. Stat. § 290.931, Minn. Stat. § 290.931 has been replaced by Minn. Stat. § 289A.26 which clearly sets forth rules for corporations computing estimated tax. The department recommends that this part be repealed because the rule is general, the statute for which it provided guidance is repealed, and the present statute is more specific and arguably in conflict with the rule.

Part 8093.3000, Extension of Time for Filing Declarations by Corporations, was promulgated pursuant to Minn. Stat. § 290.932, subd. 4, which permitted the commissioner to grant a reasonable extension of time for filing a declaration of estimated tax. This subdivision of the statute was repealed.

HANDOUT #1
STAR TRIBUNE
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$51.15, up $2.80, on the New York Mercantile Exchange.

"This distressing news about oil prices is really nagging at investors," said Joseph Battipaglia, chief investment officer at Ryan Beck & Co. "It's not enough to break the camel's back, but that pressure will be there for a while."

The Dow fell 174.02, or 1.61 percent, to 10,611.20, its lowest close since Feb. 3. It was the biggest one-day point drop for the Dow since May 19, 2003.

The Standard & Poor's 500 index fell 17.43, or 1.45 percent, at 1,184.16, and the Nasdaq composite index dropped 28.30, or 1.37 percent, to 2,030.32.

And after last week's jump in wholesale prices, many investors were bearish on January's Consumer Price Index, due out today, fearing a similar increase in consumer prices.

"We're very sensitive to any type of inflationary indications that are out there, whether it's the weaker dollar or if it's fear of [the] CPI number," said Scott Wren, equity strategist for A.G. Edwards & Sons. "Between a lower dollar and higher oil and the bond market a little weak here, you're seeing an inflation scare coming on a little bit."

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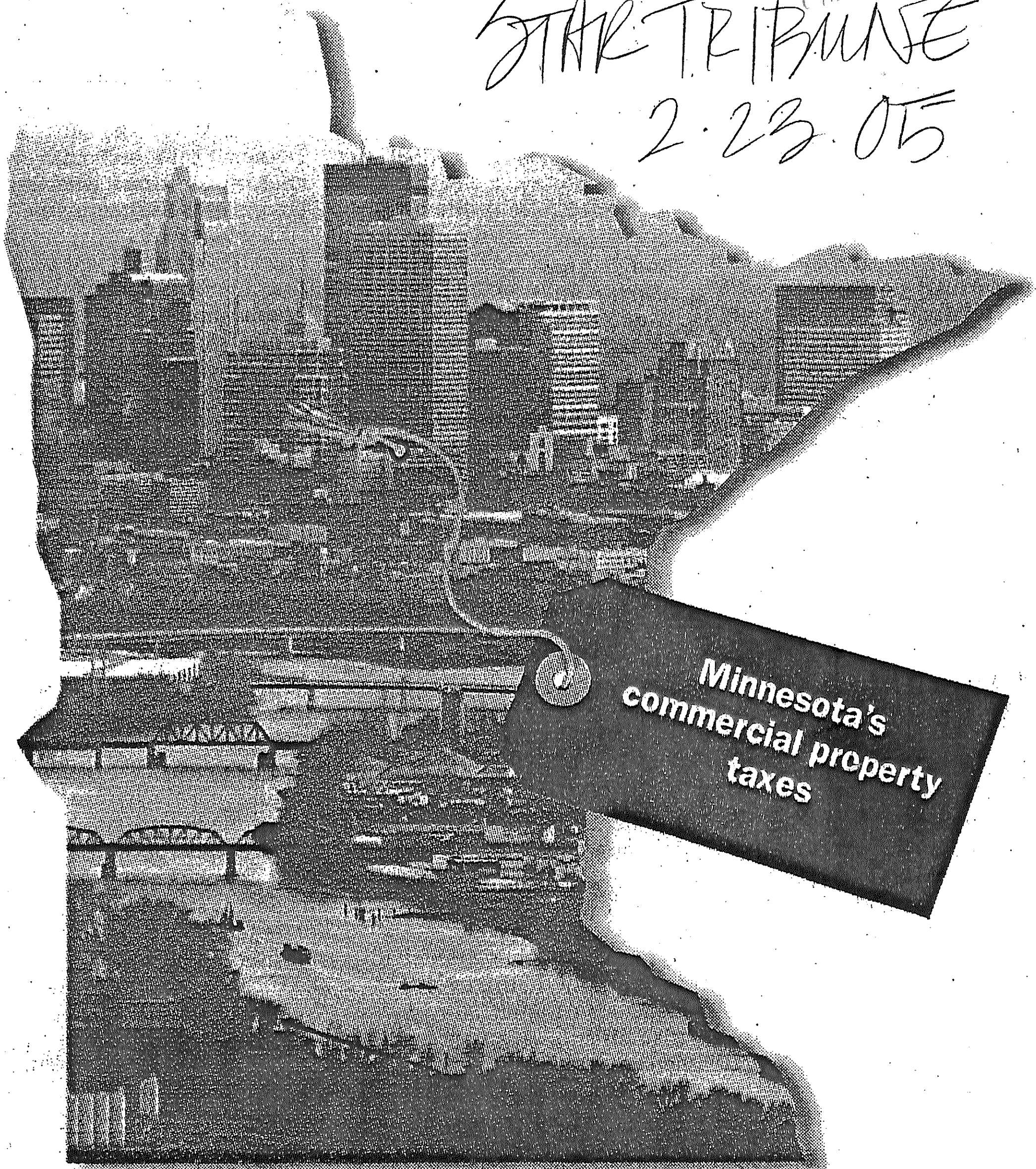
lize, which has sometimes had more passports issued than it had citizens.

The International Office of Migration and the U.S. State Department worked with Belize to find a solution and provided funding so 3M's technology could be used in the small Central American country.

The contract with Belize is one of a handful won by 3M since it bought the biometrics firm AiT of Ottawa, Ontario, two years ago. Since then, 3M has worked to co-develop several Web-based security products that it hopes will help it gain a larger footing in the growing biometrics security field.

3M continues on D6



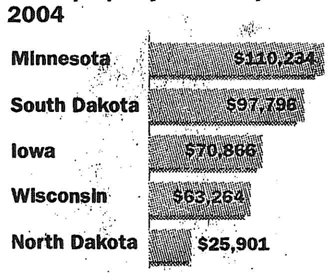
Star Tribune photo illustration/file photo

Dearth of taxes? Study says no

An island in the Upper Midwest

Minnesota has consistently had higher business property taxes than its immediate neighbors. The comparison is based on a hypothetical small manufacturing firm with 99 employees and a 70,000 square foot building operating in each state.

State property tax comparison, 2004



Source: Minnesota chapter of National Association of Industrial and Office Properties

State commercial property rates still high, group says

By Terry Fiedler
Star Tribune Staff Writer

Minnesota's commercial property taxes have declined markedly in recent years, but they remain the highest in the Upper Midwest and significantly more than those paid by businesses in other competitive states nationwide, according to an annual study by the local chapter of the National Association of Industrial and Office Properties (NAIOP).

The latest study, to be released today, shows that a typical 99-employee company in a 70,000-square-foot building paid $110,234 in Minnesota property taxes last year, down 11.5 percent from 2003. The decline comes from a drop in commercial property values and tax changes enacted in 2001.

"You have historically high vacancy rates in [office buildings] and the values of those properties have been reduced, but the effective tax rate is still high relative to other states," said Rebecca McDaniel, chairwoman of NAIOP's public policy committee.

Minnesota's $110,234 tax bill compares with $25,901 in North Dakota for a similar-size firm and space, $63,264 in Wisconsin, $70,866 in Iowa and $97,796 in South Dakota, according to the study, the 18th undertaken by NAIOP.

TAXES continues on D7

s companies, executives to pay up for tax dodge

"These transactions raise questions not only said it expects the list of com- fending executives, often aided

USDA predicts slowdown in beef production

By Libby Quaid
Associated Press

WASHINGTON, D.C. — Beef production will be slower than expected after Canadian cattle are allowed back into the United States next month, the Agriculture Department said Tuesday.

Cattle prices should remain relatively high because of competition between U.S. and Canadian packing houses, according a report by the Agriculture Department's chief economist.

Banned since the discovery of mad cow disease in May 2003 in Alberta, live cattle imports from Canada are scheduled to resume March 7.

Increased slaughter of steers and heifers in Canada indicate that "U.S. packers will have to compete more aggressively for the pool of slaughter-ready cattle, somewhat dampening an expected decline in fed steer prices," the report said.

Average prices for slaughter-ready cattle should be $80 to $85 per 100 pounds, the report said. The 2004 average was $84.75, the report said.

Commercial beef production is estimated to be 25.7 billion pounds this year, according to the report.

That's 400 million pounds less than the department had projected for 2005. The change was because Agriculture Secretary Mike Johanns decided last week not to allow meat from older Canadian animals into the United States on March 7.

Now, imports of meat as well as live cattle will be restricted to animals younger than 30 months. The brain-wasting disease is thought to pose less of a risk to younger animals.

The department also dropped its estimate for cattle imports, saying it expects Canada to ship about 1.3 million head to the United States, not 2 million as previously projected.

Ranchers have been seeing near-record prices for their cattle, and a ranchers' group is suing to keep the border closed.

TAXES from D1

Business group working to retain gains from 2001

In each of those years, Minnesota has had the highest commercial real estate taxes among those five states.

Minnesota's taxes also outpaced those in several states outside the region. In Massachusetts, the property taxes for a similar firm would have been $79,201, or $31,000 below the Minnesota level. In Colorado, a similar firm paid $45,097. In Ohio, the taxes were $26,059.

For the first time in 18 years, one of four states compared outside the region, Illinois, topped Minnesota's business property tax bill, with taxes in Cook County, home of Chicago, 11 percent higher.

A study by the Minnesota Taxpayers Association released earlier this year also showed that the state's business property taxes remain high, but it portrayed a more encouraging picture for commercial owners.

A Minnesota urban commercial property with a constant value of $1 million faced taxes that put it in 14th place nationwide in 2004, compared with ninth previously.

Lynn Reed, executive director of the taxpayers association, said significant progress has been made in reducing the commercial property tax burden in the state. At the same time, if residential and commercial property were valued the same, the business-to-residential tax ratio would still be 3-to-1.

Reed said the biggest problem with the high taxes on commercial property is that those costs are still passed on to individual taxpayers, but in ways that are difficult to see.

> "That extreme differential, along with other costs, make employers think long and hard about adding jobs in our state or even locating here in the first place."
>
> **—Rebecca McDaniel,** chair of NAIOP's public policy committee.

Given that Minnesota is still struggling with state budget shortfalls, McDaniel said that Minnesota members of NAIOP hope to simply maintain the gains won in 2001.

She added that reining in business taxes is important because of their connection to job creation. The per-employee annual property tax cost in the state is $1,113 vs. $261 in North Dakota, $639 in Wisconsin and $715 in Iowa.

"That extreme differential, along with other costs, makes employers think long and hard about adding jobs in our state or even locating here in the first place," McDaniel said.

NAIOP also compiled statistics showing that on a total basis — business property taxes, corporate, sales and unemployment taxes — Minnesota's costs were higher than all of the other eight states in the comparison at about $180,000. That was about $5,000 more than Illinois, $48,000 more than Massachusetts, $68,000 more than Wisconsin and $112,000 more than in Ohio.

Terry Fiedler is at tfiedler@startribune.com.

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the company.

Everson said letters will go soon to the directors of the affected corporations, chiding them for the practice. Such conflicts have since been banned by the Sarbanes-Oxley Act of 2002.

"People were hell bent to get rid of the tax, and some of these accounting firms said here's a way to do it," said Everson, a former public accountant and corporate executive. "And the executives said fine. And we told them in 2003 [with an IRS ruling] that it's not fine. It was the attitude of the accountants and attorneys and others involved that was at the root of this."

Under terms of the IRS settlement offered Tuesday, participating executives have until May 15 to report 100 percent of the affected compensation. They must pay taxes, accrued interest and a 10 percent penalty — half the usual penalty.

Everson said the IRS wants to give executives and corporations a chance to "clean up" past transactions voluntarily. He expressed disappointment that more companies haven't come forward, citing IRS estimates of scheme participation and in response to the 2003 ruling.

Everson said the IRS' list of offenders is coming from agency audits and referrals from Securities and Exchange Commission staff inquiries and the Department of Justice.

After May 15, he implied, fer was made to people who had participated in another tax shelter know as Son of Boss.

The IRS and economists have estimated that if all tax dodgers paid what they owed, the annual federal deficit of hundreds of billions of dollars would be greatly reduced or wiped out.

Neal St. Anthony can be reached at 612-673-7144 or nstanthony@startribune.com.

Treasury bill auction

Interest rates on short-term Treasury securities rose in Monday's auction. The Treasury Department sold $21 billion in three-month and $18 billion in six-month bills. The three-month bill rate was the highest since it averaged 3.18 percent on Sept. 10, 2001. The six-month rate was the highest since it was 3.12 percent Sept. 10, 2001.

	3-mo.	6-mo.
Current	2.615%	2.85%
Wk. ago	2.54%	2.76%
Yr. ago	0.93%	0.995%

Source: U.S. Treasury

ica's—keen on 100% relief in the right circumstances—to that of Japan, which questions the usefulness of any debt relief.

On balance, it is to be hoped that Japan will come to agree with Britain and America on this issue, as debt relief, when it works well, can be the best form of financial assistance. It puts more money in the hands of the recipient country, so it can take charge of its own development. Yet for that very reason, debt relief can also be a perversely efficient way of rewarding the worst sorts of poor-country governments, which may use their improved cash flow only to develop the president's Swiss bank account. Thus, debt relief should be given only when the government receiving it is likely to put it to good use. That has been the aim of the heavily-indebted poor country (HIPC) initiative, which may now be extended—though HIPC relief has a mixed record in practice, in part because the need for donors to be tough has often been trumped by their wish to appear generous.

When a government cannot be relied upon to use debt relief well, aid focused on specific goals is a better use of foreign money. Britain's promise to buy vaccines against HIV/AIDS and malaria for distribution in poor countries, which it hopes will provide the financial carrot necessary to get drug firms to develop them, is a potentially excellent use of an aid budget.

Arguably the most worrying dispute among rich countries is over how to pay for the war on poverty. As well as the familiar techniques of unfunded pledges and redirecting existing aid flows, gimmicks have been proposed, such as a "Tobin tax" on international financial transactions (unworkable) and a tax on aviation fuel or air tickets (which could work, and can be justified on environmental grounds, but has no link to poverty). More ominously, some G7 finance ministers seem tempted by various "off-balance-sheet" financing schemes, the sort of trickery notoriously associated with Enron. The IMF, say, might pay for the cancellation of debts by revaluing or selling its gold reserves—this could conveniently avoid counting the cancelled debt as public spending.

A tsunami lesson

Another off-balance-sheet manoeuvre is the International Financing Facility (IFF) championed by Gordon Brown, Britain's chancellor of the exchequer. This would let governments borrow against their own future aid budgets without counting such borrowing in their public accounts. The IFF's borrowing would be treated as only a contingent liability of the governments concerned (a technicality that should make IFF debt more expensive than straightforward government debt).

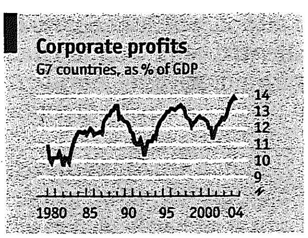
Is such trickery ever desirable, even to help the poor? And is it even necessary? Surely the public response in rich countries after the Asian tsunami demonstrated that, when people believe their money will be well spent on relieving misery, they are ready to be extremely generous. This year, politicians should instead use their creativity to come up with credible policies for reducing poverty confident that, if they do so, their voters will not need to be deceived into paying the bill. ■

Corporate profits

Breaking records

HANDOUT #2

Capitalists are grabbing a rising share of national income at the expense of workers



WOODY ALLEN once quipped "If my films don't show a profit, I know I'm doing something right." For most other people, in most other circumstances, profit is a mark of success, and in most countries corporate profits are currently booming. Last year, America's after-tax profits rose to their highest as a proportion of GDP for 75 years; the shares of profit in the euro area and Japan are also close to their highest for at least 25 years. UBS, a Swiss bank, estimates that in the G7 economies as a whole, the share of profits in national income has never been higher. The flip side is that labour's share of the cake has never been lower. So are current profit margins (and hence equity values) sustainable? Are they fair?

Corporate profits may be inflated in various ways. If firms made full provision for the future cost of pensions, their earnings would be smaller. And especially in America, the share of profits in national income has been bolstered by the surging profits of the financial sector which have benefited hugely from falling interest rates. Even so, the impressive efforts of American firms to boost productivity and cut costs are genuine (see page 62). Firms elsewhere, notably in Japan and Germany, are also restructuring aggressively. The share of profit in GDP always rises sharply after a downturn, but in the United States a bigger slice of the increase in national income this time has gone to profits than in any previous post-war recovery. Over the past three years American corporate profits have risen by 60%, wage income by only 10%.

If the share of wages in GDP continues to slide, there could be a backlash from workers who feel short-changed. Yet the chances of this are lower than before. The old divide between "them" and "us" is becoming blurred: many workers also own shares directly or through pension funds, which sooner or later will give them a slice of profits. In any case, there are good reasons to believe that profits growth will soon slow sharply and that workers will make up some of their lost ground.

An economic fallacy

The usual explanation for why profits are booming is that productivity growth has increased thanks to the computer revolution and tougher management. Thus, goes the argument, increased productivity and hence lower production costs mean fatter profit margins. History suggests otherwise. It is normal for the share of profits in national income to rise during the early stages of a technological revolution, but then those extra profits tend to be competed away. Higher profits tempt firms to cut prices to steal market share; they also increase the incentive for new firms to enter the market. The benefits of the productivity gains from railways, electricity or the car eventually went not to producers but to consumers and workers, as competition forced firms to pass cost savings on as lower prices and higher real wages. There is even greater reason for think- ▸▸

ing that the benefits of computing technology will flow the same way, for it also increases competition in many industries by lowering barriers to entry and making it easier for consumers to compare prices on the internet.

However, there is another factor that might have raised the return on capital relative to labour in a lasting way, namely the integration of China and India into the world economy, along with their vast supply of cheap labour. To the extent that this increases the global ratio of labour to capital, it will lift the relative return to capital. Outsourcing may not have destroyed many jobs in developed economies, but the threat that firms could produce offshore helps to keep a lid on wages. As a result, the share of profits in national income could stay relatively high for a period. Labour's share would remain low, though workers may still be better off if the cake itself is growing faster. But this is not a reason to expect profits to continue to grow faster than GDP; indeed, in a competitive market profit margins will eventually narrow. Even if outsourcing reduces costs, competition will eventually force firms to reduce prices, distributing the benefits back to consumers and workers.

Stockmarket investors seem to think otherwise: current share valuations appear to assume that profits will continue to outpace GDP growth. Most analysts still expect American profits to grow by an annual 10% over the next couple of years. With nominal GDP growth of around 5%, that implies the proportion of GDP going to profits growing still larger. But that looks unlikely, and if so, share prices are overvalued. Both economic theory and historical experience argue that, in the long run, profits grow at the same pace as GDP. Such long-standing rules deserve more respect. ■

Immigration in Britain

After the flood

Why the British government's new plan for controlling immigration is a bad idea

DEBATE about immigration is steeped in metaphor, ranging from Enoch Powell's rivers of blood to the more usual waves of foreigners flooding the nation and swamping public services. The imagery is usually liquid, carrying with it the idea of a force of nature, rushing out of governments' control.

That notion suits the Conservatives nicely. Michael Howard, the Tory leader, wants immigration to be one of the big subjects for the election expected in May. That's not surprising: it is the only important policy area in which voters consistently give the Tories higher marks than the government. The government is equally keen to dispel the idea, which is why this week it announced plans to restrict entry further.

Good migrants and bad migrants

The government's determination to show that it has got things under control is understandable, but is based on two mistakes. The first is the idea that immigration is out of control. Three years ago it was, partly because the bureaucracy was in a mess and partly because conflicts in various troubled places (a factor sadly way beyond the government's control) led millions of people to flee their homes. The number of asylum-seekers trying to get into Britain peaked in 2002 at 8,700 a month. Since then, the government has done much to make the system work better, and applications have fallen by 60%. However, the number of people being granted work permits has gone on rising and now stands at more than twice the number of asylum-seekers. But the government itself sets the number of work permits, so the high current inflow of foreigners is not a sign that immigration is out of control.

Voters seem to understand this. Polling shows that Britons tend to dislike asylum-seekers but are untroubled by foreigners who have come to work. That may say uncomplimentary things about both the compassion of the British people (asylum-seekers' economic inactivity is hardly their own fault, since they aren't allowed to work) or their logic ("bogus" asylum-seekers, the most-hated category, are, after all, economic migrants by another name) but it also suggests that the issue may lose its political salience. The polls support that idea: concern about immigration peaked with asylum applications in 2002, and has since fallen alongside them. So the government's worry that the Tories have put their finger on a hot electoral button may be misplaced.

The second mistake lies in the direction of policy. Over the past five years, the government has quietly liberalised the work-permit system: businesses, which used to have a tough time getting permits for foreigners, now find that applications go through pretty much on the nod. By and large, it is employers who determine what kind of immigrants get jobs. They ask for permits, and the government responds, usually positively.

But if the government wants to be seen to be getting things under control, it cannot just let employers decide who gets into the country. That's why it is now moving away from a system that responds to employer demand to one driven by what the government thinks the economy needs. Under the new rules, fewer low-skilled workers will be allowed in, while those with plenty of qualifications and experience will be welcomed, particularly if their skills fall into categories believed to be in short supply. A committee of experts will be assembled to determine exactly what those skills are.

This way of managing immigration has a respectable pedigree—sensible people such as the Australians and Canadians do it—but that does not mean it makes economic sense. Employers are better than governments at knowing what jobs are in short supply (as Australian employers discovered a while ago when the government got its sums wrong and left them with a critical shortage of doctors). If governments think that immigration is running at politically unacceptable levels, they should limit total numbers. Micro-managing the labour market is not the answer.

Until now, the government has been quietly and commendably liberal on economic migration, but now it is worried. It hasn't yet started building dykes, but is trying to channel the flow. That is a mistake: it risks ending up with a flood in one place, a drought in another and a policy up the spout. ■

Agenda #2

Senators Moua and Rest introduced--

S.F. No. 978: Referred to the Committee on Taxes.

A bill for an act

relating to property taxation; converting the state general tax on commercial-industrial property to a tax based on land value; amending Minnesota Statutes 2004, section 275.025, subdivision 4, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 275.025, is amended by adding a subdivision to read:

Subd. 2a. [COMMERCIAL-INDUSTRIAL LAND TAX CAPACITY.] For the purposes of this section, "commercial-industrial land tax capacity" means the estimated market value of the land value of all taxable property classified as class 3 or class 5 under section 273.13, excluding property described in section 473.625. County commercial-industrial land tax capacity amounts are not adjusted for the captured net tax capacity of a tax increment financing district under section 469.177, subdivision 2, the net tax capacity of transmission lines deducted from a local government's total net tax capacity under section 273.425, or fiscal disparities contribution and distribution net tax capacities under chapter 276A or 473F.

[EFFECTIVE DATE.] This section is effective beginning for taxes payable in 2006.

Sec. 2. Minnesota Statutes 2004, section 275.025, subdivision 4, is amended to read:

Subd. 4. [APPORTIONMENT AND LEVY OF STATE GENERAL TAX.]

(a) For taxes payable in 2002 through 2005, the state general tax must be distributed among the counties by applying a uniform rate to each county's commercial-industrial tax capacity and its seasonal residential recreational tax capacity. Within each county, the tax must be levied by applying a uniform rate against commercial-industrial tax capacity and seasonal residential recreational tax capacity. On or before October 1 each year, the commissioner of revenue shall certify a preliminary state general levy rate to each county auditor that must be used to prepare the notices of proposed property taxes for taxes payable in the following year. By January 1 of each year, the commissioner shall certify the final state general levy rate to each county auditor that shall be used in spreading taxes.

(b) For taxes payable in 2006 and later years, the state general levy must first be divided into a commercial-industrial share and a seasonal recreational share, in proportion to the share of the state general tax levied on each of those classes for taxes payable in 2005. For taxes payable in 2006, 100 percent of the commercial-industrial share is apportioned to the regular commercial-industrial tax capacity. For taxes payable in 2007, 90 percent is apportioned to regular commercial-industrial tax capacity and ten percent to commercial-industrial land tax capacity. In each succeeding year, an additional ten percentage points of the commercial-industrial share is shifted from regular commercial-industrial tax capacity to commercial-industrial land tax capacity. For taxes payable in 2016 and thereafter, the full amount of the commercial-industrial share is levied upon commercial-industrial land tax capacity.

(c) For each of the three component shares of the state general levy determined in paragraph (b), the tax must be distributed among the counties by applying a uniform rate to each county's tax capacity for the relevant class. Within each county, each component share of the tax must be levied by applying a uniform rate against the relevant tax capacity for that share of the levy.

[EFFECTIVE DATE.] This section is effective beginning for taxes payable in 2006.

LINCOLN
INSTITUTE
OF LAND POLICY

Two-Rate Taxation of Land and Buildings:
Benefits and Challenges of Innovative Property Tax Reform

Minnesota History Center
St. Paul, Minnesota
March 4, 2005

9:30-9:45	Welcome, Introduction and Overview
9:45-10:30	*The Economic Perspective: Potential Benefits of a Two-Rate Tax*
	Professor Wallace Oates, Department of Economics, University of Maryland
10:30-11:15	*The Economics of Two-Rate Taxation: A Look Backward at Pittsburgh and a Look Forward at Washington D.C.*
	Professor Robert Schwab, Associate Dean, University of Maryland
11:15-11:30	**Break**
11:30-12:15	*Two-Rate Taxation in Philadelphia: A Report on the Tax Reform Commission*
	Brett Mandel, Executive Director, Philadelphia Forward
12:15-1:30pm	**Luncheon speaker**: Lenny Goldberg, Executive Director, California Tax Reform Association
1:30-2:15	*The Public Policy Perspective: What Happened in Pittsburgh?*
	Professor David Miller, Department of Public and Urban Affairs, University of Pittsburgh
2:15-3:00	*Developing a Tax Reform that Can Promote Economic Development and Taxpayer Equity*
	Dr. Richard England, Whittemore School of Business and Economics, University of New Hampshire
3:00-3:45	*The Assessment Perspective: New Approaches to Determining Land Value Using Geographic Information Systems*
	Jerome German, Director and Chief Assessor, Lucas County Auditor's Office

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

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Jo Anne Zoff Sellner
Director

Senate

State of Minnesota

TO: Members of the Senate Tax Committee

FROM: Jo Anne Zoff Sellner, Senate Counsel (651/296-3803) 830

DATE: February 23, 2005

RE: S. F. No. 978 (Moua)

This bill provides that the state general tax on commercial-industrial property will be imposed only on the value of the land.

Section 1 defines "commercial-industrial land tax capacity" to mean the estimated market value of the land that is classified as commercial-industrial, utility, and all other property not included in classes 1 to 4. This does not include land that constitutes a major airport which is detached from and therefore exempt from taxation by the city or school district within which it would otherwise be located. These values are not subject to adjustment for the captured net tax capacity of a tax increment financing district, the net tax capacity of transmission lines deducted from a government's total net tax capacity, or the fiscal disparities contribution and distribution net tax capacities.

Section 2 provides that for taxes payable in 2006 and later years, the state general levy will be applied as follows: the levy must first be divided into a commercial-industrial share and a seasonal recreational share in proportion to the relative share of the state general tax that was levied on each of those classes for taxes payable in 2005. For taxes payable in 2006, 100 percent of the commercial-industrial share is apportioned to the regular commercial-industrial tax capacity. For taxes payable in 2007, 90 percent of the commercial-industrial share is apportioned to the regular commercial-industrial tax capacity, and ten percent to commercial-industrial land tax capacity. In 2008 and each succeeding year, an additional ten percentage points of the commercial-industrial share will be added to the commercial-industrial land tax capacity, and removed from the regular commercial-industrial tax capacity. Beginning with taxes payable in 2016, the full amount of the commercial-industrial share will be levied on the commercial-industrial land tax capacity. The tax will be imposed within each county by applying a uniform rate to each of the three components of the state general levy.

JZS:dv

PROPERTY TAX
State General Levy on CI Land Value

February 22, 2005

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

Department of Revenue
Analysis of S.F. 978 (Moua)/ H.F. 1035 (Abrams)

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
General Fund	$0	$0	$0	$0

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: The state general property tax is levied on commercial and industrial property and seasonal recreational residential property, including both land and buildings. The state tax base includes personal property subject to taxation, including tools, machinery and power lines owned by public utilities. Electric generating property is exempt. The total amount of the state general levy is determined by statute. The state levy was $592 million for taxes payable in 2002 and is adjusted annually for inflation. The state levy tax rate is calculated each year to yield the required amount and is applied uniformly to all property in the tax base.

The state general tax base is not subject to adjustments for tax increment financing (TIF), fiscal disparities, or the 10% transmission line tax base exclusion. The entire state general property is for state general fund purposes only. The state tax on a business property located in a TIF district does not provide any taxes for the TIF district.

Proposed Law: A new state general property tax base is defined as the tax capacity of commercial-industrial property land only. The new tax base is not subject to adjustment for TIF, fiscal disparities, or transmission lines. For taxes payable in 2006, the current state general levy will first be divided so that the regular commercial-industrial levy share and seasonal recreational levy share of the total are the same as existed in 2005. For taxes payable in 2007, 90% of the pay 2006 commercial-industrial share is apportioned to the regular commercial-industrial tax base and 10% is apportioned to the new commercial-industrial land tax base. For each subsequent year, an additional ten percentage points of the original commercial-industrial tax base will be shifted from the regular commercial-industrial levy to the new commercial-industrial land tax base, until by 2016 the entire commercial-industrial share of the state levy is shifted to the new land-only basis.

February 22, 2005

REVENUE ANALYSIS DETAIL

- The proposal will gradually shift the burden of the state general tax on commercial-industrial property away from improvements and land to land only and will hold constant the share of the state levy paid by seasonal recreational residential property to a fixed percentage, regardless of the relative statewide growth of market values among the tax bases. Three uniform tax rates will be required to achieve the required shares of state levy among the two current parts of the tax base and the new land-only part until the year 2016.
- Although the proposal will change the distribution of the state general levy, the total state revenue will not change from current law because the tax rates will be calculated to raise the same total state levy as under current law.

Number of Taxpayers Affected: All commercial-industrial and seasonal recreational residential property owners will be affected.

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

sf0978(hf1035)_1 / LM

HANDOUT #3

Land Value Taxation: A Twin Cities Case Study

Compiled by

Karl Batalden, Kim Green, and Elizabeth Steranko

Humphrey Institute of Public Affairs

for

Isaiah

presented by Lisa Fulton

ISAIAH – Building Strong Congregations . . . Strong Communities

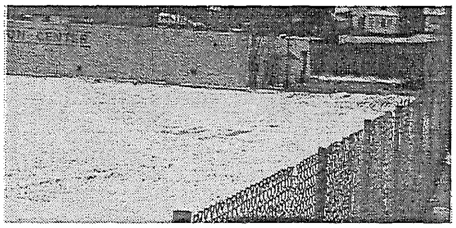
Minnesota Land Value Tax Legislation

- State's property tax on commercial & industrial
- Phased in over ten years
- Revenue neutral
- Passed House in 2001

Potential Benefits

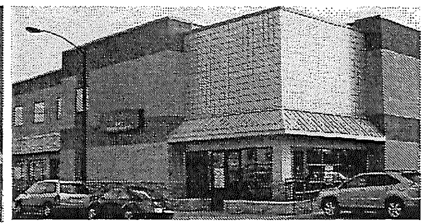
- Spur community development
- Recapture community-created value
- Improve tax climate for business
- Boost economic development incentives
- Good for construction & manufacturing jobs

Lexington/University



2004 Taxable Value	$457,200
% Building Value	0%

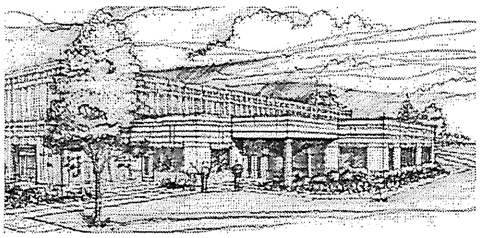
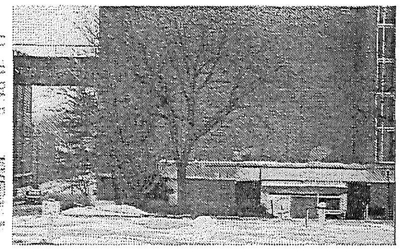
Mai Village



2004 Taxable Value	$1,657,000
% Building Value	89%

Current System vs. Land Tax System

	Lexington/ University	Mai Village
Taxes Under Current System	$ 4,542	$ 17,526
Taxes During 1st Year of Land Tax System	$ 5,628	$ 16,403
% Change in Taxes	24%	-6%
Taxes During 5th Year of Land Tax System*	$ 9,975	$ 11,911
% Change in Taxes	120%	-32%

Capital Wood Products	Stroh's Brewery Site
	

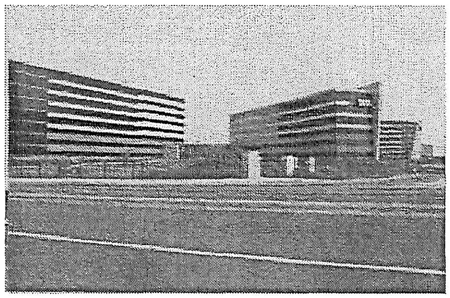
2004 Taxable Value	$2,445,600
% Bldg Value	78%

2004 Taxable Value	$1,543,200
% Bldg Value	68%

Current System vs. Land Tax System

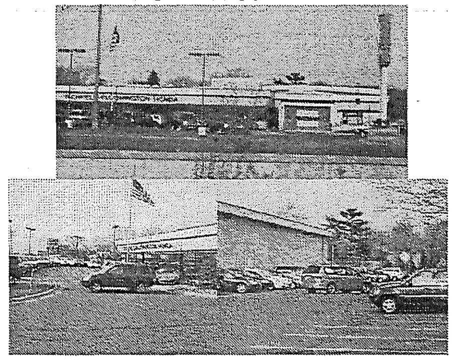
	Capital Wood Products	Stroh's Brewery Site
Taxes Under Current System	$ 26,060	$ 16,294
Taxes During 1st Year of Land Tax System	$ 25,232	$ 16,327
% Change in Taxes	-3.2%	0.2%
Taxes During 5th Year of Land Tax System*	$ 21,922	$ 16,458
% Change in Taxes	-15.9%	1%

Best Buy Headquarters



2004 Taxable Value	$118,500,000
% Bldg Value	75%

Bloomington Honda

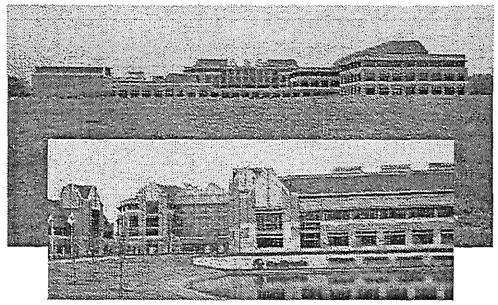


2004 Taxable Value	$2,845,000
% Bldg Value	28%

Current System vs. Land Tax System

	Best Buy Headquarters	Bloomington Honda
Taxes Under Current System	$ 1,281,977	$ 30,382
Taxes During 1st Year of Land Tax System	$ 1,255,063	$ 34,215
% Change in Taxes	-2.1%	12.6%
Taxes During 5th Year of Land Tax System*	$ 1,147,415	$ 49,548
% Change in Taxes	-10.5%	63.1%

Medtronic HQ



2004 Taxable Value	$30,525,400
% Bldg Value	87%

Midwest Asphalt

2004 Taxable Value	$613,000
% Bldg Value	15%

Current System vs. Land Tax System

	Medtronic Headquarters	Midwest Asphalt
Taxes Under Current System	$ 329,934	$ 6,228
Taxes During 1st Year of Land Tax System	$ 309,851	$ 7,357
% Change in Taxes	-6.1%	18.1%
Taxes During 5th Year of Land Tax System*	$ 229,524	$ 11,874
% Change in Taxes	-30.4%	90.7%

Conclusions

- Taxes on vacant parcels will dramatically increase, encouraging development (e.g., Lexington & University)
- Community-created value can be recaptured (e.g., Stroh's Brewery site)
- Taxes on underutilized land, particularly in high value locations, will increase, encouraging redevelopment (e.g., Bloomington Honda and Midwest Asphalt)
- High value uses are taxed less (e.g., Mai Village, Capital Wood, Best Buy, and Medtronic)

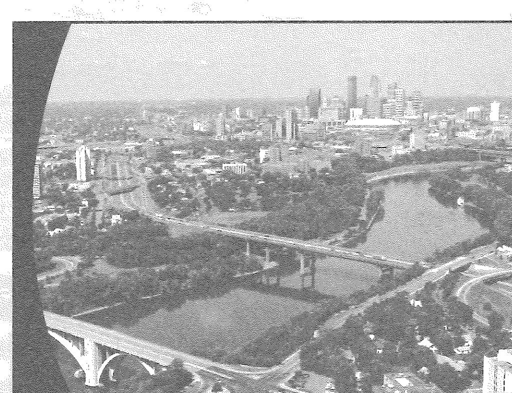
Property	Total Value	Land Value	Building Value	% Building Value (of Total Value)	2004 Current System, Taxes Payable	1st Year Phase-in of Land Tax, Taxes Payable	Change in Taxes	Percent Change in Taxes
Lexington & University	$ 457,200	$ 457,200	$ -	0%	$ 4,542	$ 5,628	$ 1,087	23.9%
Mai Village	$ 1,657,000	$ 186,800	$ 1,470,200	89%	$ 17,526	$ 16,403	$ (1,123.11)	-6.4%
Capital Wood Products	$ 2,445,600	$ 527,700	$ 1,917,900	78%	$ 26,060	$ 25,232	$ (828)	-3.2%
Stroh's Brewery Site	$ 1,543,200	$ 493,200	$ 1,050,000	68%	$ 16,294	$ 16,327	$ 33	0.2%
Best Buy HQ	$ 118,500,000	$ 30,055,000	$ 88,445,000	75%	$ 1,281,977	$ 1,255,063	$ (26,915)	-2.1%
Bloomington Honda	$ 2,845,000	$ 2,039,000	$ 806,000	28%	$ 30,382	$ 34,215	$ 3,833	12.6%
Midwest Asphalt	$ 613,000	$ 519,900	$ 93,100	15%	$ 6,228	$ 7,357	$ 1,129	18.1%
Medtronic HQ	$ 30,525,400	$ 3,831,300	$ 26,694,100	87%	$ 329,934	$ 309,851	$ (20,083)	-6.1%
Brookdale Mall	$ 45,000,000	$ 16,163,100	$ 28,836,900	64%	$ 486,575	$ 492,386	$ 5,811	1.2%
Rosedale Mall	$ 149,225,400	$ 36,804,200	$ 112,421,200	75%	$ 1,614,482	$ 1,577,061	$ (37,421)	-2.3%

HANDOUT #4

Two-Rate Taxation of Land and Buildings

Benefits and Challenges of Innovative Property Tax Reform

Friday, March 4 ▪ 2005
9:30 AM – 4:00 PM
Minnesota History Center
St. Paul, Minnesota



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LINCOLN INSTITUTE OF LAND POLICY

Two-Rate Taxation of Land and Buildings

Benefits and Challenges of Innovative Property Tax Reform

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Minnesota History Center ▪ St. Paul, Minnesota

The Economic Perspective: Potential Benefits of a Two-Rate Tax
Professor Wallace Oates, Department of Economics, University of Maryland

The Economics of Two-Rate Taxation: A Look Backward at Pittsburgh
and a Look Forward at Washington D.C.
Professor Robert Schwab, Associate Dean, University of Maryland

Two-Rate Taxation in Philadelphia: A Report on the Tax Reform Commission
Brett Mandel, Executive Director, Philadelphia Forward

Luncheon speaker: *Lenny Goldberg, Executive Director, California Tax Reform Association*

The Public Policy Perspective: What Happened in Pittsburgh?
Professor David Miller, Department of Public and Urban Affairs, University of Pittsburgh

Developing a Tax Reform that Can Promote Economic Development and Taxpayer Equity
Dr. Richard England, Whittemore School of Business and Economics,
University of New Hampshire

The Assessment Perspective: New Approaches to Determining
Land Value Using Geographic Information Systems
Jerome German, Director and Chief Assessor, Lucas County Auditor's Office

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HANDOUT #5

Evaluating the Feasibility and Burden Shifting Impacts of a Statewide Land Value Tax on Commercial and Industrial Property

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Minnesota Center for Public Finance Research / Minnesota Taxpayers Association
651-224-7477

A research project funded by the Lincoln Institute of Land Policy, Cambridge, MA

Project Overview

- Modeled the first year adoption of the proposed land value tax on all Minnesota counties to determine shifts in county contribution to state general tax payable
- Detailed analysis of four counties to evaluate tax shifting by property value and property use
- MN assessors survey to identify relevant technical and administrative issues

How Tax Shifting Works Under a Land Value Tax System

• Individual winners and losers largely determined by value of structure in relation to underlying land value: building-to-total-value ratio (BV/TV)

If it's higher than the state average for C/I property, you would get a tax cut; if its lower, you get a tax increase

BV/TV Average for State C/I parcels (2003): 69.4%

• However, Minnesota's classification system complicates this basic rule of shifting under a land value tax

Because during each year of the phase-in 10% of tax capacity is replaced with 10% of unclassified land value, land tax phase requires sub $150,000 parcels to be developed at a higher intensity to "break even" (BV/TV of 76.0)

▪ Separating the state general tax levy into two pools (C/I and non C/I) also has some potential long term effects

Summary of Tax Shifting Effects – By Geography

- Even with the loss of preferential treatment from classification for sub-$150,000 parcels, greater Minnesota C/I properties are still largely beneficiaries from a land tax system due to lower land values
  - 38 counties have average commercial/industrial BV/TV ratios above 80%; another 15 exceed 75%
  - 75% of current C/I general tax paid is from 7 county metro area, but 78% of state C/I land value is in 7 county metro area
  - 10 of 13 studied "big box" retail establishments located in state sub-regional centers would see reductions in state general taxes payable

While "winners" and "losers" will be found throughout the state, the major shifting impacts lie within the seven county metro area

Land values are higher → larger magnitude of tax shifting

Burden Shifting – Property Value

(Does not include pooling effect)
(Includes only parcels with improvements)

Ramsey County Commercial: 1st Year

	Properties with Tax Decrease			Properties with Tax Increase		
Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
$150,000 and lower	52%	($28)	-4.10%	48%	$75	10.10%
$150,001 - $500,000	68%	($125)	-4.60%	32%	$205	7.40%
$500,001 - $1,000,000	60%	($308)	-4.30%	40%	$539	7.70%
$1,000,001 - $10,000,000	59%	($1,302)	-4.30%	41%	$1,941	7.10%
Over $10,000,000	70%	($11,936)	-5.00%	30%	$18,957	6.80%

Ramsey County Industrial: 1st Year

	Properties with Tax Decrease			Properties with Tax Increase		
Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
$150,000 and lower	42%	($31)	-3.10%	58%	$133	14.50%
$150,001 - $500,000	76%	($135)	-4.30%	24%	$284	8.10%
$500,001 - $1,000,000	75%	($344)	-4.50%	25%	$530	7.20%
$1,000,001 - $10,000,000	73%	($1,309)	-4.20%	27%	$1,291	4.60%
Over $10,000,000	86%	($14,308)	-5.30%	14%	$38,496	11.60%

Burden Shifting – Property Value

(Does not include pooling effect)
(Includes only parcels with improvements)

Hennepin County Commercial: 1st Year

	Properties with Tax Decrease			Properties with Tax Increase		
Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
$150,000 and lower	45%	($28)	-3.60%	55%	$73	10.80%
$150,001 - $500,000	45%	($102)	-3.80%	55%	$249	9.20%
$500,001 - $1,000,000	38%	($262)	-3.60%	62%	$615	8.30%
$1,000,001 - $10,000,000	39%	($1,357)	-3.80%	61%	$2,413	8.20%
Over $10,000,000	71%	($18,150)	-4.70%	29%	$11,568	6.50%

Hennepin County Industrial: 1st Year

	Properties with Tax Decrease			Properties with Tax Increase		
Property Value	% of subgroup	Ave. change payable	Ave. % change	% of subgroup	Ave. change payable	Ave. % change
$150,000 and lower	56%	($25)	-3.80%	44%	$96	15.70%
$150,001 - $500,000	54%	($119)	-4.10%	46%	$270	9.40%
$500,001 - $1,000,000	54%	($263)	-3.50%	46%	$491	6.70%
$1,000,001 - $10,000,000	63%	($848)	-2.80%	37%	$1,456	4.90%
Over $10,000,000	57%	($5,014)	-3.10%	43%	$5,057	3.60%

Burden Shifting – Property Type

Dakota County Property Subtype Analysis

	Average BV/TV	Median Tax Increase (Decrease) $	Median % Change
Greenhouses	32.8	47	20.9%
Department Store	41.3	9481	10.2%
Fast Food Restaurants	54.6	274	5.6%
Convenience Market	56.1	182	4.2%
Banks	57.9	215	4.2%
Auto Showrooms	57.0	242	4.1%
Parking Ramps	57.5	530	3.6%
Service Stations	60.9	48	3.1%
Restaurants	61.4	128	2.8%
Community Shopping Ctr	61.7	83	0.6%
Neighborhood Shopping Ctr	64.9	56	0.5%
Retail Stores	69.2	(3)	-0.2%
Day Care Center	72.2	(26)	-0.3%
Office	71.5	(14)	-0.7%
Bars/Taverns	72.0	(12)	-0.9%
Supermarket	70.9	(472)	-1.5%
Industrial Manufacturing	74.9	(74)	-1.7%
Motel	70.5	(196)	-2.3%
Hotel	76.7	(816)	-3.6%
Warehousing	81.2	(37)	-4.6%

Vacant C/I Land

Land Value	2004 Payable	1st Year Phase in Payable	Change	Percent
$10,000	$ 81.16	$ 106.72	$ 25.56	31.5%
$50,000	$ 405.82	$ 533.60	$ 127.79	31.5%
$150,000	$ 1,217.45	$ 1,600.81	$ 383.36	31.5%
$500,000	$ 5,005.08	$ 6,189.57	$ 1,184.48	23.7%
$1,000,000	$ 10,415.98	$ 12,744.37	$ 2,328.38	22.4%
$10,000,000	$107,812.18	$ 130,730.77	$22,918.58	21.3%

State Assessors Survey / Implementation Issues

	Strongly Agree / Agree	Strongly Disagree / Disagree	Don't Know / Undecided
Has sufficient resources to generate defensible C/I land values	55%	40%	5%
Has necessary training and expertise to generate defensible C/I land values	75%	21%	4%
Major reassessment of C/I land values necessary to implement	30%	60%	10%
No. of appeals likely to significantly increase under a land value tax	31%	30%	39%
Office administrative expenses likely to increase	42%	35%	23%
Would expect great resistance from business	43%	14%	43%
Idea is worth pursuing	9%	66%	25%

Key Implementation Issues

- Development and defense of land values for developed parcels
- Assessment resources and capacity in outstate areas
- Consistency in application of highest and best use principles within the context of public land use controls and restrictions
- Equalization of state land values
- Strategic use of zoning to “export” state general tax liability?

HANDOUT #6

Appendix: State General Tax Burden Shift for Commercial and Industrial Properties by Minnesota Counties

County	County BV/TV ratio (C/I only)	Actual 2004 C/I Payable	2004 Phase-In (1st year) No pooling effect		2004 Phase-In (1st year) With pooling effect		Full Land Value Tax	
			Tax payable	% Change	Tax payable	% Change	Tax payable	% Change
Aitkin	74.7%	393,123	391,244	-0.5%	395,462	0.6%	374,336	-4.8%
Anoka	69.8%	29,592,098	29,529,007	-0.2%	29,847,312	0.9%	28,961,226	-2.1%
Becker	76.6%	1,362,502	1,338,542	-1.8%	1,352,970	-0.7%	1,122,901	-17.6%
Beltrami	75.2%	1,647,392	1,624,787	-1.4%	1,642,302	-0.3%	1,421,352	-13.7%
Benton	72.4%	2,402,869	2,387,785	-0.6%	2,413,523	0.4%	2,252,024	-6.3%
Big Stone	76.6%	83,354	83,030	-0.4%	83,925	0.7%	80,115	-3.9%
Blue Earth	69.0%	5,588,439	5,608,403	0.4%	5,668,858	1.4%	5,788,085	3.6%
Brown	79.7%	1,538,787	1,493,770	-2.9%	1,509,872	-1.9%	1,088,615	-29.3%
Carlton	79.5%	1,594,104	1,545,527	-3.0%	1,562,187	-2.0%	1,108,337	-30.5%
Carver	72.0%	7,142,352	7,077,963	-0.9%	7,154,259	0.2%	6,498,471	-9.0%
Cass	65.9%	1,213,515	1,245,913	2.7%	1,259,343	3.8%	1,537,493	26.7%
Chippewa	81.7%	522,772	505,157	-3.4%	510,603	-2.3%	346,623	-33.7%
Chisago	68.1%	1,951,432	1,971,846	1.0%	1,993,101	2.1%	2,155,571	10.5%
Clay	78.7%	2,250,927	2,189,183	-2.7%	2,212,781	-1.7%	1,633,492	-27.4%
Clearwater	84.1%	110,086	105,973	-3.7%	107,115	-2.7%	68,952	-37.4%
Cook	62.2%	253,877	264,057	4.0%	266,903	5.1%	355,675	40.1%
Cottonwood	88.4%	490,722	461,753	-5.9%	466,730	-4.9%	201,031	-59.0%
Crow Wing	65.9%	6,220,919	6,315,741	1.5%	6,383,820	2.6%	7,169,147	15.2%
Dakota	68.5%	42,725,007	42,770,825	0.1%	43,231,869	1.2%	43,183,240	1.1%
Dodge	82.9%	520,349	499,930	-3.9%	505,319	-2.9%	316,159	-39.2%
Douglas	71.0%	2,989,124	2,987,104	-0.1%	3,019,303	1.0%	2,968,930	-0.7%
Fairbault	87.8%	559,956	528,178	-5.7%	533,871	-4.7%	242,173	-56.8%
Fillmore	82.8%	704,349	679,414	-3.5%	686,738	-2.5%	455,000	-35.4%
Freeborn	79.3%	1,418,812	1,378,637	-2.8%	1,393,498	-1.8%	1,017,060	-28.3%
Goodhue	69.9%	3,255,590	3,263,897	0.3%	3,299,080	1.3%	3,338,659	2.6%
Grant	81.0%	136,754	133,291	-2.5%	134,728	-1.5%	102,120	-25.3%
Hennepin	67.0%	211,348,652	212,497,645	0.5%	214,788,242	1.6%	222,838,852	5.4%
Houston	72.4%	529,821	531,196	0.3%	536,922	1.3%	543,577	2.6%
Hubbard	74.8%	1,035,665	1,024,784	-1.1%	1,035,830	0.0%	926,857	-10.5%
Isanti	74.5%	1,333,205	1,316,505	-1.3%	1,330,696	-0.2%	1,166,208	-12.5%
Itasca	74.1%	2,108,061	2,087,850	-1.0%	2,110,355	0.1%	1,905,950	-9.6%
Jackson	83.2%	390,868	374,932	-4.1%	378,973	-3.0%	231,505	-40.8%
Kanabec	72.3%	407,794	408,596	0.2%	413,001	1.3%	415,821	2.0%
Kandiyohi	69.6%	2,089,901	2,102,934	0.6%	2,125,602	1.7%	2,220,230	6.2%
Kittson	88.3%	83,729	79,319	-5.3%	80,174	-4.2%	39,626	-52.7%
Koochiching	87.4%	820,708	773,385	-5.8%	781,722	-4.8%	347,482	-57.7%
Lac Qui Parle	83.9%	183,633	175,995	-4.2%	177,892	-3.1%	107,249	-41.6%
Lake	73.7%	443,713	440,979	-0.6%	445,732	0.5%	416,370	-6.2%
Lake of Woods	84.7%	174,101	166,344	-4.5%	168,137	-3.4%	96,527	-44.6%
Lesueur	74.9%	1,032,769	1,022,177	-1.0%	1,033,195	0.0%	926,843	-10.3%
Lincoln	89.3%	100,900	94,888	-6.0%	95,910	-4.9%	40,771	-59.6%
Lyon	77.8%	1,963,030	1,914,381	-2.5%	1,935,016	-1.4%	1,476,538	-24.8%
McLeod	72.9%	2,142,557	2,127,414	-0.7%	2,150,346	0.4%	1,991,123	-7.1%
Mahnomen	86.7%	292,724	276,414	-5.6%	279,393	-4.6%	129,624	-55.7%
Marshall	88.4%	135,640	128,299	-5.4%	129,682	-4.4%	62,234	-54.1%

Martin	86.2%	1,066,771	1,011,095	-5.2%	1,021,994	-4.2%	510,008	-52.2%
Meeker	71.8%	667,676	670,640	0.4%	677,869	1.5%	697,314	4.4%
Mille Lacs	74.5%	669,069	665,775	-0.5%	672,952	0.6%	636,127	-4.9%
Morrison	80.5%	1,130,888	1,097,515	-3.0%	1,109,345	-1.9%	797,155	-29.5
Mower	81.4%	1,330,687	1,285,562	-3.4%	1,299,420	-2.3%	879,442	-33.[illegible]
Murray	79.9%	188,249	183,982	-2.3%	185,965	-1.2%	145,579	-22.7%
Nicollet	77.6%	1,852,759	1,807,619	-2.4%	1,827,104	-1.4%	1,401,363	-24.4%
Nobles	76.0%	1,093,049	1,074,540	-1.7%	1,086,123	-0.6%	907,966	-16.9%
Norman	80.1%	94,585	92,763	-1.9%	93,763	-0.9%	76,367	-19.3%
Olmsted	75.9%	13,491,257	13,197,902	-2.2%	13,340,168	-1.1%	10,557,723	-21.7%
Otter Tail	73.3%	2,441,060	2,428,972	-0.5%	2,455,154	0.6%	2,320,175	-5.0%
Pennington	87.0%	464,743	439,672	-5.4%	444,411	-4.4%	214,032	-53.9%
Pine	65.6%	1,084,517	1,108,205	2.2%	1,120,151	3.3%	1,321,400	21.8%
Pipestone	80.9%	342,086	331,882	-3.0%	335,460	-1.9%	240,045	-29.8%
Polk	85.7%	1,095,045	1,040,574	-5.0%	1,051,791	-4.0%	550,335	-49.7%
Pope	82.1%	323,367	312,754	-3.3%	316,125	-2.2%	217,235	-32.8%
Ramsey	69.6%	68,450,067	68,304,803	-0.2%	69,041,088	0.9%	66,997,515	-2.1%
Red Lake	89.3%	42,260	39,846	-5.7%	40,276	-4.7%	18,119	-57.1%
Redwood	86.3%	586,699	556,930	-5.1%	562,934	-4.1%	289,012	-50.7%
Renville	82.8%	737,235	708,362	-3.9%	715,997	-2.9%	448,504	-39.2%
Rice	70.3%	3,096,942	3,102,359	0.2%	3,135,801	1.3%	3,151,121	1.7%
Rock	84.2%	363,060	347,406	-4.3%	351,151	-3.3%	206,523	-43.1%
Roseau	85.5%	517,296	492,348	-4.8%	497,655	-3.8%	267,815	-48.2%
St. Louis	73.5%	10,271,136	10,168,363	-1.0%	10,277,972	0.1%	9,243,415	-10.[illegible]
Scott	71.9%	9,413,600	9,333,490	-0.9%	9,434,099	0.2%	8,612,511	-8.5%
Sherburne	72.0%	4,194,618	4,166,472	-0.7%	4,211,384	0.4%	3,913,166	-6.7%
Sibley	82.2%	342,005	330,443	-3.4%	334,005	-2.3%	226,384	-33.8%
Stearns	67.6%	12,163,986	12,263,829	0.8%	12,396,026	1.9%	13,162,432	8.2%
Steele	75.1%	2,634,760	2,591,936	-1.6%	2,619,876	-0.6%	2,206,525	-16.3%
Stevens	84.2%	335,091	321,090	-4.2%	324,551	-3.1%	195,081	-41.8%
Swift	94.9%	558,736	516,293	-7.6%	521,858	-6.6%	134,301	-76.0%
Todd	84.2%	437,691	419,881	-4.1%	424,407	-3.0%	259,585	-40.7%
Traverse	80.7%	72,420	70,675	-2.4%	71,437	-1.4%	54,968	-24.1%
Wabasha	76.9%	776,174	763,413	-1.6%	771,642	-0.6%	648,566	-16.4%
Wadena	84.4%	441,173	422,401	-4.3%	426,954	-3.2%	253,450	-42.6%
Waseca	80.0%	714,361	693,191	-3.0%	700,663	-1.9%	502,664	-29.6%
Washington	61.1%	19,772,142	20,268,209	2.5%	20,486,688	3.6%	24,732,838	25.1%
Watowan	85.7%	332,321	316,665	-4.7%	320,079	-3.7%	175,760	-47.1%
Wilkin	81.4%	173,111	167,853	-3.0%	169,663	-2.0%	120,536	-30.4%
Winona	71.5%	3,185,425	3,176,313	-0.3%	3,210,552	0.8%	3,094,318	-2.9%
Wright	69.2%	5,845,977	5,877,879	0.5%	5,941,239	1.6%	6,164,997	5.5%
Yellow Medicine	85.6%	289,553	275,991	-4.7%	278,966	-3.7%	153,933	-46.8