

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

G-17 STATE CAPITOL  
75 REV. DR. MARTIN LUTHER KING, JR. BLVD.  
ST. PAUL, MN 55155-1606  
(651) 296-4791  
FAX: (651) 296-7747  
JO ANNE ZOFF SELLNER  
DIRECTOR

**Senate**  

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**State of Minnesota**

TO: Members of the Senate Tax Committee

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

*JAS*

DATE: March 15, 2005

RE: Bills to be Heard March 16, 2005

**S.F. No. 779 (Skoe)**

This bill reduces the class rate that applies to homestead resorts, which is currently one percent, to 0.55 percent on the first \$600,000 of market value and the remaining market value at one percent.

**S.F. No. 1183 (Ruud)**

This bill creates a property tax classification for privately owned, noncommercial aircraft storage hangars and the land on which they are located. This classification applies to airports located outside the seven-county metropolitan area. The land must abut a public airport and the owner of the aircraft storage hangar must provide the assessor with an agreement that restricts the use of the premises by prohibiting commercial use or activity at the hangar. The class rate that applies to this class is 1.5 percent. Without this change the property would be classified as commercial/industrial property which has a class rate of 1.5 percent on the first \$150,000 of market value and two percent of the remaining market value.

**S.F. No. 551 (Larson)**

This bill provides that a levy by a city or county for the maintenance and support of the local society for the prevention of the cruelty to animals is a special levy. If a city or a county opts to use this special levy, the amount that it had levied in the previous levy year for this purpose must be deducted from the levy limit base of the taxing jurisdiction. The bill also increases the amount that the county board or city council may appropriate for the maintenance and support of societies for the prevention of cruelty to animals from 50 cents to \$1 dollar per capita.

**S.F. No. 1002 (Anderson)**

This bill provides an exemption from property taxes for taxes payable in 2005 only if the property:

- (1) is used to provide direct educational instruction for grades seven through ten, pursuant to an author's amendment;
- (2) is located in a city of the first class with a population between 250,000 and 300,000;
- (3) was purchased after July 1, 2004, by a 501(c)(3) nonprofit organization; and
- (4) it is leased and operated by two nonprofit corporations.

**S.F. No. 1256 (Bakk)**

This bill increases from \$3,000,000 to \$5,000,000, the amount of bonding authority available from the public facilities pool for applications for public facilities projects to be financed by the Western Lake Superior Sanitary District.

**S.F. No. 1366 (Pogemiller)**

This bill provides authority for the Metropolitan Council to issue debt in an amount up to \$64,000,000 for capital expenditures prescribed in the council's regional transit master plan and transit capital improvement program. The bill also repeals a provision prohibiting the use of debt for construction of light rail transit in the Hiawatha Corridor.

**S.F. No. 1008 (Wergin)**

This bill updates Minnesota income tax law to conform to the changes enacted in the Federal Military Family Tax Relief Act of 2003. The federal law includes a number of provisions that the state would conform to in its individual income tax laws under this bill:

- rules relating to exclusion of the gain from the sale of a principal residence are changed to take into account absence because of military service;
- an exclusion is allowed for amounts received under the Department of Defense homeowner's assistance program;
- the exclusion for death gratuity payments to families of members of the Armed Forces is increased from \$3,000 to \$12,000; and

- members of the National Guard and military reserve are allowed an above the line deduction for unreimbursed travel expenses incurred to attend a guard or reserve meeting if the meeting is at least 100 miles from home.

These provisions are made effective at the same time as the federal law changes. Several of them have retroactive effects.

**S.F. No. 1132 (Murphy)**

This bill authorizes soil and water conservation districts to impose their own levies rather than having county boards levy on their behalf. The levy is limited to .048 percent of taxable market value or \$750,000 whichever is less. This amount would be used for general administrative expenses of the soil and water conservation district. A levy is also permitted for the implementation of projects of the district or to match grants. The supervisors of the district are required to hold a public hearing after published notice in a general circulation newspaper before adopting a budget if levies are authorized. Soil and water conservation districts are added to the definition of special taxing districts.

**S.F. No. 1341 (Bakk)**

This bill clarifies the exemption from the taconite production tax for direct reduced ore which applies to the first two years of the plant's production of this ore. This bill specifies that the exemption applies to the first two years of a plant's commercial production of direct reduced ore and defines "commercial production" to be production of more than 50,000 tons of direct-reduced ore in the current year or in any prior year. Thus, no tax would be imposed while the plant has yet to produce at least 50,000 tons of direct reduced ore, or for the first two years of that level of production.

JZS:ssg

## Agenda #1

Senators Ruud, Jungbauer and Stumpf introduced--  
S.F. No. 1183: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; property; clarifying the  
3 classification of certain noncommercial aircraft  
4 storage hangers abutting public airports located  
5 outside the seven-county metropolitan area; amending  
6 Minnesota Statutes 2004, section 273.13, subdivision  
7 25.

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

9 Section 1. Minnesota Statutes 2004, section 273.13,  
10 subdivision 25, is amended to read:

11 Subd. 25. [CLASS 4.] (a) Class 4a is residential real  
12 estate containing four or more units and used or held for use by  
13 the owner or by the tenants or lessees of the owner as a  
14 residence for rental periods of 30 days or more. Class 4a also  
15 includes hospitals licensed under sections 144.50 to 144.56,  
16 other than hospitals exempt under section 272.02, and contiguous  
17 property used for hospital purposes, without regard to whether  
18 the property has been platted or subdivided. The market value  
19 of class 4a property has a class rate of 1.8 percent for taxes  
20 payable in 2002, 1.5 percent for taxes payable in 2003, and 1.25  
21 percent for taxes payable in 2004 and thereafter, except that  
22 class 4a property consisting of a structure for which  
23 construction commenced after June 30, 2001, has a class rate of  
24 1.25 percent of market value for taxes payable in 2003 and  
25 subsequent years.

26 (b) Class 4b includes:

1 (1) residential real estate containing less than four units  
2 that does not qualify as class 4bb, other than seasonal  
3 residential recreational property;

4 (2) manufactured homes not classified under any other  
5 provision;

6 (3) a dwelling, garage, and surrounding one acre of  
7 property on a nonhomestead farm classified under subdivision 23,  
8 paragraph (b) containing two or three units; and

9 (4) unimproved property that is classified residential as  
10 determined under subdivision 33.

11 The market value of class 4b property has a class rate of  
12 1.5 percent for taxes payable in 2002, and 1.25 percent for  
13 taxes payable in 2003 and thereafter.

14 (c) Class 4bb includes:

15 (1) nonhomestead residential real estate containing one  
16 unit, other than seasonal residential recreational property; and

17 (2) a single family dwelling, garage, and surrounding one  
18 acre of property on a nonhomestead farm classified under  
19 subdivision 23, paragraph (b).

20 Class 4bb property has the same class rates as class 1a  
21 property under subdivision 22.

22 Property that has been classified as seasonal residential  
23 recreational property at any time during which it has been owned  
24 by the current owner or spouse of the current owner does not  
25 qualify for class 4bb.

26 (d) Class 4c property includes:

27 (1) except as provided in subdivision 22, paragraph (c),  
28 real property devoted to temporary and seasonal residential  
29 occupancy for recreation purposes, including real property  
30 devoted to temporary and seasonal residential occupancy for  
31 recreation purposes and not devoted to commercial purposes for  
32 more than 250 days in the year preceding the year of  
33 assessment. For purposes of this clause, property is devoted to  
34 a commercial purpose on a specific day if any portion of the  
35 property is used for residential occupancy, and a fee is charged  
36 for residential occupancy. In order for a property to be

1 classified as class 4c, seasonal residential recreational for  
2 commercial purposes, at least 40 percent of the annual gross  
3 lodging receipts related to the property must be from business  
4 conducted during 90 consecutive days and either (i) at least 60  
5 percent of all paid bookings by lodging guests during the year  
6 must be for periods of at least two consecutive nights; or (ii)  
7 at least 20 percent of the annual gross receipts must be from  
8 charges for rental of fish houses, boats and motors,  
9 snowmobiles, downhill or cross-country ski equipment, or charges  
10 for marina services, launch services, and guide services, or the  
11 sale of bait and fishing tackle. For purposes of this  
12 determination, a paid booking of five or more nights shall be  
13 counted as two bookings. Class 4c also includes commercial use  
14 real property used exclusively for recreational purposes in  
15 conjunction with class 4c property devoted to temporary and  
16 seasonal residential occupancy for recreational purposes, up to  
17 a total of two acres, provided the property is not devoted to  
18 commercial recreational use for more than 250 days in the year  
19 preceding the year of assessment and is located within two miles  
20 of the class 4c property with which it is used. Class 4c  
21 property classified in this clause also includes the remainder  
22 of class 1c resorts provided that the entire property including  
23 that portion of the property classified as class 1c also meets  
24 the requirements for class 4c under this clause; otherwise the  
25 entire property is classified as class 3. Owners of real  
26 property devoted to temporary and seasonal residential occupancy  
27 for recreation purposes and all or a portion of which was  
28 devoted to commercial purposes for not more than 250 days in the  
29 year preceding the year of assessment desiring classification as  
30 class 1c or 4c, must submit a declaration to the assessor  
31 designating the cabins or units occupied for 250 days or less in  
32 the year preceding the year of assessment by January 15 of the  
33 assessment year. Those cabins or units and a proportionate  
34 share of the land on which they are located will be designated  
35 class 1c or 4c as otherwise provided. The remainder of the  
36 cabins or units and a proportionate share of the land on which

1 they are located will be designated as class 3a. The owner of  
2 property desiring designation as class 1c or 4c property must  
3 provide guest registers or other records demonstrating that the  
4 units for which class 1c or 4c designation is sought were not  
5 occupied for more than 250 days in the year preceding the  
6 assessment if so requested. The portion of a property operated  
7 as a (1) restaurant, (2) bar, (3) gift shop, and (4) other  
8 nonresidential facility operated on a commercial basis not  
9 directly related to temporary and seasonal residential occupancy  
10 for recreation purposes shall not qualify for class 1c or 4c;

11 (2) qualified property used as a golf course if:

12 (i) it is open to the public on a daily fee basis. It may  
13 charge membership fees or dues, but a membership fee may not be  
14 required in order to use the property for golfing, and its green  
15 fees for golfing must be comparable to green fees typically  
16 charged by municipal courses; and

17 (ii) it meets the requirements of section 273.112,  
18 subdivision 3, paragraph (d).

19 A structure used as a clubhouse, restaurant, or place of  
20 refreshment in conjunction with the golf course is classified as  
21 class 3a property;

22 (3) real property up to a maximum of one acre of land owned  
23 by a nonprofit community service oriented organization; provided  
24 that the property is not used for a revenue-producing activity  
25 for more than six days in the calendar year preceding the year  
26 of assessment and the property is not used for residential  
27 purposes on either a temporary or permanent basis. For purposes  
28 of this clause, a "nonprofit community service oriented  
29 organization" means any corporation, society, association,  
30 foundation, or institution organized and operated exclusively  
31 for charitable, religious, fraternal, civic, or educational  
32 purposes, and which is exempt from federal income taxation  
33 pursuant to section 501(c)(3), (10), or (19) of the Internal  
34 Revenue Code of 1986, as amended through December 31, 1990. For  
35 purposes of this clause, "revenue-producing activities" shall  
36 include but not be limited to property or that portion of the

1 property that is used as an on-sale intoxicating liquor or 3.2  
2 percent malt liquor establishment licensed under chapter 340A, a  
3 restaurant open to the public, bowling alley, a retail store,  
4 gambling conducted by organizations licensed under chapter 349,  
5 an insurance business, or office or other space leased or rented  
6 to a lessee who conducts a for-profit enterprise on the  
7 premises. Any portion of the property which is used for  
8 revenue-producing activities for more than six days in the  
9 calendar year preceding the year of assessment shall be assessed  
10 as class 3a. The use of the property for social events open  
11 exclusively to members and their guests for periods of less than  
12 24 hours, when an admission is not charged nor any revenues are  
13 received by the organization shall not be considered a  
14 revenue-producing activity;

15 (4) postsecondary student housing of not more than one acre  
16 of land that is owned by a nonprofit corporation organized under  
17 chapter 317A and is used exclusively by a student cooperative,  
18 sorority, or fraternity for on-campus housing or housing located  
19 within two miles of the border of a college campus;

20 (5) manufactured home parks as defined in section 327.14,  
21 subdivision 3;

22 (6) real property that is actively and exclusively devoted  
23 to indoor fitness, health, social, recreational, and related  
24 uses, is owned and operated by a not-for-profit corporation, and  
25 is located within the metropolitan area as defined in section  
26 473.121, subdivision 2;

27 (7) a leased or privately owned noncommercial aircraft  
28 storage hangar not exempt under section 272.01, subdivision 2,  
29 and the land on which it is located, provided that:

30 (i) the land is on an airport owned or operated by a city,  
31 town, county, Metropolitan Airports Commission, or group  
32 thereof; and

33 (ii) the land lease, or any ordinance or signed agreement  
34 restricting the use of the leased premise, prohibits commercial  
35 activity performed at the hangar.

36 If a hangar classified under this clause is sold after June



1 30, 2000, a bill of sale must be filed by the new owner with the  
2 assessor of the county where the property is located within 60  
3 days of the sale; and

4 (8) a privately owned noncommercial aircraft storage hanger  
5 not exempt under section 272.01, subdivision 2, and the land on  
6 which it is located, provided that:

7 (i) the land abuts a public airport;

8 (ii) the airport is not located in a metropolitan county as  
9 defined in section 473.121, subdivision 2; and

10 (iii) the owner of the aircraft storage hanger provides the  
11 assessor with a signed agreement restricting the use of the  
12 premises, prohibiting commercial use or activity performed at  
13 the hanger; and

14 (9) residential real estate, a portion of which is used by  
15 the owner for homestead purposes, and that is also a place of  
16 lodging, if all of the following criteria are met:

17 (i) rooms are provided for rent to transient guests that  
18 generally stay for periods of 14 or fewer days;

19 (ii) meals are provided to persons who rent rooms, the cost  
20 of which is incorporated in the basic room rate;

21 (iii) meals are not provided to the general public except  
22 for special events on fewer than seven days in the calendar year  
23 preceding the year of the assessment; and

24 (iv) the owner is the operator of the property.

25 The market value subject to the 4c classification under this  
26 clause is limited to five rental units. Any rental units on the  
27 property in excess of five, must be valued and assessed as class  
28 3a. The portion of the property used for purposes of a  
29 homestead by the owner must be classified as class 1a property  
30 under subdivision 22.

31 Class 4c property has a class rate of 1.5 percent of market  
32 value, except that (i) each parcel of seasonal residential  
33 recreational property not used for commercial purposes has the  
34 same class rates as class 4bb property, (ii) manufactured home  
35 parks assessed under clause (5) have the same class rate as  
36 class 4b property, (iii) commercial-use seasonal residential

1 recreational property has a class rate of one percent for the  
2 first \$500,000 of market value, which includes any market value  
3 receiving the one percent rate under subdivision 22, and 1.25  
4 percent for the remaining market value, (iv) the market value of  
5 property described in clause (4) has a class rate of one  
6 percent, (v) the market value of property described in clauses  
7 (2) and (6) has a class rate of 1.25 percent, and (vi) that  
8 portion of the market value of property in clause ~~(8)~~ (9)  
9 qualifying for class 4c property has a class rate of 1.25  
10 percent.

11 [EFFECTIVE DATE.] This section is effective for assessment  
12 year 2005 and thereafter, for taxes payable in 2006 and  
13 thereafter.

- 1 Senator ..... moves to amend S.F. No. 1183 as follows:
- 2 Page 6, lines 4, 10, and 13, delete "hanger" and insert
- 3 "hangar"
- 4 Page 6, line 7, after the semicolon, insert "and"
- 5 Page 6, line 8, delete everything after "(ii)"
- 6 Page 6, delete line 9
- 7 Page 6, line 10, delete "(iii)"
- 8 Amend the title as follows:
- 9 Page 1, line 4, delete "hangers" and insert "hangars" and
- 10 delete "located"
- 11 Page 1, line 5, delete everything before the semicolon

# Agenda #2

Senator Larson introduced--

S.F. No. 551: Referred to the Committee on State and Local Government Operations.

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A bill for an act

relating to local government; increasing the amount a county or city may appropriate for the prevention of cruelty to animals; providing that a property tax levy to fund the appropriation is exempt from levy limits; amending Minnesota Statutes 2004, sections 275.70, subdivision 5; 343.11.

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

Section 1. Minnesota Statutes 2004, section 275.70, subdivision 5, is amended to read:

Subd. 5. [SPECIAL LEVIES.] "Special levies" means those portions of ad valorem taxes levied by a local governmental unit for the following purposes or in the following manner:

(1) to pay the costs of the principal and interest on bonded indebtedness or to reimburse for the amount of liquor store revenues used to pay the principal and interest due on municipal liquor store bonds in the year preceding the year for which the levy limit is calculated;

(2) to pay the costs of principal and interest on certificates of indebtedness issued for any corporate purpose except for the following:

(i) tax anticipation or aid anticipation certificates of indebtedness;

(ii) certificates of indebtedness issued under sections 298.28 and 298.282;

(iii) certificates of indebtedness used to fund current

1 expenses or to pay the costs of extraordinary expenditures that  
2 result from a public emergency; or

3 (iv) certificates of indebtedness used to fund an  
4 insufficiency in tax receipts or an insufficiency in other  
5 revenue sources;

6 (3) to provide for the bonded indebtedness portion of  
7 payments made to another political subdivision of the state of  
8 Minnesota;

9 (4) to fund payments made to the Minnesota State Armory  
10 Building Commission under section 193.145, subdivision 2, to  
11 retire the principal and interest on armory construction bonds;

12 (5) property taxes approved by voters which are levied  
13 against the referendum market value as provided under section  
14 275.61;

15 (6) to fund matching requirements needed to qualify for  
16 federal or state grants or programs to the extent that either  
17 (i) the matching requirement exceeds the matching requirement in  
18 calendar year 2001, or (ii) it is a new matching requirement  
19 that did not exist prior to 2002;

20 (7) to pay the expenses reasonably and necessarily incurred  
21 in preparing for or repairing the effects of natural disaster  
22 including the occurrence or threat of widespread or severe  
23 damage, injury, or loss of life or property resulting from  
24 natural causes, in accordance with standards formulated by the  
25 Emergency Services Division of the state Department of Public  
26 Safety, as allowed by the commissioner of revenue under section  
27 275.74, subdivision 2;

28 (8) pay amounts required to correct an error in the levy  
29 certified to the county auditor by a city or county in a levy  
30 year, but only to the extent that when added to the preceding  
31 year's levy it is not in excess of an applicable statutory,  
32 special law or charter limitation, or the limitation imposed on  
33 the governmental subdivision by sections 275.70 to 275.74 in the  
34 preceding levy year;

35 (9) to pay an abatement under section 469.1815;

36 (10) to pay any costs attributable to increases in the

1 employer contribution rates under chapter 353 that are effective  
2 after June 30, 2001;

3 (11) to pay the operating or maintenance costs of a county  
4 jail as authorized in section 641.01 or 641.262, or of a  
5 correctional facility as defined in section 241.021, subdivision  
6 1, paragraph (f), to the extent that the county can demonstrate  
7 to the commissioner of revenue that the amount has been included  
8 in the county budget as a direct result of a rule, minimum  
9 requirement, minimum standard, or directive of the Department of  
10 Corrections, or to pay the operating or maintenance costs of a  
11 regional jail as authorized in section 641.262. For purposes of  
12 this clause, a district court order is not a rule, minimum  
13 requirement, minimum standard, or directive of the Department of  
14 Corrections. If the county utilizes this special levy, except  
15 to pay operating or maintenance costs of a new regional jail  
16 facility under sections 641.262 to 641.264 which will not  
17 replace an existing jail facility, any amount levied by the  
18 county in the previous levy year for the purposes specified  
19 under this clause and included in the county's previous year's  
20 levy limitation computed under section 275.71, shall be deducted  
21 from the levy limit base under section 275.71, subdivision 2,  
22 when determining the county's current year levy limitation. The  
23 county shall provide the necessary information to the  
24 commissioner of revenue for making this determination;

25 (12) to pay for operation of a lake improvement district,  
26 as authorized under section 103B.555. If the county utilizes  
27 this special levy, any amount levied by the county in the  
28 previous levy year for the purposes specified under this clause  
29 and included in the county's previous year's levy limitation  
30 computed under section 275.71 shall be deducted from the levy  
31 limit base under section 275.71, subdivision 2, when determining  
32 the county's current year levy limitation. The county shall  
33 provide the necessary information to the commissioner of revenue  
34 for making this determination;

35 (13) to repay a state or federal loan used to fund the  
36 direct or indirect required spending by the local government due

1 to a state or federal transportation project or other state or  
 2 federal capital project. This authority may only be used if the  
 3 project is not a local government initiative;

4 (14) to pay for court administration costs as required  
 5 under section 273.1398, subdivision 4b, less the (i) county's  
 6 share of transferred fines and fees collected by the district  
 7 courts in the county for calendar year 2001 and (ii) the aid  
 8 amount certified to be paid to the county in 2004 under section  
 9 273.1398, subdivision 4c; however, for taxes levied to pay for  
 10 these costs in the year in which the court financing is  
 11 transferred to the state, the amount under this clause is  
 12 limited to the amount of aid the county is certified to receive  
 13 under section 273.1398, subdivision 4a; and

14 (15) to fund a police or firefighters relief association as  
 15 required under section 69.77 to the extent that the required  
 16 amount exceeds the amount levied for this purpose in 2001; and

17 (16) to pay for the maintenance and support of a city or  
 18 county society for the prevention of cruelty to animals under  
 19 section 343.11. If the city or county uses this special levy,  
 20 any amount levied by the city or county in the previous levy  
 21 year for the purposes specified in this clause and included in  
 22 the city's or county's previous year's levy limit computed under  
 23 section 275.71, must be deducted from the levy limit base under  
 24 section 275.71, subdivision 2, in determining the city's or  
 25 county's current year levy limit.

26 [EFFECTIVE DATE.] This section is effective for taxes  
 27 levied in 2005, payable in 2006, and thereafter.

28 Sec. 2. Minnesota Statutes 2004, section 343.11, is  
 29 amended to read:

30 343.11 [ACQUISITION OF PROPERTY, APPROPRIATIONS.]

31 Every county and district society for the prevention of  
 32 cruelty to animals may acquire, by purchase, gift, grant, or  
 33 devise, and hold, use, or convey, real estate and personal  
 34 property, and lease, mortgage, sell, or use the same in any  
 35 manner conducive to its interest, to the same extent as natural  
 36 persons. The county board of any county, or the council of any

1 city, in which such societies exist, may, in its discretion,  
2 appropriate for the maintenance and support of such societies in  
3 the transaction of the work for which they are organized, any  
4 sums of money not otherwise appropriated, not to exceed in any  
5 one year the sum of \$4,800 or the sum of 50-cents \$1 per capita  
6 based upon the county's or city's population as of the most  
7 recent federal census, whichever is greater; provided, that no  
8 part of the appropriation shall be expended for the payment of  
9 the salary of any officer of the society.

10 **[EFFECTIVE DATE.] This section is effective January 1, 2006.**



# MINNESOTA • REVENUE

## PROPERTY TAX

### Animal Cruelty Prevention Special Levy

March 11, 2005

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

Department of Revenue

Analysis of S.F. 551 (Larson) / H.F. 640 (Nornes)

#### Fund Impact

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

Special levy effective for taxes payable in 2006 and thereafter.  
 Appropriation limit increase effective January 1, 2006.

### EXPLANATION OF THE BILL

**Current Law:** Current law allows a city or county to appropriate an amount for maintenance and support of a city or county society for the prevention of cruelty to animals. This amount is not to exceed in any one year the sum of 50¢ per capita based upon the county's or city's most recent federal census population or \$4,800, whichever is greater.

**Proposed Law:** The bill allows a city or county to impose a special levy to pay for the maintenance and support of animal cruelty prevention societies. Any amount levied in the previous levy year and included in a city's or county's previous year levy limit must be deducted from the levy limit base for the current year levy limit. The bill also increases the per capita appropriation limit to \$1.

### REVENUE ANALYSIS DETAIL

- The impact on the state general fund is unknown.
- It is not known how many cities or counties would choose to impose a special levy to support animal cruelty prevention societies. If cities or counties choose to impose special levies, there is a possibility for some small increase in state payments of homestead property tax refunds due to the increased property tax burden on homeowners.

**Number of Taxpayers:** Unknown.

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

sf0551(hf0640)\_1/nrg

# Agenda #3

**Senators Anderson, Pogemiller and Belanger introduced--  
S.F. No. 1002: Referred to the Committee on Taxes.**

A bill for an act

relating to taxation; property; exempting certain  
qualifying property used for educational instruction.

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

Section 1. [PROPERTY USED FOR EDUCATIONAL INSTRUCTION.]

Notwithstanding Minnesota Statutes, section 272.02,  
subdivision 38, paragraph (b), the following property is exempt  
from taxation for assessment year 2004, for taxes payable in  
2005, if it meets all the following criteria:

(1) is used to provide direct educational instruction for  
grades 7 through 12;

(2) is located in a city of the first class that has a  
population greater than 250,000 and less than 350,000;

(3) was purchased after July 1, 2004, by a nonprofit that  
is exempt from federal income tax under section 501(c)(3) of the  
Internal Revenue Code; and

(4) is leased and operated by two nonprofit corporations  
organized under Minnesota Statutes, chapter 317A.

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

(A)

- 1 Senator ..... moves to amend S.F. No. 1002 as follows:
- 2 Page 1, line 11, delete "12" and insert "10"

# MINNESOTA • REVENUE

## PROPERTY TAX Soil and Water Conservation Special Taxing Districts

March 15, 2005

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

Department of Revenue  
Analysis of S.F. 1132 (Murphy) / H.F. 1181 (Cox)

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

Effective August 1, 2005.

### EXPLANATION OF THE BILL

The bill adds soil and water conservation districts to the definition of special taxing district. Instead of the county levying for the district, a soil and water conservation district could be authorized to levy property taxes, not to exceed 0.048% of taxable market value, or \$750,000, whichever is less. The bill provides instructions for soil and water conservation districts on creating funds, adopting budgets, and certifying levies to the county.

### REVENUE ANALYSIS DETAIL

- There are 91 soil and water conservation districts in Minnesota.
- There is no state cost associated with the bill. It is assumed that soil and water conservation districts with county authorization to levy would levy the same amount that would be levied by the county, resulting in no change in the total levy amount.

**Number of Taxpayers:** 91 soil and water conservation districts.

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

sf1132(hf1181)\_1/nrg

## Agenda #4

**Senators Murphy and Dille introduced--**

**S.F. No. 1132:** Referred to the Committee on Environment and Natural Resources.

1                                   A bill for an act  
2           relating to natural resources; adding soil and water  
3           conservation districts to the definition of special  
4           taxing district; amending Minnesota Statutes 2004,  
5           sections 103C.331, subdivision 16; 275.066; proposing  
6           coding for new law in Minnesota Statutes, chapter 103C.  
7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:  
8           Section 1. Minnesota Statutes 2004, section 103C.331,  
9           subdivision 16, is amended to read:  
10           Subd. 16. [BUDGET.] The district board shall annually  
11           present a budget consisting of an itemized statement of district  
12           expenses for the ensuing calendar year to the boards of county  
13           commissioners of the counties in which the district is located.  
14           The county boards may levy an annual tax on all taxable real  
15           property in the district or annually authorize district levies,  
16           as provided in section 103C.332, for the amount that the boards  
17           determine is necessary to meet the requirements of the  
18           district. The amount levied shall be collected and distributed  
19           to the district as prescribed by chapter 276. The amount may be  
20           spent by the district board for a district purpose authorized by  
21           law.  
22           Sec. 2. [103C.332] [DISTRICT FUNDS AND LEVIES.]  
23           Subdivision 1. [GENERAL FUND.] (a) A district shall create  
24           a general fund consisting of:  
25           (1) an ad valorem tax levy, authorized by a county board  
26           under section 103C.331, subdivision 16, that may not exceed

1 0.048 percent of taxable market value, or \$750,000, whichever is  
2 less; and

3 (2) revenue received from the county for administration of  
4 the district under section 103C.331, subdivision 16.

5 (b) The money in the fund shall be used for general  
6 administrative expenses. The supervisors may make an annual  
7 levy for the general fund as provided in subdivision 6.

8 Subd. 2. [IMPLEMENTATION AND PROJECT MATCH FUND.] A  
9 district shall create an implementation fund to supply funds for  
10 the implementation of the projects of the district or to match  
11 grants from outside sources consisting of:

12 (1) ad valorem tax levies or fees levied or to be levied  
13 for the implementation of projects of the district or to match  
14 grants, authorized by the county board under section 103C.331,  
15 subdivision 16; and

16 (2) revenue received from the county under section  
17 103C.331, subdivision 16, for the implementation of projects of  
18 the district or to match grants.

19 Subd. 3. [BUDGET HEARING.] (a) Before adopting a budget  
20 when levies are authorized by the county board under section  
21 103C.331, subdivision 16, the supervisors shall hold a public  
22 hearing on the proposed budget.

23 (b) The supervisors shall publish a notice of the hearing  
24 with a summary of the proposed budget in one or more newspapers  
25 of general circulation in each county consisting of part of the  
26 district. The notice and summary shall be published once each  
27 week for two successive weeks before the hearing. The last  
28 publication shall be at least two days before the hearing.

29 Subd. 4. [BUDGET ADOPTION.] On or before September 15 of  
30 each year, the supervisors shall adopt a budget for the next  
31 year and decide on the total amount necessary to be raised from  
32 ad valorem tax levies to meet the district's budget.

33 Subd. 5. [CERTIFICATION TO AUDITOR.] After adoption of the  
34 budget and no later than September 15, the district shall  
35 certify to the auditor of each county within the district, the  
36 county's share of an authorized tax, which shall be an amount

1 bearing the same proportion to the total levy as the net tax  
2 capacity of the area of the county within the district bears to  
3 the net tax capacity of the entire district. The maximum amount  
4 of a levy may not exceed the amount provided in subdivisions 1  
5 and 2.

6 Subd. 6. [LEVY.] The auditor of each county in the  
7 district shall add the amount of an authorized levy made by the  
8 supervisors to the other tax levies on the property of the  
9 county within the district for collection by the county  
10 treasurer with other taxes. The county treasurer shall make  
11 settlement of the taxes collected with the treasurer of the  
12 district in the same manner as other taxes are distributed to  
13 the other political subdivisions. The levy authorized by this  
14 section is in addition to other county taxes authorized by law.

15 Sec. 3. Minnesota Statutes 2004, section 275.066, is  
16 amended to read:

17 275.066 [SPECIAL TAXING DISTRICTS; DEFINITION.]

18 For the purposes of property taxation and property tax  
19 state aids, the term "special taxing districts" includes the  
20 following entities:

21 (1) watershed districts under chapter 103D;

22 (2) sanitary districts under sections 115.18 to 115.37;

23 (3) regional sanitary sewer districts under sections 115.61  
24 to 115.67;

25 (4) regional public library districts under section  
26 134.201;

27 (5) park districts under chapter 398;

28 (6) regional railroad authorities under chapter 398A;

29 (7) hospital districts under sections 447.31 to 447.38;

30 (8) St. Cloud Metropolitan Transit Commission under  
31 sections 458A.01 to 458A.15;

32 (9) Duluth Transit Authority under sections 458A.21 to  
33 458A.37;

34 (10) regional development commissions under sections  
35 462.381 to 462.398;

36 (11) housing and redevelopment authorities under sections

1 469.001 to 469.047;  
2 (12) port authorities under sections 469.048 to 469.068;  
3 (13) economic development authorities under sections  
4 469.090 to 469.1081;  
5 (14) Metropolitan Council under sections 473.123 to  
6 473.549;  
7 (15) Metropolitan Airports Commission under sections  
8 473.601 to 473.680;  
9 (16) Metropolitan Mosquito Control Commission under  
10 sections 473.701 to 473.716;  
11 (17) Morrison County Rural Development Financing Authority  
12 under Laws 1982, chapter 437, section 1;  
13 (18) Croft Historical Park District under Laws 1984,  
14 chapter 502, article 13, section 6;  
15 (19) East Lake County Medical Clinic District under Laws  
16 1989, chapter 211, sections 1 to 6;  
17 (20) Floodwood Area Ambulance District under Laws 1993,  
18 chapter 375, article 5, section 39;  
19 (21) Middle Mississippi River Watershed Management  
20 Organization under sections 103B.211 and 103B.241;  
21 (22) emergency medical services special taxing districts  
22 under section 144F.01;  
23 (23) a county levying under the authority of section  
24 103B.241, 103B.245, or 103B.251;  
25 (24) Southern St. Louis County Special Taxing District;  
26 Chris Jensen Nursing Home under Laws 2003, First Special Session  
27 chapter 21, article 4, section 12; and  
28 (25) soil and water conservation districts under chapter  
29 103C; and  
30 (26) any other political subdivision of the state of  
31 Minnesota, excluding counties, school districts, cities, and  
32 towns, that has the power to adopt and certify a property tax  
33 levy to the county auditor, as determined by the commissioner of  
34 revenue.



## Agenda #5

Senators Wergin, Nienow, Day and Hann introduced--

S.F. No. 1008: Referred to the Committee on Taxes.

1 A bill for an act  
2 relating to taxes; conforming to the Military Family  
3 Tax Relief Act of 2003; amending Minnesota Statutes  
4 2004, sections 289A.02, subdivision 7; 290.01,  
5 subdivisions 19, 31; 290A.03, subdivision 15; 291.005,  
6 subdivision 1.  
7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:  
8 Section 1. Minnesota Statutes 2004, section 289A.02,  
9 subdivision 7, is amended to read:  
10 Subd. 7. [INTERNAL REVENUE CODE.] Unless specifically  
11 defined otherwise, "Internal Revenue Code" means the Internal  
12 Revenue Code of 1986, as amended through ~~June 15, 2003~~ December  
13 1, 2003.  
14 [EFFECTIVE DATE.] This section is effective for actions  
15 required on or after November 11, 2003.  
16 Sec. 2. Minnesota Statutes 2004, section 290.01,  
17 subdivision 19, is amended to read:  
18 Subd. 19. [NET INCOME.] The term "net income" means the  
19 federal taxable income, as defined in section 63 of the Internal  
20 Revenue Code of 1986, as amended through the date named in this  
21 subdivision, incorporating any elections made by the taxpayer in  
22 accordance with the Internal Revenue Code in determining federal  
23 taxable income for federal income tax purposes, and with the  
24 modifications provided in subdivisions 19a to 19f.  
25 In the case of a regulated investment company or a fund  
26 thereof, as defined in section 851(a) or 851(g) of the Internal

1 Revenue Code, federal taxable income means investment company  
2 taxable income as defined in section 852(b)(2) of the Internal  
3 Revenue Code, except that:

4 (1) the exclusion of net capital gain provided in section  
5 852(b)(2)(A) of the Internal Revenue Code does not apply;

6 (2) the deduction for dividends paid under section  
7 852(b)(2)(D) of the Internal Revenue Code must be applied by  
8 allowing a deduction for capital gain dividends and  
9 exempt-interest dividends as defined in sections 852(b)(3)(C)  
10 and 852(b)(5) of the Internal Revenue Code; and

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

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

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

24 The provisions of sections 1113(a), 1117, 1206(a), 1313(a),  
25 1402(a), 1403(a), 1443, 1450, 1501(a), 1605, 1611(a), 1612,  
26 1616, 1617, 1704(l), and 1704(m) of the Small Business Job  
27 Protection Act, Public Law 104-188, the provisions of Public Law  
28 104-117, the provisions of sections 313(a) and (b)(1), 602(a),  
29 913(b), 941, 961, 971, 1001(a) and (b), 1002, 1003, 1012, 1013,  
30 1014, 1061, 1062, 1081, 1084(b), 1086, 1087, 1111(a), 1131(b)  
31 and (c), 1211(b), 1213, 1530(c)(2), 1601(f)(5) and (h), and  
32 1604(d)(1) of the Taxpayer Relief Act of 1997, Public Law  
33 105-34, the provisions of section 6010 of the Internal Revenue  
34 Service Restructuring and Reform Act of 1998, Public Law  
35 105-206, the provisions of section 4003 of the Omnibus  
36 Consolidated and Emergency Supplemental Appropriations Act,

1 1999, Public Law 105-277, and the provisions of section 318 of  
2 the Consolidated Appropriation Act of 2001, Public Law 106-554,  
3 shall become effective at the time they become effective for  
4 federal purposes.

5 The Internal Revenue Code of 1986, as amended through  
6 December 31, 1996, shall be in effect for taxable years  
7 beginning after December 31, 1996.

8 The provisions of sections 202(a) and (b), 221(a), 225,  
9 312, 313, 913(a), 934, 962, 1004, 1005, 1052, 1063, 1084(a) and  
10 (c), 1089, 1112, 1171, 1204, 1271(a) and (b), 1305(a), 1306,  
11 1307, 1308, 1309, 1501(b), 1502(b), 1504(a), 1505, 1527, 1528,  
12 1530, 1601(d), (e), (f), and (i) and 1602(a), (b), (c), and (e)  
13 of the Taxpayer Relief Act of 1997, Public Law 105-34, the  
14 provisions of sections 6004, 6005, 6012, 6013, 6015, 6016, 7002,  
15 and 7003 of the Internal Revenue Service Restructuring and  
16 Reform Act of 1998, Public Law 105-206, the provisions of  
17 section 3001 of the Omnibus Consolidated and Emergency  
18 Supplemental Appropriations Act, 1999, Public Law 105-277, the  
19 provisions of section 3001 of the Miscellaneous Trade and  
20 Technical Corrections Act of 1999, Public Law 106-36, and the  
21 provisions of section 316 of the Consolidated Appropriation Act  
22 of 2001, Public Law 106-554, and the provision of section 101 of  
23 the Military Family Tax Relief Act of 2003, Public Law 108-121,  
24 shall become effective at the time they become effective for  
25 federal purposes.

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

29 The provisions of sections 5002, 6009, 6011, and 7001 of  
30 the Internal Revenue Service Restructuring and Reform Act of  
31 1998, Public Law 105-206, the provisions of section 9010 of the  
32 Transportation Equity Act for the 21st Century, Public Law  
33 105-178, the provisions of sections 1004, 4002, and 5301 of the  
34 Omnibus Consolidation and Emergency Supplemental Appropriations  
35 Act, 1999, Public Law 105-277, the provision of section 303 of  
36 the Ricky Ray Hemophilia Relief Fund Act of 1998, Public Law

1 105-369, the provisions of sections 532, 534, 536, 537, and 538  
2 of the Ticket to Work and Work Incentives Improvement Act of  
3 1999, Public Law 106-170, the provisions of the Installment Tax  
4 Correction Act of 2000, Public Law 106-573, and the provisions  
5 of section 309 of the Consolidated Appropriation Act of 2001,  
6 Public Law 106-554, shall become effective at the time they  
7 become effective for federal purposes.

8 The Internal Revenue Code of 1986, as amended through  
9 December 31, 1998, shall be in effect for taxable years  
10 beginning after December 31, 1998.

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

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

26 The Internal Revenue Code of 1986, as amended through  
27 December 31, 2000, shall be in effect for taxable years  
28 beginning after December 31, 2000. The provisions of sections  
29 659a and 671 of the Economic Growth and Tax Relief  
30 Reconciliation Act of 2001, Public Law 107-16, the provisions of  
31 sections 104, 105, and 111 of the Victims of Terrorism Tax  
32 Relief Act of 2001, Public Law 107-134, and the provisions of  
33 sections 201, 403, 413, and 606 of the Job Creation and Worker  
34 Assistance Act of 2002, Public Law 107-147, and the provision of  
35 section 102 of the Military Family Tax Relief Act of 2003,  
36 Public Law 108-121, shall become effective at the same time it

1 became effective for federal purposes.

2 The Internal Revenue Code of 1986, as amended through March  
3 15, 2002, shall be in effect for taxable years beginning after  
4 December 31, 2001.

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

9 The Internal Revenue Code of 1986, as amended through June  
10 15, 2003, shall be in effect for taxable years beginning after  
11 December 31, 2002. The provisions of section 201 of the Jobs  
12 and Growth Tax Relief and Reconciliation Act of 2003, ~~H.R.-27-if~~  
13 ~~it-is-enacted-into-law~~ Public Law 108-27, and the provisions of  
14 sections 103, 106, 109, and 110 of the Military Family Tax  
15 Relief Act of 2003, Public Law 108-121, are effective at the  
16 same time it became effective for federal purposes.

17 The Internal Revenue Code of 1986, as amended through  
18 December 1, 2003, shall be in effect for taxable years beginning  
19 after December 31, 2003.

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

23 [EFFECTIVE DATE.] This section is effective the day  
24 following final enactment.

25 Sec. 3. Minnesota Statutes 2004, section 290.01,  
26 subdivision 31, is amended to read:

27 Subd. 31. [INTERNAL REVENUE CODE.] Unless specifically  
28 defined otherwise, "Internal Revenue Code" means the Internal  
29 Revenue Code of 1986, as amended through ~~June-15-2003~~ December  
30 1, 2003.

31 [EFFECTIVE DATE.] This section is effective the day  
32 following final enactment except the changes incorporated by  
33 federal changes are effective at the same time as the changes  
34 were effective for federal purposes.

35 Sec. 4. Minnesota Statutes 2004, section 290A.03,  
36 subdivision 15, is amended to read:

1 Subd. 15. [INTERNAL REVENUE CODE.] "Internal Revenue Code"  
2 means the Internal Revenue Code of 1986, as amended through June  
3 ~~15, 2003~~ December 1, 2003.

4 [EFFECTIVE DATE.] This section is effective the day  
5 following final enactment except the changes to household income  
6 generated by federal changes to federal adjusted gross income  
7 are effective at the same time federal changes are effective.

8 Sec. 5. Minnesota Statutes 2004, section 291.005,  
9 subdivision 1, is amended to read:

10 Subdivision 1. [SCOPE.] Unless the context otherwise  
11 clearly requires, the following terms used in this chapter shall  
12 have the following meanings:

13 (1) "Federal gross estate" means the gross estate of a  
14 decedent as valued and otherwise determined for federal estate  
15 tax purposes by federal taxing authorities pursuant to the  
16 provisions of the Internal Revenue Code.

17 (2) "Minnesota gross estate" means the federal gross estate  
18 of a decedent after (a) excluding therefrom any property  
19 included therein which has its situs outside Minnesota, and (b)  
20 including therein any property omitted from the federal gross  
21 estate which is includable therein, has its situs in Minnesota,  
22 and was not disclosed to federal taxing authorities.

23 (3) "Personal representative" means the executor,  
24 administrator or other person appointed by the court to  
25 administer and dispose of the property of the decedent. If  
26 there is no executor, administrator or other person appointed,  
27 qualified, and acting within this state, then any person in  
28 actual or constructive possession of any property having a situs  
29 in this state which is included in the federal gross estate of  
30 the decedent shall be deemed to be a personal representative to  
31 the extent of the property and the Minnesota estate tax due with  
32 respect to the property.

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

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

1 (6) "Situs of property" means, with respect to real  
2 property, the state or country in which it is located; with  
3 respect to tangible personal property, the state or country in  
4 which it was normally kept or located at the time of the  
5 decedent's death; and with respect to intangible personal  
6 property, the state or country in which the decedent was  
7 domiciled at death.

8 (7) "Commissioner" means the commissioner of revenue or any  
9 person to whom the commissioner has delegated functions under  
10 this chapter.

11 (8) "Internal Revenue Code" means the United States  
12 Internal Revenue Code of 1986, as amended through ~~December-31,~~  
13 ~~2002~~ December 1, 2003.

14 [EFFECTIVE DATE.] This section is effective for estates of  
15 decedents dying after January 31, 2003.



- 1 Senator ..... moves to amend S.F. No. 1008 as follows:
- 2 Page 5, line 14, after "106," insert "108,"



# MINNESOTA - REVENUE

## INDIVIDUAL INCOME TAX Military Family Tax Relief Act

March 7, 2005

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

Department of Revenue  
Analysis of H.F. 943 (Lanning)/ S.F. 1008 (Wergin)

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	(\$680)	(\$330)	(\$340)	(\$350)

The provisions would be effective at the same time that they were effective for federal tax purposes.

### EXPLANATION OF THE BILL

The bill would adopt the provisions of the federal Military Family Tax Relief Act of 2003 for purposes of the Minnesota individual income tax.

The Military Family Tax Relief Act of 2003, Public Law 108-121, contains several changes to the individual income tax. The rules relating to the income exclusion for the gain from the sale of a principal residence are modified to take into account absence due to military service, retroactive to sales made after May 6, 1997. An exclusion is allowed for amounts received under the Department of Defense Homeowners Assistance Program, effective November 12, 2003. The exclusion for death gratuity payments made to families of members of the armed forces is increased from \$3,000 to \$12,000, effective retroactive to September 11, 2001. Members of the National Guard and Military Reserve are allowed an above-the-line deduction for unreimbursed travel expenses incurred to attend a Guard or Reserve meeting at least 100 miles from home, beginning with tax year 2003. The bill contains several other provisions with small or no revenue impact.

### REVENUE ANALYSIS DETAIL

- The estimates are based on the estimates for the federal bill prepared by the Joint Committee on Taxation and released on November 7, 2003.
- For the provision relating to the travel expenses for Members of the National Guard and Military Reserve, the estimates were apportioned to Minnesota based on the number of National Guard and Reserve members in Minnesota compared to the nation, which is about 1.3%.

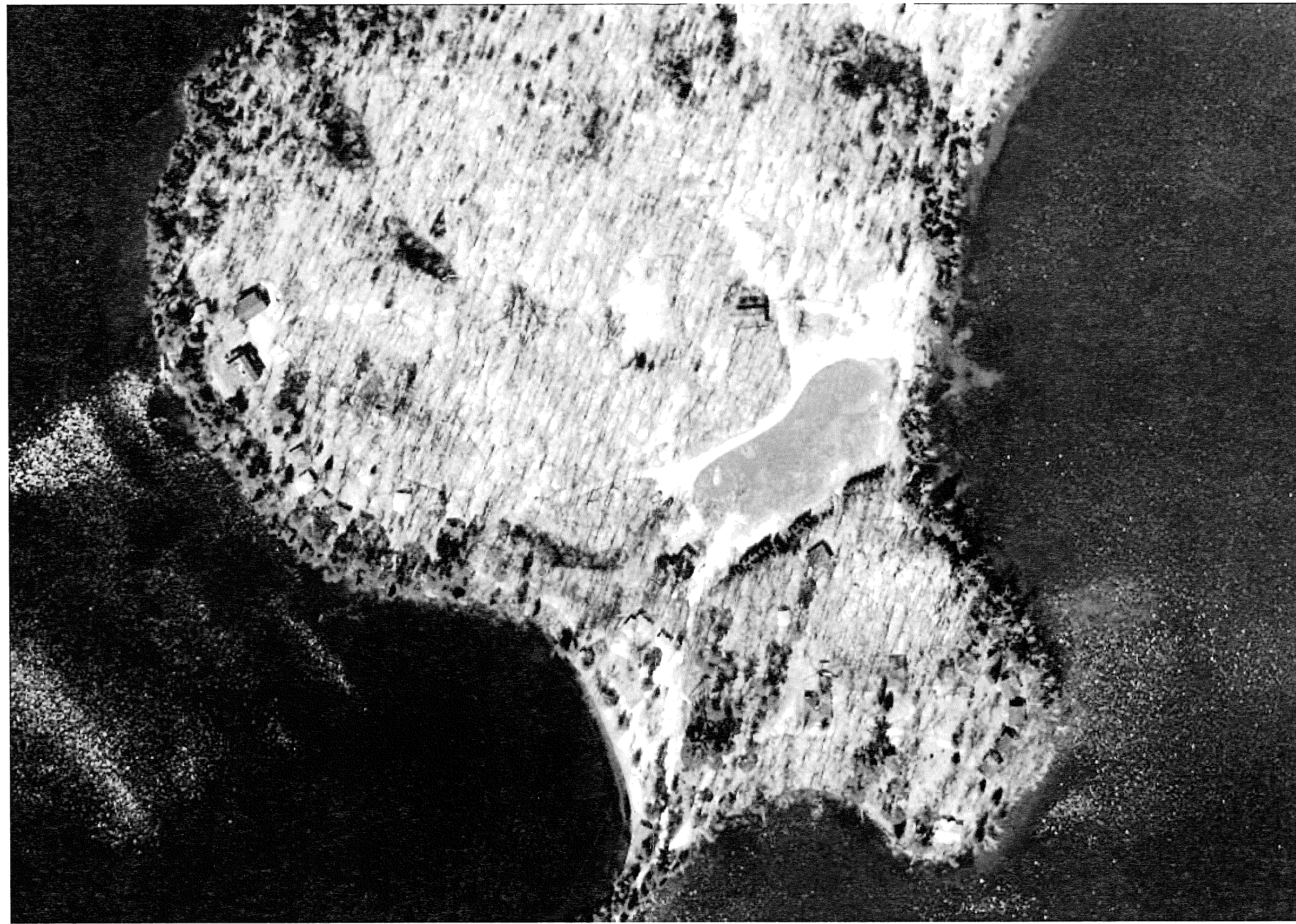
- The federal estimates for the other provisions were aggregated and treated together. The estimates were apportioned to Minnesota based on Minnesota's portion of active duty military personnel, which is about 0.7%. Because military persons on active duty stationed outside Minnesota are considered nonresidents for Minnesota tax purposes, the estimates were further reduced by 50%.
- Appropriate federal and state marginal rates were applied. The estimates were converted from federal to state fiscal years. Fiscal year 2006 includes the impact due to the retroactive effective dates.

**Number of Taxpayers:** An estimated 1,000 to 2,000 members of the National Guard and Military Reserve would benefit from the deduction for travel expenses. A small number of taxpayers would be affected by the other provisions.

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

HANDOUT #1

CAMP HALIDAY



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Scale

Cass MIS  
3/14/2005

## Agenda #6

Senators Skoe, Tomassoni, Sams, Saxhaug and Ruud introduced--

S.F. No. 779: Referred to the Committee on Taxes.

1 A bill for an act

2 relating to taxation; reducing the class rate that  
3 applies to homestead resorts; amending Minnesota  
4 Statutes 2004, section 273.13, subdivision 22.

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

6 Section 1. Minnesota Statutes 2004, section 273.13,  
7 subdivision 22, is amended to read:

8 Subd. 22. [CLASS 1.] (a) Except as provided in subdivision  
9 23 and in paragraphs (b) and (c), real estate which is  
10 residential and used for homestead purposes is class 1a. In the  
11 case of a duplex or triplex in which one of the units is used  
12 for homestead purposes, the entire property is deemed to be used  
13 for homestead purposes. The market value of class 1a property  
14 must be determined based upon the value of the house, garage,  
15 and land.

16 The first \$500,000 of market value of class 1a property has  
17 a net class rate of one percent of its market value; and the  
18 market value of class 1a property that exceeds \$500,000 has a  
19 class rate of 1.25 percent of its market value.

20 (b) Class 1b property includes homestead real estate or  
21 homestead manufactured homes used for the purposes of a  
22 homestead by

23 (1) any person who is blind as defined in section 256D.35,  
24 or the blind person and the blind person's spouse; or

25 (2) any person, hereinafter referred to as "veteran," who:

1 (i) served in the active military or naval service of the  
2 United States; and

3 (ii) is entitled to compensation under the laws and  
4 regulations of the United States for permanent and total  
5 service-connected disability due to the loss, or loss of use, by  
6 reason of amputation, ankylosis, progressive muscular  
7 dystrophies, or paralysis, of both lower extremities, such as to  
8 preclude motion without the aid of braces, crutches, canes, or a  
9 wheelchair; and

10 (iii) has acquired a special housing unit with special  
11 fixtures or movable facilities made necessary by the nature of  
12 the veteran's disability, or the surviving spouse of the  
13 deceased veteran for as long as the surviving spouse retains the  
14 special housing unit as a homestead; or

15 (3) any person who is permanently and totally disabled.

16 Property is classified and assessed under clause (3) only  
17 if the government agency or income-providing source certifies,  
18 upon the request of the homestead occupant, that the homestead  
19 occupant satisfies the disability requirements of this paragraph.

20 Property is classified and assessed pursuant to clause (1)  
21 only if the commissioner of revenue certifies to the assessor  
22 that the homestead occupant satisfies the requirements of this  
23 paragraph.

24 Permanently and totally disabled for the purpose of this  
25 subdivision means a condition which is permanent in nature and  
26 totally incapacitates the person from working at an occupation  
27 which brings the person an income. The first \$32,000 market  
28 value of class lb property has a net class rate of .45 percent  
29 of its market value. The remaining market value of class lb  
30 property has a class rate using the rates for class la or class  
31 2a property, whichever is appropriate, of similar market value.

32 (c) Class lc property is commercial use real property that  
33 abuts a lakeshore line and is devoted to temporary and seasonal  
34 residential occupancy for recreational purposes but not devoted  
35 to commercial purposes for more than 250 days in the year  
36 preceding the year of assessment, and that includes a portion

1 used as a homestead by the owner, which includes a dwelling  
2 occupied as a homestead by a shareholder of a corporation that  
3 owns the resort, a partner in a partnership that owns the  
4 resort, or a member of a limited liability company that owns the  
5 resort even if the title to the homestead is held by the  
6 corporation, partnership, or limited liability company. For  
7 purposes of this clause, property is devoted to a commercial  
8 purpose on a specific day if any portion of the property,  
9 excluding the portion used exclusively as a homestead, is used  
10 for residential occupancy and a fee is charged for residential  
11 occupancy. The first ~~\$500,000~~ \$600,000 of market value of class  
12 1c property has a class rate of one 0.55 percent, and the  
13 remaining market value of class 1c property has a class rate of  
14 one percent, with the following limitation: the area of the  
15 property must not exceed 100 feet of lakeshore footage for each  
16 cabin or campsite located on the property up to a total of 800  
17 feet and 500 feet in depth, measured away from the lakeshore.  
18 If any portion of the class 1c resort property is classified as  
19 class 4c under subdivision 25, the entire property must meet the  
20 requirements of subdivision 25, paragraph (d), clause (1), to  
21 qualify for class 1c treatment under this paragraph.

22 (d) Class 1d property includes structures that meet all of  
23 the following criteria:

24 (1) the structure is located on property that is classified  
25 as agricultural property under section 273.13, subdivision 23;

26 (2) the structure is occupied exclusively by seasonal farm  
27 workers during the time when they work on that farm, and the  
28 occupants are not charged rent for the privilege of occupying  
29 the property, provided that use of the structure for storage of  
30 farm equipment and produce does not disqualify the property from  
31 classification under this paragraph;

32 (3) the structure meets all applicable health and safety  
33 requirements for the appropriate season; and

34 (4) the structure is not salable as residential property  
35 because it does not comply with local ordinances relating to  
36 location in relation to streets or roads.

1           The market value of class 1d property has the same class  
2 rates as class 1a property under paragraph (a).

3           [EFFECTIVE DATE.] This section is effective for taxes  
4 levied in 2005, payable in 2006, and thereafter.

1000

# MINNESOTA REVENUE

## PROPERTY TAX Commercial Seasonal Recreational Classification Rate

March 11, 2005

Department of Revenue  
Analysis of S.F. 779 (Skoe)/ H.F. 972 (Howes)

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

	<b>Fund Impact</b>			
	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
	(000's)			
General Fund	\$0	(\$42)	(\$42)	(\$42)

Effective for taxes payable 2006 and thereafter.

### EXPLANATION OF THE BILL

The bill would change the classification rate for Class 1c commercial seasonal recreational property from 1% to 0.55%, and increase the bracket from \$500,000 to \$600,000.

### REVENUE ANALYSIS DETAIL

- The proposal was simulated on a taxes payable 2005 property tax model.
- Due to the lower class rate on Class 1c property, taxes would be shifted onto other property types. Some of the shift would be onto homesteads and result in higher property tax refunds. Property tax refunds are estimated to increase \$42,000 per year.

**Number of Taxpayers:** Unknown.

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



1 Senator ..... moves to amend S.F. No. 779 as follows:

2 Page 3, line 12, after the comma, insert "the market  
3 value that exceeds \$600,000 but does not exceed \$1,600,000 has a  
4 class rate of one percent,"

5 Page 3, strike lines 14 to 21 and insert "1.25 percent."

6 Page 4, after line 4, insert:

7 "Sec. 2. Minnesota Statutes 2004, section 273.13,  
8 subdivision 25, is amended to read:

9 Subd. 25. [CLASS 4.] (a) Class 4a is residential real  
10 estate containing four or more units and used or held for use by  
11 the owner or by the tenants or lessees of the owner as a  
12 residence for rental periods of 30 days or more. Class 4a also  
13 includes hospitals licensed under sections 144.50 to 144.56,  
14 other than hospitals exempt under section 272.02, and contiguous  
15 property used for hospital purposes, without regard to whether  
16 the property has been platted or subdivided. The market value  
17 of class 4a property has a class rate of 1.8 percent for taxes  
18 payable in 2002, 1.5 percent for taxes payable in 2003, and 1.25  
19 percent for taxes payable in 2004 and thereafter, except that  
20 class 4a property consisting of a structure for which  
21 construction commenced after June 30, 2001, has a class rate of  
22 1.25 percent of market value for taxes payable in 2003 and  
23 subsequent years.

24 (b) Class 4b includes:

25 (1) residential real estate containing less than four units  
26 that does not qualify as class 4bb, other than seasonal  
27 residential recreational property;

28 (2) manufactured homes not classified under any other  
29 provision;

30 (3) a dwelling, garage, and surrounding one acre of  
31 property on a nonhomestead farm classified under subdivision 23,  
32 paragraph (b) containing two or three units; and

33 (4) unimproved property that is classified residential as  
34 determined under subdivision 33.

35 The market value of class 4b property has a class rate of  
36 1.5 percent for taxes payable in 2002, and 1.25 percent for

1 taxes payable in 2003 and thereafter.

2 (c) Class 4bb includes:

3 (1) nonhomestead residential real estate containing one  
4 unit, other than seasonal residential recreational property; and

5 (2) a single family dwelling, garage, and surrounding one  
6 acre of property on a nonhomestead farm classified under  
7 subdivision 23, paragraph (b).

8 Class 4bb property has the same class rates as class 1a  
9 property under subdivision 22.

10 Property that has been classified as seasonal residential  
11 recreational property at any time during which it has been owned  
12 by the current owner or spouse of the current owner does not  
13 qualify for class 4bb.

14 (d) Class 4c property includes:

15 (1) except as provided in subdivision 22, paragraph (c),  
16 real property devoted to temporary and seasonal residential  
17 occupancy for recreation purposes, including real property  
18 devoted to temporary and seasonal residential occupancy for  
19 recreation purposes and not devoted to commercial purposes for  
20 more than 250 days in the year preceding the year of  
21 assessment. For purposes of this clause, property is devoted to  
22 a commercial purpose on a specific day if any portion of the  
23 property is used for residential occupancy, and a fee is charged  
24 for residential occupancy. In order for a property to be  
25 classified as class 4c, seasonal residential recreational for  
26 commercial purposes, at least 40 percent of the annual gross  
27 lodging receipts related to the property must be from business  
28 conducted during 90 consecutive days and either (i) at least 60  
29 percent of all paid bookings by lodging guests during the year  
30 must be for periods of at least two consecutive nights; or (ii)  
31 at least 20 percent of the annual gross receipts must be from  
32 charges for rental of fish houses, boats and motors,  
33 snowmobiles, downhill or cross-country ski equipment, or charges  
34 for marina services, launch services, and guide services, or the  
35 sale of bait and fishing tackle. For purposes of this  
36 determination, a paid booking of five or more nights shall be

1 counted as two bookings. Class 4c also includes commercial use  
2 real property used exclusively for recreational purposes in  
3 conjunction with class 4c property devoted to temporary and  
4 seasonal residential occupancy for recreational purposes, up to  
5 a total of two acres, provided the property is not devoted to  
6 commercial recreational use for more than 250 days in the year  
7 preceding the year of assessment and is located within two miles  
8 of the class 4c property with which it is used. ~~Class-4e~~  
9 ~~property-classified-in-this-paragraph-also-includes-the-remainder~~  
10 ~~of-class-1c-resorts-provided-that-the-entire-property-including~~  
11 ~~that-portion-of-the-property-classified-as-class-1c-also-meets~~  
12 ~~the-requirements-for-class-4c-under-this-paragraph; otherwise the~~  
13 ~~entire-property-is-classified-as-class-3.~~ Owners of real  
14 property devoted to temporary and seasonal residential occupancy  
15 for recreation purposes and all or a portion of which was  
16 devoted to commercial purposes for not more than 250 days in the  
17 year preceding the year of assessment desiring classification as  
18 class 1c or 4c, must submit a declaration to the assessor  
19 designating the cabins or units occupied for 250 days or less in  
20 the year preceding the year of assessment by January 15 of the  
21 assessment year. Those cabins or units and a proportionate  
22 share of the land on which they are located will be designated  
23 class 1c or 4c as otherwise provided. The remainder of the  
24 cabins or units and a proportionate share of the land on which  
25 they are located will be designated as class 3a. The owner of  
26 property desiring designation as class 1c or 4c property must  
27 provide guest registers or other records demonstrating that the  
28 units for which class 1c or 4c designation is sought were not  
29 occupied for more than 250 days in the year preceding the  
30 assessment if so requested. The portion of a property operated  
31 as a (1) restaurant, (2) bar, (3) gift shop, and (4) other  
32 nonresidential facility operated on a commercial basis not  
33 directly related to temporary and seasonal residential occupancy  
34 for recreation purposes shall not qualify for class 1c or 4c;  
35 (2) qualified property used as a golf course if:  
36 (i) it is open to the public on a daily fee basis. It may

1 charge membership fees or dues, but a membership fee may not be  
2 required in order to use the property for golfing, and its green  
3 fees for golfing must be comparable to green fees typically  
4 charged by municipal courses; and

5 (ii) it meets the requirements of section 273.112,  
6 subdivision 3, paragraph (d).

7 A structure used as a clubhouse, restaurant, or place of  
8 refreshment in conjunction with the golf course is classified as  
9 class 3a property;

10 (3) real property up to a maximum of one acre of land owned  
11 by a nonprofit community service oriented organization; provided  
12 that the property is not used for a revenue-producing activity  
13 for more than six days in the calendar year preceding the year  
14 of assessment and the property is not used for residential  
15 purposes on either a temporary or permanent basis. For purposes  
16 of this clause, a "nonprofit community service oriented  
17 organization" means any corporation, society, association,  
18 foundation, or institution organized and operated exclusively  
19 for charitable, religious, fraternal, civic, or educational  
20 purposes, and which is exempt from federal income taxation  
21 pursuant to section 501(c)(3), (10), or (19) of the Internal  
22 Revenue Code of 1986, as amended through December 31, 1990. For  
23 purposes of this clause, "revenue-producing activities" shall  
24 include but not be limited to property or that portion of the  
25 property that is used as an on-sale intoxicating liquor or 3.2  
26 percent malt liquor establishment licensed under chapter 340A, a  
27 restaurant open to the public, bowling alley, a retail store,  
28 gambling conducted by organizations licensed under chapter 349,  
29 an insurance business, or office or other space leased or rented  
30 to a lessee who conducts a for-profit enterprise on the  
31 premises. Any portion of the property which is used for  
32 revenue-producing activities for more than six days in the  
33 calendar year preceding the year of assessment shall be assessed  
34 as class 3a. The use of the property for social events open  
35 exclusively to members and their guests for periods of less than  
36 24 hours, when an admission is not charged nor any revenues are

1 received by the organization shall not be considered a  
2 revenue-producing activity;

3 (4) postsecondary student housing of not more than one acre  
4 of land that is owned by a nonprofit corporation organized under  
5 chapter 317A and is used exclusively by a student cooperative,  
6 sorority, or fraternity for on-campus housing or housing located  
7 within two miles of the border of a college campus;

8 (5) manufactured home parks as defined in section 327.14,  
9 subdivision 3;

10 (6) real property that is actively and exclusively devoted  
11 to indoor fitness, health, social, recreational, and related  
12 uses, is owned and operated by a not-for-profit corporation, and  
13 is located within the metropolitan area as defined in section  
14 473.121, subdivision 2;

15 (7) a leased or privately owned noncommercial aircraft  
16 storage hangar not exempt under section 272.01, subdivision 2,  
17 and the land on which it is located, provided that:

18 (i) the land is on an airport owned or operated by a city,  
19 town, county, Metropolitan Airports Commission, or group  
20 thereof; and

21 (ii) the land lease, or any ordinance or signed agreement  
22 restricting the use of the leased premise, prohibits commercial  
23 activity performed at the hangar.

24 If a hangar classified under this clause is sold after June  
25 30, 2000, a bill of sale must be filed by the new owner with the  
26 assessor of the county where the property is located within 60  
27 days of the sale; and

28 (8) residential real estate, a portion of which is used by  
29 the owner for homestead purposes, and that is also a place of  
30 lodging, if all of the following criteria are met:

31 (i) rooms are provided for rent to transient guests that  
32 generally stay for periods of 14 or fewer days;

33 (ii) meals are provided to persons who rent rooms, the cost  
34 of which is incorporated in the basic room rate;

35 (iii) meals are not provided to the general public except  
36 for special events on fewer than seven days in the calendar year

1 preceding the year of the assessment; and

2 (iv) the owner is the operator of the property.

3 The market value subject to the 4c classification under this  
4 clause is limited to five rental units. Any rental units on the  
5 property in excess of five, must be valued and assessed as class  
6 3a. The portion of the property used for purposes of a  
7 homestead by the owner must be classified as class 1a property  
8 under subdivision 22.

9 Class 4c property has a class rate of 1.5 percent of market  
10 value, except that (i) each parcel of seasonal residential  
11 recreational property not used for commercial purposes has the  
12 same class rates as class 4bb property, (ii) manufactured home  
13 parks assessed under clause (5) have the same class rate as  
14 class 4b property, (iii) commercial-use seasonal residential  
15 recreational property has a class rate of one percent for the  
16 first \$500,000 of market value, which includes any market value  
17 receiving the one percent rate under subdivision 22, and 1.25  
18 percent for the remaining market value, (iv) the market value of  
19 property described in clause (4) has a class rate of one  
20 percent, (v) the market value of property described in clauses  
21 (2) and (6) has a class rate of 1.25 percent, and (vi) that  
22 portion of the market value of property in clause (8) qualifying  
23 for class 4c property has a class rate of 1.25 percent."

24 Amend the title as follows:

25 Page 1, line 4, delete "subdivision" and insert  
26 "subdivisions" and after "22" insert ", 25"

## Agenda #7

Senators Bakk, Solon and Lourey introduced--  
S.F. No. 1256: Referred to the Committee on Taxes

1                                   A bill for an act  
2           relating to bond allocations; increasing the reserve  
3           from the public facilities pool for Western Lake  
4           Superior Sanitary District projects; amending  
5           Minnesota Statutes 2004, section 474A.061, subdivision  
6           2c.  
7 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:  
8           Section 1. Minnesota Statutes 2004, section 474A.061,  
9           subdivision 2c, is amended to read:  
10           Subd. 2c. [PUBLIC FACILITIES POOL ALLOCATION.] From the  
11           beginning of the calendar year and continuing for a period of  
12           120 days, the commissioner shall reserve ~~\$3,000,000~~ \$5,000,000  
13           of the available bonding authority from the public facilities  
14           pool for applications for public facilities projects to be  
15           financed by the Western Lake Superior Sanitary District.  
16           Commencing on the second Tuesday in January and continuing on  
17           each Monday through the last Monday in July, the commissioner  
18           shall allocate available bonding authority from the public  
19           facilities pool to applications for eligible public facilities  
20           projects received on or before the Monday of the preceding  
21           week. If there are two or more applications for public  
22           facilities projects from the pool and there is insufficient  
23           available bonding authority to provide allocations for all  
24           projects in any one week, the available bonding authority shall  
25           be awarded by lot unless otherwise agreed to by the respective  
26           issuers.

# MINNESOTA • REVENUE

## PROPERTY TAX Western Lake Superior Sanitary District

March 11, 2005

Department of Revenue  
Analysis of H.F. 449 (Murphy) / S.F. 1256 (Bakk)

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

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

Effective August 1, 2005

### EXPLANATION OF THE BILL

The bill would increase the bonding authority reserve from the public facilities bonding pool for the Western Lake Superior Sanitary District from \$3 million to \$5 million.

### REVENUE ANALYSIS DETAIL

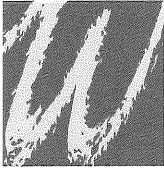
- The increase in allocation from the bonding pool to the Western Lake Superior Sanitary District would reduce the remaining bonding authority. Therefore there would not be an increase in total debt service property tax levies, and no impact on homestead taxes or property tax refunds paid by the state.

**Number of Taxpayers:** none.

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

hf0449(sf1256)\_1 / LM





2626 Courtland Street  
Duluth, MN 55806-1894  
phone 218.722.3336  
fax 218.727.7471



**Western Lake Superior Sanitary District**

**SF 1256 – Public Facilities Bond Pool Allocation Increase**

Western Lake Superior Sanitary District (WLSSD) is a 500 square mile district with the responsibility for wastewater treatment and solid waste management. WLSSD was created by the legislature in 1971 to clean up the horribly polluted St. Louis River. The success of our facilities is evident by the return of recreation and fishing all along the river; one of the environmental success stories in Minnesota. The District owns the major interceptor sewers and pump stations that convey sewage to the treatment plant from the various communities, but the neighborhood and trunk sewers are owned by local communities.

The initial cost of \$125 million to construct WLSSD's treatment facilities and pumping stations was paid largely by federal and state grants (75%/15%), with a 10% local match required. Today, similar facilities would cost \$400 million. The treatment plant is now 27 years old, and major refurbishments have been underway for the past ten years, funded by the State Revolving Loan fund, local bonding, and annual cash financing of up to \$2.7 million annually. With federal and state grant funding largely non-existent, and with the federal/state revolving loan program inadequately funded at times, the WLSSD may need to rely more upon issuance of bonds to fund long-term capital improvements.

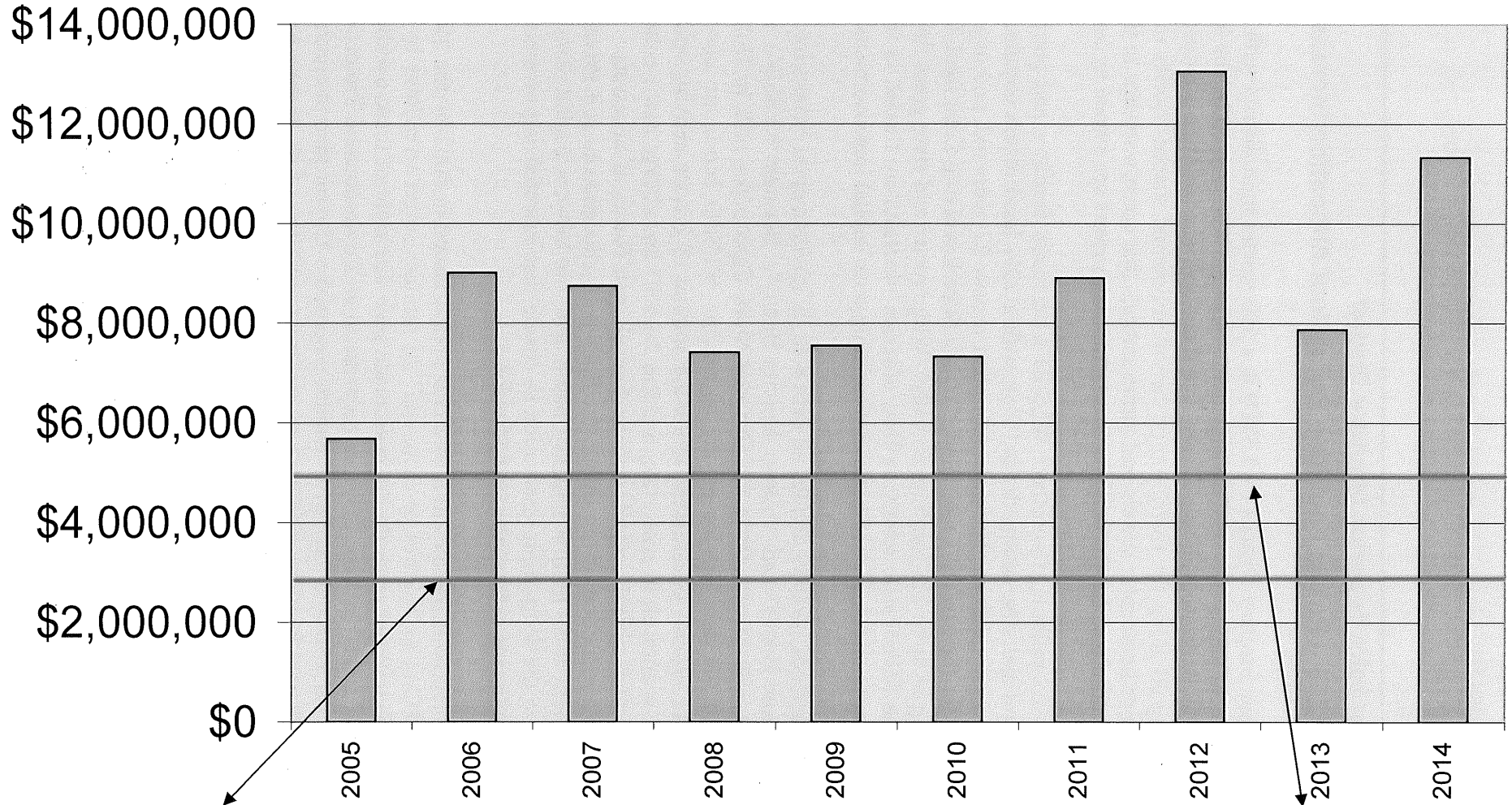
The Internal Revenue Code of 1986 divides all debt sold by governmental issuers into the categories of "Governmental Purpose Bonds" and "Private Activity Bonds". Because WLSSD's major customers – primarily Sappi pulp and paper mill in Cloquet and Stora Enso paper mill in Duluth – pay such a substantial portion of the debt service on the bonds, the WLSSD bonds are classified as "Private Activity Bonds". The federal government limits the amount of private activity bonding – the Public Facilities Pool - that is allowed in each state, and the WLSSD has always had a commitment from the state pool to ensure that critical projects can be funded with bonds, if necessary. In 2002 WLSSD voluntarily accepted a reduction of our public facilities pool allocation to sell Private Activity Bonds from \$5 million annually to \$3 million annually, based upon our ten-year capital plans at the time. Now we request a return to the \$5 million reservation to ensure that essential improvements, replacements, and regulatory commitments can be adequately funded.

Duluth and WLSSD are co-permittees in a five-year permit issued in 2002 by the Minnesota Pollution Control Agency (MPCA) to "control or eliminate" all sanitary sewer overflows by 2007 at eighteen separate locations. Significant progress has been made such that eight of these overflow locations have been eliminated as of 2004. In May, 2004, in response to an Environmental Protection Agency (EPA) administrative order WLSSD and the City of Duluth proposed a 12-year plan to eliminate all overflows. Duluth has requested state bonding assistance to construct a portion of its storage basins and WLSSD has supported that request. Duluth's 12-year plan costs are in excess of \$66 million. WLSSD has made a \$63 million 12-year capital commitment to MPCA and EPA largely to improve pump stations and sewer interceptors and to increase system reliability. In addition, other critical capital projects will increase our average to nearly \$8 million per year over the next ten years.

The requested \$5 million public facilities reservation will ensure that the necessary Private Activity Bonds can be issued for permit compliance and so that critical infrastructure and environmental projects can be adequately funded.

# Western Lake Superior Sanitary District

## 2005 to 2014 Annual Capital Project Needs



Current \$3 million Private Activity Bond Allocation

■ Annual Capital Expenditures

Requested \$5 million Private Activity Bond Allocation

## Agenda #8

**Senators Bakk, Tomassoni and Saxhaug introduced--**  
**S.F. No. 1341: Referred to the Committee on Taxes.**

1 A bill for an act

2 relating to taxation; clarifying the production tax  
3 rate of certain direct reduced ore; amending Minnesota  
4 Statutes 2004, section 298.24, subdivision 1.

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

6 Section 1. Minnesota Statutes 2004, section 298.24,  
7 subdivision 1, is amended to read:

8 Subdivision 1. (a) For concentrate produced in 2001, 2002,  
9 and 2003, there is imposed upon taconite and iron sulphides, and  
10 upon the mining and quarrying thereof, and upon the production  
11 of iron ore concentrate therefrom, and upon the concentrate so  
12 produced, a tax of \$2.103 per gross ton of merchantable iron ore  
13 concentrate produced therefrom.

14 (b) For concentrates produced in 2004 and subsequent years,  
15 the tax rate shall be equal to the preceding year's tax rate  
16 plus an amount equal to the preceding year's tax rate multiplied  
17 by the percentage increase in the implicit price deflator from  
18 the fourth quarter of the second preceding year to the fourth  
19 quarter of the preceding year. "Implicit price deflator" means  
20 the implicit price deflator for the gross domestic product  
21 prepared by the Bureau of Economic Analysis of the United States  
22 Department of Commerce.

23 (c) On concentrates produced in 1997 and thereafter, an  
24 additional tax is imposed equal to three cents per gross ton of  
25 merchantable iron ore concentrate for each one percent that the

1 iron content of the product exceeds 72 percent, when dried at  
2 212 degrees Fahrenheit.

3 (d) The tax shall be imposed on the average of the  
4 production for the current year and the previous two years. The  
5 rate of the tax imposed will be the current year's tax rate.  
6 This clause shall not apply in the case of the closing of a  
7 taconite facility if the property taxes on the facility would be  
8 higher if this clause and section 298.25 were not applicable.

9 (e) If the tax or any part of the tax imposed by this  
10 subdivision is held to be unconstitutional, a tax of \$2.103 per  
11 gross ton of merchantable iron ore concentrate produced shall be  
12 imposed.

13 (f) Consistent with the intent of this subdivision to  
14 impose a tax based upon the weight of merchantable iron ore  
15 concentrate, the commissioner of revenue may indirectly  
16 determine the weight of merchantable iron ore concentrate  
17 included in fluxed pellets by subtracting the weight of the  
18 limestone, dolomite, or olivine derivatives or other basic flux  
19 additives included in the pellets from the weight of the  
20 pellets. For purposes of this paragraph, "fluxed pellets" are  
21 pellets produced in a process in which limestone, dolomite,  
22 olivine, or other basic flux additives are combined with  
23 merchantable iron ore concentrate. No subtraction from the  
24 weight of the pellets shall be allowed for binders, mineral and  
25 chemical additives other than basic flux additives, or moisture.

26 (g)(1) Notwithstanding any other provision of this  
27 subdivision, for the first two years of a plant's commercial  
28 production of direct reduced ore, no tax is imposed under this  
29 section. As used in this paragraph, "commercial production" is  
30 production of more than 50,000 tons of direct reduced ore in the  
31 current year or in any prior year, and "direct reduced ore" is  
32 ore that results in a product that has an iron content of at  
33 least 75 percent. For the third year of a plant's commercial  
34 production of direct reduced ore, the rate to be applied to  
35 direct reduced ore is 25 percent of the rate otherwise  
36 determined under this subdivision. For the fourth

1 such commercial production year, the rate is 50 percent of the  
2 rate otherwise determined under this subdivision; for the  
3 fifth such commercial production year, the rate is 75 percent of  
4 the rate otherwise determined under this subdivision; and for  
5 all subsequent commercial production years, the full rate is  
6 imposed.

7 (2) Subject to clause (1), production of direct reduced ore  
8 in this state is subject to the tax imposed by this section, but  
9 if that production is not produced by a producer of taconite or  
10 iron sulfides, the production of taconite or iron sulfides  
11 consumed in the production of direct reduced iron in this state  
12 is not subject to the tax imposed by this section on taconite or  
13 iron sulfides.

14 (3) Notwithstanding any other provision of this  
15 subdivision, no tax is imposed under this section during the  
16 facility's noncommercial production of direct reduced ore.

17 [EFFECTIVE DATE.] This section is effective for direct  
18 reduced ore produced after the date of final enactment.

# MINNESOTA • REVENUE

## TACONITE PRODUCTION TAX Tax Rate Clarification for Direct Reduced Ore

March 14, 2005

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

Department of Revenue  
Analysis of H.F. 1383 (Dill) / S.F. 1341 (Bakk)

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

Effective for direct reduced ore produced after the date of final enactment.

### EXPLANATION OF THE BILL

**Current Law:** The taconite production tax rate from 2001 to 2003 was \$2.103 per ton of iron ore concentrates produced. Beginning in 2004, the rate is adjusted annually for inflation according to the implicit price deflator for gross domestic product. For direct reduced ore, there is an additional tax of 3¢ per gross ton for each 1% that the iron content exceeds 72% when dried at 212 degrees Fahrenheit. No tax is imposed for the first two years of a plant's production of direct reduced ore. Phase-in rates are applied to direct reduced ore for production in the subsequent years:

- Third year: 25% of the tax rate
- Fourth year: 50% of the tax rate
- Fifth year: 75% of the tax rate
- Thereafter: Full tax rate

The taconite production tax is a local revenue source for various jurisdictions within the Taconite Assistance Area.

**Proposed Law:** The proposal creates a distinction between commercial and noncommercial production of direct reduced ore. Commercial production is defined as production of more than 50,000 tons of direct reduced ore per year. The bill specifies that no tax is imposed during the facility's noncommercial production of direct reduced ore.

### REVENUE ANALYSIS DETAIL

- According to the Minerals Tax Office of the Department of Revenue, the proposal clarifies existing law and policy. Therefore there should be no state or local impact.

**Number of Taxpayers:** Currently one facility.

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

A

1 Senator ..... moves to amend S.F. No. 1341 as follows:

2 Page 2, line 31, after the comma, insert "noncommercial  
3 production is production of 50,000 tons or less of direct  
4 reduced ore in any year,"

5 Page 3, line 15, after "imposed" insert "on direct reduced  
6 ore"

7 Page 3, line 16, after the period, insert "The taconite or  
8 iron sulphides consumed in the noncommercial production of  
9 direct reduced ore is subject to the tax imposed by this section  
10 on taconite and iron sulphides. Three-year average production  
11 of direct reduced ore does not include production of direct  
12 reduced ore in any noncommercial year. Three-year average  
13 production for a direct reduced ore facility that has  
14 noncommercial production is the average of the commercial  
15 production of direct reduced ore for the current year and the  
16 previous two commercial years."

## Agenda #9

**Senator Pogemiller introduced--****S.F. No. 1366: Referred to the Committee on Taxes.**

1                                   A bill for an act

2           relating to metropolitan government; providing for the

3           additional financing of metropolitan area transit and

4           paratransit capital expenditures; authorizing the

5           issuance of certain obligations; repealing

6           restrictions on the issuance of general obligation

7           bonds for the Hiawatha light rail transit line;

8           amending Minnesota Statutes 2004, section 473.39, by

9           adding a subdivision; repealing Minnesota Statutes

10          2004, section 473.39, subdivision 1f.

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

12          Section 1. Minnesota Statutes 2004, section 473.39, is

13          amended by adding a subdivision to read:

14          Subd. 1k. [OBLIGATIONS.] After July 1, <sup>2005</sup>2004, in addition

15          to the authority in subdivisions 1a, 1b, 1c, 1d, 1e, 1g, 1h, 1i,

16          and 1j, the council may issue certificates of indebtedness,

17          bonds, or other obligations under this section in an amount not

18          exceeding \$64,000,000 for capital expenditures as prescribed in

19          the council's regional transit master plan and transit capital

20          improvement program and for related costs, including the costs

21          of issuance and sale of the obligations.

22          Sec. 2. [REPEALER.]

23          Minnesota Statutes 2004, section 473.39, subdivision 1f, is

24          repealed.

25          Sec. 3. [APPLICATION.]

26          This act applies in the counties of Anoka, Carver, Dakota,

27          Hennepin, Ramsey, Scott, and Washington.

28          Sec. 4. [EFFECTIVE DATE.]



1 This act is effective the day following final enactment.

APPENDIX  
Repealed Minnesota Statutes for 05-1594

**473.39 BORROWING MONEY.**

Subd. 1f. Prohibition of certain obligations. The council may not issue obligations for construction of light rail transit in the Hiawatha corridor.

# MINNESOTA · REVENUE

## PROPERTY TAX Metropolitan Council Transit Bonds

March 14, 2005

Department of Revenue  
Analysis of S.F. 1366 (Pogemiller)

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

### Fund Impact

	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>	<u>F.Y. 2008</u>	<u>F.Y. 2009</u>
		(000's)		
General Fund	\$0	\$0	(\$18)	(\$113)

Effective day following final enactment.

### EXPLANATION OF THE BILL

The proposal authorizes the Metropolitan Council to issue up to an additional \$64 million in certificates of indebtedness, bonds, or other obligations for capital expenditures prescribed in the council's regional transit master plan and transit capital improvement program. The authority is limited to the seven metropolitan counties. A prohibition against light rail transit bonding is repealed.

### REVENUE ANALYSIS DETAIL

- Bond principal and interest would be paid by increasing property tax levies.
- It is assumed that \$9 million of bonds would be issued in FY 2006, \$32 million in FY 2007, and the remaining \$23 million in FY 2008.
- Additional debt service levies would increase homeowner taxes. Property tax refunds would increase by an estimated \$18,000 in FY 2008 and \$113,000 in FY 2009.

**Number of Taxpayers:** All taxpayers in the seven metropolitan counties.

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

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