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
State of Minnesota

TO: Members of the Senate Tax Committee

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

DATE: March 17, 2005

RE: Bills to be Heard March 17, 2005

Tax Preparer Amendment (Pogemiller)

Sections 1 and 8 recodify provisions describing who is subject to the regulation of tax preparers.

Section 2 modifies the requirement relating to itemized bills from tax preparers so that it applies only to tax preparers who provide services for a fee, and strikes the requirement of a separate statement of the charge for electronic filing.

Section 3 provides that administrative penalties imposed on tax preparers are public data.

Section 4 requires the State Board of Accountancy to refer to the Commissioner of Revenue any complaints it receives about tax preparers who are not subject to the board's jurisdiction.

Section 5 enables the Lawyers Board of Professional Responsibility to refer to the Commissioner of Revenue complaints it receives about tax preparers who are not subject to the board's jurisdiction.

Section 6 allows the Commissioner of Revenue to refer complaints about tax preparers to the State Board of Accountancy or the Lawyers Board of Professional Responsibility if the tax preparer is under the jurisdiction of one of those boards.

Section 7 provides that information shared under sections 4 through 6 is private until a penalty is imposed.

Section 8 provides that attorneys, accountants, and enrolled agents are not subject to the requirement of preparing an itemized bill for tax preparation services, and fiduciaries are exempt from the itemized bill requirement and the refund anticipation loan requirement.

Section 9 requires the Commissioner of Revenue to publish a list of tax preparers who have been subject to penalties. Thirty days before publishing the name of a tax preparer who has been subject to a penalty, the commissioner must mail a written notice to the tax preparer. Publication is prohibited if the commissioner is in the process of reviewing or adjusting the penalty or if the commissioner has been notified that the tax preparer is deceased. The commissioner is required to publish a retraction and apology to any tax preparer whose name has been included on the list in error and who requests an apology.

Section 10 makes technical changes.

Section 11 authorizes the Commissioner of Revenue to terminate or suspend a tax preparer's authority to transmit returns electronically if the commissioner determines that the tax preparer has engaged in a pattern and practice of conduct in violation of the regulations of tax preparers.

S. F. No. 1081 (Pogemiller)

This bill provides that the owner of homestead property, who does not qualify for an adjustment in valuation under the provisions of the law providing for reassessment of homestead property damaged by a disaster, may receive a reduction in the amount of the taxes payable on the property if:

- the property owner makes written application to the county assessor and the county board; and

- the county assessor determines that the homestead dwelling is uninhabitable because all or part of it has been contaminated by mold.

If these conditions are met, the county board is required to grant a reduction in the amount of property tax payable on the homestead in proportion to the number of months when the property was uninhabitable. The reduction would apply to the taxes payable in the year that the assessor determines if the dwelling has been made uninhabitable and the following year. If the reduction is granted after all property taxes due for the year have been paid, the amount of the reduction must be refunded by the county treasurer as soon as practicable.

S.F. No. 344 (Stumpf)

This bill extends the ability of a town to impose a service charge for emergency services, including fire, rescue, medical, and related services provided by the town or contracted for by the town. Current law authorizes the town to impose a service charge on the owner, lessee, or occupant of property within its jurisdiction for a government service that was provided by the town. This bill would extend the ability to impose those services to nonresidents. The town board would certify to the county auditor of the county in which the recipient of the services owns real property, and the unpaid service charge would then be collected together with property taxes levied against the property and would be remitted to the town that provided the services.

S.F. No. 1571 (Rest)

This bill deletes a termination date for a description of ready-to-eat meat and seafood in an unheated state sold by weight as part of the definition of prepared food in the sales tax law. Under current law, this definition will terminate January 1, 2006. Under this proposal, the definition will remain in effect indefinitely.

S.F. No. 1190 (Tomassoni)

This bill provides a sales tax exemption for materials and supplies used in the construction of and equipment incorporated into an electric generating facility and related facilities used under a joint power purchase agreement to meet the biomass energy mandate in the state law. The exemption applies if the owners of the facilities are municipal electric utilities or a joint venture of municipal electric utilities. The tax would be paid upon the purchase, but then refunded to the purchaser.

S.F. No. 1605 (Kierlin)

This bill extends the duration of the Riverfront tax increment financing district number 2 in the City of Winona. The district would be permitted to remain in effect until December 31, 2020. Tax increment received after December 31, 2005, must be used only to pay capital and administrative costs of transportation improvements related to the Pelzer Street project. This duration extension is exempted from the general law provision requiring city, school district, and county approval of an extension.

S.F. No. 1683 (Pogemiller)

This bill provides that an elderly living facility is exempt from the property tax if:

- it is located in the city of the first class with a population of more than 350,000;

- it is owned and operated by a nonprofit corporation, or by a limited liability company, or the sole member of which is a nonprofit corporation;

- it consists of no more than 60 living units;

- the owner of the facility is an affiliate of entities that own and operate assisted living and skilled nursing facilities that are located across the street from the facility, adjacent to a church, include an congregate dining program, and provide assisted living or similar social and physical support;

- the residents of the facility must be at least 62 years of age or handicapped; and

• at least 20 percent of the units in the facility must be occupied by persons whose annual income does not exceed 50 percent of median family income for the area, or at least 40 percent of the units in the facility are occupied by persons whose annual income does not exceed 60 percent of the median family income for the area.

The exemption would remain in effect for the term of the facilities initial permanent financing or 25 years, whichever is later.

<u>**S.F. No. 1659 (Pogemiller)**</u>

This bill provides an income tax credit equal to 25 percent of the amount expended by a taxpayer for rehabilitation of a certified historic structure, or a structure in a certified historic district that is offered or used for residential or business purposes. If the amount of the credit exceeds the tax liability for the year in which the cost is incurred, it may be carried back to the three preceding taxable years or carried forward to the ten succeeding taxable years.

In order to claim the credits, a taxpayer must apply to the State Historic Preservation Office of the Minnesota Historical Society before historic rehabilitation project begins. The office will determine the amount of eligible rehabilitation costs and determine whether the rehabilitation meets the standards of the United States Department of Interior. If it is determined that it is eligible, the taxpayer would receive certificates verifying the eligibility and the amount of the credit which would be attached to the taxpayers income tax return.

In lieu of receiving the tax credit, the taxpayer may elect to receive a historic rehabilitation mortgage credit certificate. The face amount of the certificate would be equal to the credit that would otherwise be provided. The certificate would be transferred by the taxpayer to a lending institution in connection with a loan that is secured by the building for which the credit is issued. The proceeds of the loan must be used for the acquisition or rehabilitation of the building. The amount provided by the lending institution to the taxpayer must be used to reduce the principal amount of the loan, the rate of interest on the loan, or, in the case of a qualified historic home that is located in a poverty-impacted area, the taxpayer's cost of purchasing the building. The lending institution may take a credit against its income or franchise tax in an amount equal to the amount specified in the certificate.

The Minnesota Historical Society is required to annually determine the economic impact to the state from the rehabilitation of eligible property for which these credits are provided and report on this impact to the taxes committee of the legislature.

<u>**S. F. No. 1685 (Pogemiller)**</u>

This bill provides that the market value of energy efficient commercial property is subject to a reduction. To qualify for the valuation reduction, the property must be certified by a qualified inspector as having been constructed in a manner that will achieve a level of energy consumption that is at least 20 percent lower than the standard set in the state energy code. If the percentage of energy consumption below the energy code requirement is between 20 and 30 percent, the property is eligible for a five percent market value reduction. If the energy consumption is 31 to 50 percent below the energy code requirement, there will be a ten percent market value reduction. If the energy consumption is over 50 percent below the code requirements, the market value reduction will be 15 percent. Reductions will remain in effect for the first ten years after the property has been certified as qualifying. The Department of Commerce is required to establish a process for determining eligibility for the valuation reduction, including certification of persons who are qualified to perform this function.

S.F. No. 53 (Solon)

This bill provides a sales tax exemption for materials, equipment, and supplies used in constructing dock facilities of the Hallett Dock Company that are being relocated to accommodate the cleanup of a federally designated Superfund site.

S.F. No. 1751 (Pogemiller)

This bill modifies the property tax exemption for institutions of purely public charity. It provides that in determining whether rental housing property is exempt from property taxation as an institution of purely public charity, government housing assistance payments are income rather than gifts or donations to the owner or manager of the rental housing. Receipt of government housing assistance payments does not disqualify a rental housing property from the exemption if other requirements of the exemption are satisfied.

S.F. No. 1786 (Skoe)

This bill provides that agricultural products include short rotation woody crops that are cultivated using agricultural practices to produce timber or forest products. The result of this change would be that land on which these crops are cultivated could be treated as agricultural property for purposes of the agricultural classification in the property tax law.

S.F. No. 867 (Johnson, D.E.)

This bill authorizes the City of Willmar to impose a sales and use tax of one-half of one percent. This proposal was approved by the voters at the November, 2004 general election. Revenues from the tax may be used to pay for the completion and expansion of the airport/industrial park, hiking and bike trails, connection of the Blue Line and civic center buildings and purchase of a portion of the Willmar Regional Treatment Center campus located west of Trunk Highway 71. The city is authorized to issue general obligation bonds in an amount not to exceed $8,000,000 to pay for these projects. This debt would not be subject to the net debt limits. The tax will expire seven years after it is imposed or when the city council determines that sufficient revenues have been raised to pay the cost of the project that will be completed under this bill.

JZS:cs

Agenda #1

Senator Kierlin introduced--

S.F. No. 1605: Referred to the Committee on Taxes.

A bill for an act

relating to the port authority of Winona; extending the duration of a tax increment district.

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

Section 1. [EXTENSION OF DURATION OF TAX INCREMENT DISTRICT.]

Subdivision 1. [DURATION.] Notwithstanding the provisions of Minnesota Statutes, section 469.176, subdivision 1b, the duration of riverfront tax increment financing district number 2, approved by the port authority of Winona on July 15, 1980, is extended to December 31, 2020. Any tax increment received after December 31, 2005, must be used solely to pay capital and administrative costs of transportation improvements related to the Pelzer Street project.

Subd. 2. [EXCEPTION.] The provisions of Minnesota Statutes, section 469.1782, subdivision 2, do not apply to this section.

[EFFECTIVE DATE.] This section is effective upon approval by the governing body of the port authority of Winona and compliance with Minnesota Statutes, section 645.021.

MINNESOTA · REVENUE

PROPERTY TAX
Winona TIF District Extension

March 15, 2005

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

Department of Revenue
Analysis of S.F. 1605 (Kierlin) / H.F. 1698 (Pelowski)

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

Effective upon local approval.

EXPLANATION OF THE BILL

Current Law: Tax increment financing (TIF) provides a means of financing municipal improvement projects. Types of districts include redevelopment districts, housing districts, economic development districts, soil condition districts, renewal and renovation districts, and hazardous substance districts. Although these types of districts have particular distinguishing characteristics, all commonly possess the authority to retain the tax dollars generated by the "retained captured net tax capacity". The captured net tax capacity equals the difference between the current year net tax capacity and the original net tax capacity of the properties within the TIF district. (The retained captured net tax capacity is after the subtraction of any fiscal disparity or shared value reductions and after any prior year net tax capacity adjustments.) Activity must commence within 5 years of district creation. Housing and redevelopment districts expire 25 years after receiving their first increment.

Proposed Law: The bill would allow the port authority of Winona to extend TIF District 2 to December 31, 2020. Tax increments received after December 31, 2005, must be used to pay capital and administrative costs of transportation improvements related to the Pelzer Street project. Approval of other local jurisdictions is not required.

REVENUE ANALYSIS DETAIL

- Winona TIF District #2 is a redevelopment district. The district had a captured net tax capacity of $478,793 in taxes payable 2004.
- The extension of the district's duration is likely to have an impact on the local tax base and tax rate in the future and may result in a small increase in property tax refunds paid by the state.

Number of Taxpayers: All taxpayers in the City of Winona.

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

sf1605(hf1698)_1 / LM

Agenda #2

Senator Johnson, D. E. introduced—

S. F. No. 867 Referred to the Committee on Taxes

A bill for an act

relating to the city of Willmar; authorizing the city to impose a sales and use tax.

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

Section 1. [CITY OF WILLMAR.]

Subdivision 1. [SALES AND USE TAX AUTHORIZED.] Notwithstanding Minnesota Statutes, section 477A.016, or any other provision of law, ordinance, or city charter, pursuant to the approval of the city voters at the general election held on November 2, 2004, the city of Willmar may impose by ordinance a sales and use tax of one-half of one percent for the purposes specified in subdivision 2. The provisions of Minnesota Statutes, section 297A.99, govern the imposition, administration, collection, and enforcement of the tax authorized under this subdivision.

Subd. 2. [USE OF REVENUES.] Revenues received from the tax authorized by subdivision 1 must be used for the cost of collecting and administering the tax and to pay all or part of the capital or administrative costs of the development, acquisition, construction, and improvement of the following projects:

(1) completion and expansion of the airport/industrial park;

(2) hiking and biking trails;

(3) connection of the Blue Line and Civic Center buildings; and

(4) purchase of that portion of the Willmar Regional Treatment Center campus located west of Marked Trunk Highway 71.

Authorized expenses include, but are not limited to, acquiring property, paying construction expenses related to the development of these facilities and improvements, and securing and paying debt service on bonds or other obligations issued to finance acquisition, construction, improvement, or development of these projects.

Subd. 3. [BONDS.] The city of Willmar may issue without an additional election general obligation bonds of the city in an amount not to exceed $8,000,000 to pay capital and administrative expenses for the acquisition, construction, improvement, and development of the projects listed in subdivision 2. The debt represented by the bonds must not be included in computing any debt limitations applicable to the city, and the levy of taxes required by Minnesota Statutes, section 475.61, to pay the principal or any interest on the bonds, and must not be subject to any levy limitations or be included in computing or applying any levy limitation applicable to the city.

Subd. 4. [TERMINATION OF TAX.] The tax imposed under subdivision 1 expires seven years after the date the tax is first imposed, or when the Willmar City Council determines that the amount described in subdivision 3 has been received from the tax to finance the capital and administrative costs, and to repay or retire at maturity the principal, interest, and premium due on any bonds issued under subdivision 3. Any funds remaining after completion of the projects listed in subdivision 2 and retirement or redemption of the bonds may be placed in the general fund of the city. The tax imposed under subdivision 1 may expire at an earlier time if the city so determines by ordinance.

[EFFECTIVE DATE.] This section is effective the day after compliance by the governing body of the city of Willmar with

Minnesota Statutes, section 645.021, subdivision 3.

A

Senator ..... moves to amend S.F. No. 867 as follows:

Page 2, line 24, after "expires" insert "at the later of (1)"

Page 2, line 25, after "or" insert "(2)"

3/17/05

CITY OF WILLMAR LOCAL SALES TAX

Senate File No. 867

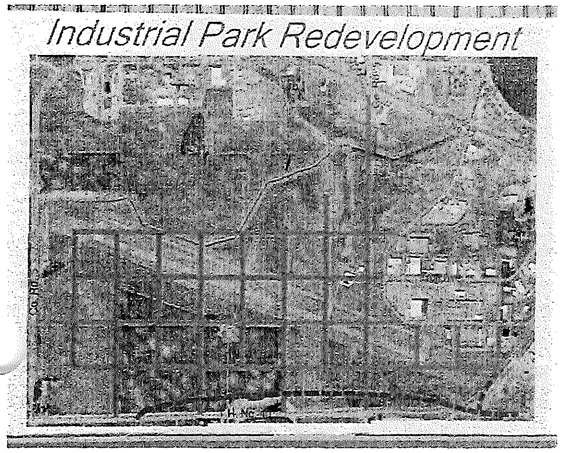
.5% Local Sales Tax proposed for:

- Completion of regional airport/industrial park expansion -	$7 M
- Hiking/biking trails – connect to regional system -	$.4 M
- Connect Blue Line Center and Civic Center buildings -	$.3 M
- Acquire 60 acres of WRTC land -	$.3 M
Total -	$ 8M

Anticipate 7 years of tax collection. A sunset provision is included in the proposed legislation.

The tax has been approved by the voters and is supported by Kandiyohi County and the Willmar Lakes Area Chamber of Commerce.

Projects to be funded by the tax are of regional significance. 7/8^{ths} of the proceeds are to fund economic development activities of a regional nature.



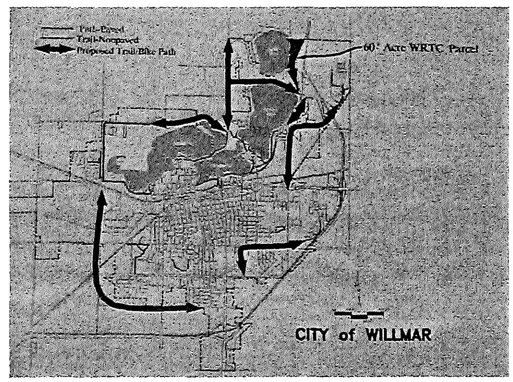
Industrial Park Expansion/Airport Redevelopment

With the relocation of the airport comes the need to redevelop the current site and prepare it for expansion of the Industrial Park. This will occur in two phases. Phase I will be the demolition of unusable or obsolete airport structures and the removal of the runway, taxiway and apron areas. Phase II will include the phased-in installation of improvements, including roads, sewer and water, storm water control and miscellaneous utilities for over 400 acres of future industrial land. Other significant projects within this area will be the expansion of County Road 5 south of Highway 12 and the realignment of a portion of Highway 40. This project is intended to impact economic development efforts and bring benefit to the greater Willmar community.

Acquisition of Willmar Regional Treatment Center 60 Acres, Extension of Hiking and Biking Trails, and Civic Center / Blue Line Center Connection

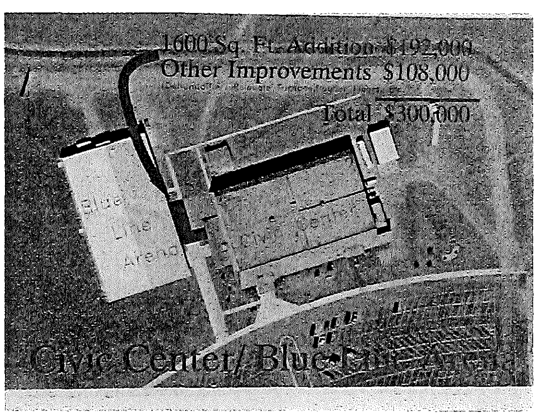
Acquisition of Willmar Regional Treatment Center 60 Acres

As part of its process to close the Willmar Regional Treatment Center, the State of Minnesota proposes to sell a 60-acre tract of land on the west side of Highway 71/23 bordering Swan Lake. This site has environmental and recreational significance, yet has some potential for limited development. Acquisition of this property will assure that any future development of the site is done in a manner and at a scale that protects the natural resources that make the property unique. This project is intended to maintain the unique site characteristics and responsibly manage private development of the property.



Extension of Hiking and Biking Trails

The proposed project will provide solutions to missing links within the City's existing trail system. As development occurs and road networks expand and upgrade, it is important to continue the connection of trail system corridors. This project is intended to provide easy and traffic safe access for users, realize the beauty of our lakes and other neighborhood amenities, and connect to the Glacial Lakes Trail System.



Civic Center/Blue Line Arena Connection

The proposed connection would be the first phase in the link between the Civic Center and the Blue Line Arena. The connection consists of a direct corridor between the buildings, two dressing rooms, one locker room, and an entrance area on the south end. This project is intended to provide existing users more opportunities for expansion of events and activities, as well as having the ability to attract new users to the facilities.

Proposed Local Option Sales Tax Project Costs

(Anticipated term of seven (7) years)

A. Industrial Park Redev./Airport	***$7,000,000***
B. Hiking and Biking Trails	***$400,000***
C. 60 Acre WRTC Parcel	***$300,000***
D. Civic Center / Blue Line Arena	***$300,000***
	$8,000,000

For More Information call 235-4913 or stop by the City Office Building at 333 SW 6th Street

Agenda #3

Senator Solon introduced--

S.F. No. 53: Referred to the Committee on Taxes.

A bill for an act

relating to sales tax; providing a construction exemption for the relocation of dock facilities on the St. Louis Bay waterfront; amending Minnesota Statutes 2004, section 297A.71, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 297A.71, is amended by adding a subdivision to read:

Subd. 33. [HALLETT DOCK.] Materials, equipment, and supplies used or consumed in constructing dock facilities of the Hallett Dock Company which are being relocated to accommodate the cleanup of a federally designated superfund site are exempt.

[EFFECTIVE DATE.] This section is effective for purchases made on or after August 1, 2004, and on or before December 31, 2006.

MINNESOTA · REVENUE

SALES AND USE TAX
Hallett Dock Company

March 16, 2005

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

Department of Revenue
Analysis of S.F. 53 (Solon) / H.F. 103 (Huntley)

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
General Fund	($179)	$0	$0	$0

Effective for purchases made between August 1, 2004, and December 31, 2006.

EXPLANATION OF THE BILL

Current Law: Construction materials, supplies, and certain installed equipment are generally subject to sales or use tax.

Proposed Law: The bill exempts materials, equipment, and supplies used or consumed in constructing dock facilities of the Hallett Dock Company. The company is relocating docks to accommodate the cleanup of a federally designated superfund site in Duluth.

REVENUE ANALYSIS DETAIL

- The analysis used information supplied by Hallett Dock Company
- The estimate is based on actual and projected sales and use tax paid on the project.
- The estimate assumes that tax paid before enactment of the bill will be refunded in fiscal year 2006.

Number of Taxpayers: One company

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

sf0053(hf0103)_1/tfe

Agenda #4

Senators Rest, McGinn, Belanger and Kelley introduced--

S.F. No. 1571: Referred to the Committee on Taxes.

A bill for an act

relating to sales tax; removing the expiration date on a provision related to ready-to-eat meat and seafood; amending Laws 2002, chapter 377, article 3, section 4.

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

Section 1. Laws 2002, chapter 377, article 3, section 4, the effective date, is amended to read:

[EFFECTIVE DATE.] ~~With-the-exception-of-clause-(2),-item (ii),~~ This section is effective for sales and purchases made after June 30, 2002. ~~Clause-(2),-item-(ii),-is-effective-for sales-and-purchases-made-after-June-30,-2002,-and-before-January 1,-2006.~~

MINNESOTA · REVENUE

SALES AND USE TAX
Ready-to-Eat Meat and Seafood

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

March 16, 2005

Department of Revenue
Analysis of H.F. 1392 (Nelson, P.) / S.F. 1571 (Rest)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
General Fund	($325)	($795)	($815)	($840)

Effective January 1, 2006

EXPLANATION OF THE BILL

Current Law: Ready-to-eat meat and seafood in an unheated state sold by weight is excluded from the definition of taxable prepared food. These items are treated as exempt grocery products. The current exemption expires after December 31, 2005.

Proposed Law: The bill repeals the expiration date for the exemption, leaving the current exemption of ready-to-eat meat and seafood in place.

REVENUE ANALYSIS DETAIL

- The estimate was based on 1997 Economic Census data for grocery stores (including supermarkets and delicatessens) and specialty food stores, which include meat markets and fish and seafood markets.
- Sales by both categories of stores of merchandise line 0107: delicatessen items, defined as deli meats and other delicatessen items only, were summed.
- The portion of sales attributed to ready-to-eat meat and seafood was broken out.
- The estimate from the national data was apportioned to Minnesota at 1.751%, the state's share of U.S. population in 1997.
- Annual growth rates were based on nominal consumer spending on off-premises consumption of food and beverages.
- The revenue estimates were adjusted for an effective date of January 1, 2006, giving a partial year impact in fiscal year 2006.

Number of Taxpayers: Not known

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

hf1392(sf1571)_1/tfe

HANDOUT #1

Business Name	County	Current # of Employees	Estimated Reduction of Employees	Equipment purchases effected (Dollar amount)	Remodeling or additions that may not occur (Dollar amount)
Napper's Meat Processing Inc.	Roseau	3	3	$50,000	$20,000
Ted & Bob's Locker	Swift	None, family owned	Would go out of business	$3,000	$5,000
Mills Locker Plant	Ottertail	5	3	$30,000	$60,000
Mackenthun's	Hennepin	13	5	?	?
Krants Butcher Shoppe	Winona	6	2	$1,500	$15,000 - $20,000
Sausage Shop LLC	Brown	4	2	?	None
Ellsworth Locker	Nobles	8	Unsure	?	?
Krenik Meat Processes	Rice	0	0	$15,000	$25,000
Von Hanson's Meats	Twin Cities	230	60	$500,000	$400,000
The Meat Center of Applton, Inc.	Swift	10	10	$50,000	$100,000
McDonald's Meats, Inc.	Sherburne	25	7	$75,000	$200,000
Forster's Meats and Catering	Hennepin	20	3 + 5	$40,000	$18,000
Bob's Locker	Nobles	2	1	$15,000	$30,000
Moons Meats and Sausage	Cottonwood	2	2	x	x
Riverside Meats and Processing	Todd	4	2	$25,000	$80,000
Arlington Market	Sibley	8	4	$25,000	$50,000
Beier's Country Meats	Itasca	5	3	$50,000	$50 - 70,000
A & M Processing	Sibley	7 - 8	2 - 3	$35,000	$50,000
Owens Locker	Goodhue	5	2	$40,000	$50,000
	Wright	10	4	$30,000	$10,000
Braham Food Locker Service	Isanti	3 Full Time 5 Part Time	2 - 3	?	?
Buffalo Ridge Locker	Pipestone	3	2	x	$15 - 20,000
Blue Earth Locker	Faribault	6	2	$7,000	$20,000
	Stearns	2	2	?	?
Rieder Meat Market	Wright	3	1	x	x
Meyers Meats	Hubbard	4	4	$25,000	$50,000
The Jerky Shoppe	Sherburne	3	1	$10,000	
Lindenfelser's Meats , Inc.	Wright	10	2	$50,000	$75,000

Business Name	County	Current # of Employees	Estimated Reduction of Employees	Equipment purchases effected (Dollar amount)	Remodeling or additions that may not occur (Dollar amount)
Family Foods	Kittson	8	2	$10,000	$50,000
Thielen Meats of Little Falls	Morrison	16	5	$10,000	$50,000
Oklee Locker	Red Lake	3 - 4	3 - 4	$40,000	$50,000
Dennison Meat Locker	Rice	3	2	x	x
Schmidts Meat Market Inc.	Nicollet	40 (50 in High Season)	15-18	$175,000	$150,000
Grandpa Idtel's Meats	Wright	4	1.5	$10,000	$20,000
Jamison Meats	Carlton	2	2	$50,000	$10,000
Greg's Meats	Dakota	22	4-5	$75,000	$150,000
Starbuck Meats	Pope	10	5	$15,000	$40,000
Nick's Meats	Freeborn	8	2	$100,000	$50,000
St. Joseph Meat Market Inc.	Stearns	30	6	$200,000	$750,000
BigSteer Meats	Ramsey	9	3	$100,000	$30,000
Ye Olde Butcher Shoppe	Olmsted	17	5-6	Unlimited	Unlimited
Lang's Meat Market	Brown	10-15 (seasonal and regular)	All employees	Would be out of business	x
Erdmans County Market	Dodge	11	3	$20,000	$32,000
Conger Meat Market	Freeborn	17	10	$40,000	$100,000
Wick's Meat Shoppe	Kanoiyohi	7	2	$30,000 - $40,000	$50,000
Dehmer's Meats Inc.	Wright	4(full time) 8(part time)	1-2 (And some part time also)	$30,000 - $40,000	$50,000
Husnick Meat Co.	Dakota	8	2	$10,000	x
Schroeder Meats	Carver	4	2	$50,000	$0
Huettls Locker & Dressing Plant	Goodhue	8	3	x	x
Audubuh Meats Inc.	Becker	8	5	$25,000	$65,000
Buster Johnson	Fillmore	7	1	$35,000	$20,000
Kenyon Meats	Goodhue	4	1-2	$30,000	$200,000
Hackenmueller Meats	Hennipin	10	3	$100,000	$100,000
Taylor Meat	Carver	2(Full time) 3(Part time)	1(Full time) 2 or 3 (Part time)	$10,000-$25,000	x
Grand Meadow Meat Market	Mower	2	x	$15,000	x
Welcome Meats	Martin	6	3	$20,000	$10,000
Bergen Meat Processors	Jackson	4	1 or 2	$7,000	$40,000
Roeser Butcher Shop	Meeker	None	x	x	x

Business Name	County	Current # of Employees	Estimated Reduction of Employees	Equipment purchases effected (Dollar amount)	Remodeling or additions that may not occur (Dollar amount)
Psyck's Super Market	Morrison	4	1	$7,000	$4,787
Thielen Meats	Morrison	16	3 - 4	x	x
Lau's Meat Market	Waseca	10	2	$50,000	$75,000
	TOTALS	748	263	$2,375,500	$3,449,787

61 Businesses

80 Stores

Minnesota Association of Small Cities
Nancy Larson, Executive Director
21950 CSAH #4
Dassel, MN 55325

Phone/Fax 320-275-3130
Cell/Voice Mail 612-961-5408
nanlars@LL.net

March 16, 2005

Senator Ann Rest
Minnesota State Senate
205 Capitol
75 Dr. Rev. Martin Luther King, Jr., Blvd
St. Paul, MN 55155

Dear Senator Rest:

On behalf of the Minnesota Association of Small Cities, I am writing in support SF1571. This bill removes the expiration date for prepared meat and seafood sales tax exemption. In 2002, Minnesota exempted meat and seafood processors from having to charge the 6.5% sales tax. This provision is due to sunset at the end of the year.

Currently, meat processors in border states do not charge sales tax to their customers for having meat processed. If Minnesota doesn't allow this sunset, it will put Minnesota businesses, particularly in our small border cities, at a direct disadvantage because customers will bring their meat to be processed at a location where they do not have to pay a sales tax. Our small cities simply cannot afford to lose any more businesses to competition with other states.

I appreciate your consideration and I urge you to pass this important piece of legislation.

Sincerely,

Nancy A. Larson

Nancy A. Larson
Minnesota Association of Small Cities

Agenda #5

Senator Pogemiller introduced--

S.F. No. 1081: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing a property tax reduction for certain homesteads contaminated by mold; amending Minnesota Statutes 2004, section 273.123, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 273.123, is amended by adding a subdivision to read:

Subd. 8. [HOMESTEAD PROPERTY DAMAGED BY MOLD.] (a) The owner of homestead property not qualifying for an adjustment in valuation under subdivisions 1 to 5 must receive a reduction in the amount of taxes payable on the property if all of the following conditions are met:

(1) the owner of the property makes written application to the county assessor for tax treatment under this subdivision;

(2) the county assessor determines that the homestead dwelling is uninhabitable because all or part of it has been contaminated by mold; and

(3) the owner of the property makes written application to the county board.

(b) If all of the conditions in paragraph (a) are met, the county board must grant a reduction in the amount of property tax payable on the homestead dwelling. The reduction must be made for taxes payable in the year that the assessor determines that the requirements in paragraph (a), clause (2), have been met and in the following year.

(c) The reduction in the amount of tax payable must be calculated based upon the number of months that the homestead is uninhabitable. The amount of net tax due from the taxpayer shall be multiplied by a fraction, the numerator of which is the number of months the dwelling was occupied by that taxpayer, and the denominator of which is 12. For purposes of this subdivision, if a homestead dwelling is occupied or used for a fraction of a month, it is considered a month. "Net tax" is defined as the amount of tax after the subtraction of all of the state paid property tax credits. If the reduction is granted after all property taxes due for the year have been paid, the amount of the reduction must be refunded to the taxpayer by the county treasurer as soon as practical.

(d) Any reductions or refunds under this section are not subject to approval by the commissioner of revenue.

(e) A denial of a reduction or refund under this section by the county board may be appealed to the tax court. If the county board takes no action on the application within 60 days after its receipt, it is considered a denial.

[EFFECTIVE DATE.] This section is effective for property taxes payable in 2005 and thereafter.

MINNESOTA · REVENUE

PROPERTY TAX
Property Tax Reduction
For Mold Damage

March 8, 2005

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

Department of Revenue
Analysis of H.F. 420 (Goodwin) / S.F. 1081 (Pogemiller)

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

Effective for taxes payable in 2005 and thereafter.

EXPLANATION OF THE BILL

The bill would provide a reduction in taxes payable on a homestead property damaged by mold if all of the following conditions are met:

- the property owner makes written application to the county assessor for this tax treatment;
- the county assessor determines the homestead dwelling is uninhabitable due to mold contamination; and
- the property owner makes written application to the county board.

If all of the conditions are met, the county board must grant a reduction in the amount of property taxes payable on the homestead dwelling. The reduction must be made for taxes payable in the year that the assessor determines the homestead uninhabitable and the following year.

The reduction in taxes payable must be calculated based upon the number of months the homestead is uninhabitable. The amount of net tax due shall be multiplied by the percentage of months in the year that the dwelling was occupied by that taxpayer. If the reduction is granted after all property taxes due for the year have been paid, the amount must be refunded to the taxpayer. A denial of a reduction or refund by the county board may be appealed to the tax court.

REVENUE ANALYSIS DETAIL

- There would be no impact on the state general fund. The bill does not provide counties the authority to levy back lost dollars from a property tax reduction or refund.

Number of Taxpayers: The number of affected properties is not known.

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

hf0420(sf1081)_1/nrg

Agenda #6

A bill for an act

relating to local government; providing cities and towns authority to collect unpaid bills for certain emergency services from nonresidents; amending Minnesota Statutes 2004, sections 366.011; 366.012.

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

Section 1. Minnesota Statutes 2004, section 366.011, is amended to read:

366.011 [CHARGES FOR EMERGENCY SERVICES; COLLECTION.]

A town may impose a reasonable service charge for emergency services, including fire, rescue, medical, and related services provided by the town or contracted for by the town. If the service charge remains unpaid 30 days after a notice of delinquency is sent to the recipient of the service or the recipient's representative or estate, the town or its contractor on behalf of the town may use any lawful means allowed to a private party for the collection of an unsecured delinquent debt. The town may also use the authority of section 366.012 to collect unpaid service charges of this kind from delinquent recipients of services who are owners of taxable real property in the ~~town~~ state.

The powers conferred by this section are in addition and supplemental to the powers conferred by any other law for a town to impose a service charge or assessment for a service provided by the town or contracted for by the town.

Sec. 2. Minnesota Statutes 2004, section 366.012, is amended to read:

366.012 [COLLECTION OF UNPAID SERVICE CHARGES.]

If a town is authorized to impose a service charge ~~on the owner, lessee, or occupant of property, or any of them,~~ for a governmental service provided by the town, the town board may certify to the county auditor of the county in which the recipient of the services owns real property, on or before October 15 for each year, any unpaid service charges which shall then be collected together with property taxes levied against the property. The county auditor shall remit to the town all service charges collected by the auditor on behalf of the town. A charge may be certified to the auditor only if, on or before September 15, the town has given written notice to the property owner of its intention to certify the charge to the auditor. The service charges shall be subject to the same penalties, interest, and other conditions provided for the collection of property taxes. This section is in addition to other law authorizing the collection of unpaid costs and service charges.

PROPERTY TAX
Fire Service Reimbursement for Motor Vehicle Fires

March 15, 2005

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

Department of Revenue
Analysis of H.F. 210 (Blaine) / S.F. 344 (Stumpf)

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

Effective August 1, 2005.

EXPLANATION OF THE BILL
The bill allows fire departments to be reimbursed for expenses incurred in extinguishing motor vehicle fires within the right-of-way of a trunk highway or interstate, in addition to grass fire expenses currently reimbursed by the commissioner of transportation. To the extent that expenses are not reimbursed by insurance or some other reasonable method, municipal and volunteer fire departments may be reimbursed by the Commissioner of Transportation up to $300 per motor vehicle fire call. A motor vehicle fire revolving account is created in the general fund to pay reimbursements to fire departments. The commissioner shall deposit into the motor vehicle fire revolving account reimbursements received by persons, firms, and corporations for costs of extinguishing motor vehicle fires within trunk highway rights-of-way.

The bill also provides towns the authority to collect unpaid bills for emergency and other services from any recipient of services, not just property owners.

REVENUE ANALYSIS DETAIL
- There is no state cost associated with the bill. It is assumed that reimbursements paid to fire departments from the general fund will be covered by fees received the Commissioner of Transportation from persons, firms, and corporations for costs of extinguishing motor vehicle fires.
- It is not known how many cities or towns would receive expense reimbursements or unpaid service charges under the bill, but this increase in local revenues could possibly lead to some small decrease in local property tax levies.

Number of Taxpayers: 789 fire departments in Minnesota.

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

hf0210(sf0344)_1/nrg

Agenda #7

Senators Tomassoni, Bakk, Saxhaug and Pogemiller introduced--

S.F. No. 1190: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; sales and use; exempting construction materials used to construct certain utility facilities; amending Minnesota Statutes 2004, sections 297A.71, by adding a subdivision; 297A.75, subdivisions 1, 2, 3.

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

Section 1. Minnesota Statutes 2004, section 297A.71, is amended by adding a subdivision to read:

Subd. 33. [MUNICIPAL UTILITIES.] Materials and supplies used or consumed in, and equipment incorporated into, the construction, improvement, or expansion of electric generation and related facilities used pursuant to a joint power purchase agreement to meet the biomass energy mandate in section 216B.2424 are exempt if the owner or owners of the facilities are a municipal electric utility or utilities or a joint venture of municipal electric utilities. The tax must be imposed and collected as if the rate under section 297A.62, subdivision 1, applied and then refunded under section 297A.75.

[EFFECTIVE DATE.] This section is effective for sales and purchases made after January 1, 2005.

Sec. 2. Minnesota Statutes 2004, section 297A.75, subdivision 1, is amended to read:

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

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

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

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

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

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

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

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

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

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

(10) materials, supplies, and equipment for municipal electric utility facilities under section 297A.71, subdivision 33.

[EFFECTIVE DATE.] This section is effective for sales and purchases made after January 1, 2005.

Sec. 3. Minnesota Statutes 2004, section 297A.75, subdivision 2, is amended to read:

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

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

(2) for subdivision 1, clauses (4), (7), and (8), the

applicant must be the governmental subdivision;

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

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

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

(6) for subdivision 1, clause (10), the applicant must be a municipal electric utility or a joint venture of municipal electric utilities.

[EFFECTIVE DATE.] This section is effective for sales and purchases made after January 1, 2005.

Sec. 4. Minnesota Statutes 2004, section 297A.75, subdivision 3, is amended to read:

Subd. 3. [APPLICATION.] (a) The application must include sufficient information to permit the commissioner to verify the tax paid. If the tax was paid by a contractor, subcontractor, or builder, under subdivision 1, clause (4), (5), (6), (7), (8), ~~or~~ (9), or (10), the contractor, subcontractor, or builder must furnish to the refund applicant a statement including the cost of the exempt items and the taxes paid on the items unless otherwise specifically provided by this subdivision. The provisions of sections 289A.40 and 289A.50 apply to refunds under this section.

(b) An applicant may not file more than two applications per calendar year for refunds for taxes paid on capital equipment exempt under section 297A.68, subdivision 5.

[EFFECTIVE DATE.] This section is effective for sales and purchases made after January 1, 2005.

MINNESOTA · REVENUE

SALES AND USE TAX
Biomass Electric Facility

March 16, 2005

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

Department of Revenue
Analysis of H.F. 1206 (Rukavina) / S.F. 1190 (Tomassoni)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
	(000's)			
General Fund	($470)	($1,055)	$0	$0

Effective after January 1, 2005

EXPLANATION OF THE BILL

Current Law: Construction materials, supplies, and certain installed equipment are generally subject to sales or use tax.

Proposed Law: The bill exempts materials and supplies used or consumed in and equipment incorporated into construction, improvement, or expansion of electric generation and related facilities under a joint power purchase agreement to meet the biomass energy mandate in state law. To qualify for the exemption, the owner must be a municipal electric utility or utilities or a joint venture of municipal electric utilities.

The exemption would be administered as a tax refund. Sales or use tax must be paid on taxable items, and the electric utilities can then file for a refund. If the tax was paid by a construction contractor, subcontractor, or builder, these parties must provide to the utilities the amount of tax paid on purchases qualifying for exemption.

REVENUE ANALYSIS DETAIL

- The estimate is based on information provided by the Virginia, Minnesota, public utilities department. This project between Hibbing and Virginia is called the Laurentian Energy Authority.
- Total expenditures for items exempt under the bill came to $23.475 million.
- Construction is planned to begin in October 2005 and be completed by the end of October 2006. The analysis assumed a 13 month construction period.

March 16, 2005

REVENUE ANALYSIS DETAIL (Cont.)

- The analysis used a four month delay between purchases and refunds. For example, for purchases made in October 2005, it was assumed that the tax refund would by made in February 2006.

Number of Taxpayers: One facility

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

hf1206(hf1190)_1/tfe

Agenda #8

Senators Skoe and Sams introduced--

S.F. No. 1786: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing that "agricultural products" includes certain short rotation trees for purposes of the agricultural property tax classification; amending Minnesota Statutes 2004, section 273.13, subdivision 23.

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

Section 1. Minnesota Statutes 2004, section 273.13, subdivision 23, is amended to read:

Subd. 23. [CLASS 2.] (a) Class 2a property is agricultural land including any improvements that is homesteaded. The market value of the house and garage and immediately surrounding one acre of land has the same class rates as class 1a property under subdivision 22. The value of the remaining land including improvements up to and including $600,000 market value has a net class rate of 0.55 percent of market value. The remaining property over $600,000 market value has a class rate of one percent of market value.

(b) Class 2b property is (1) real estate, rural in character and used exclusively for growing trees for timber, lumber, and wood and wood products; (2) real estate that is not improved with a structure and is used exclusively for growing trees for timber, lumber, and wood and wood products, if the owner has participated or is participating in a cost-sharing program for afforestation, reforestation, or timber stand improvement on that particular property, administered or coordinated by the commissioner of natural resources; (3) real estate that is nonhomestead agricultural land; or (4) a landing area or public access area of a privately owned public use airport. Class 2b property has a net class rate of one percent of market value.

(c) Agricultural land as used in this section means contiguous acreage of ten acres or more, used during the preceding year for agricultural purposes. "Agricultural purposes" as used in this section means the raising or cultivation of agricultural products. "Agricultural purposes" also includes enrollment in the Reinvest in Minnesota program under sections 103F.501 to 103F.535 or the federal Conservation Reserve Program as contained in Public Law 99-198 if the property was classified as agricultural (i) under this subdivision for the assessment year 2002 or (ii) in the year prior to its enrollment. Contiguous acreage on the same parcel, or contiguous acreage on an immediately adjacent parcel under the same ownership, may also qualify as agricultural land, but only if it is pasture, timber, waste, unusable wild land, or land included in state or federal farm programs. Agricultural classification for property shall be determined excluding the house, garage, and immediately surrounding one acre of land, and shall not be based upon the market value of any residential structures on the parcel or contiguous parcels under the same ownership.

(d) Real estate, excluding the house, garage, and immediately surrounding one acre of land, of less than ten acres which is exclusively and intensively used for raising or cultivating agricultural products, shall be considered as agricultural land.

Land shall be classified as agricultural even if all or a portion of the agricultural use of that property is the leasing to, or use by another person for agricultural purposes.

Classification under this subdivision is not determinative for qualifying under section 273.111.

The property classification under this section supersedes, for property tax purposes only, any locally administered agricultural policies or land use restrictions that define minimum or maximum farm acreage.

(e) The term "agricultural products" as used in this subdivision includes production for sale of:

(1) livestock, dairy animals, dairy products, poultry and poultry products, fur-bearing animals, horticultural and nursery stock, fruit of all kinds, vegetables, forage, grains, bees, and apiary products by the owner;

(2) fish bred for sale and consumption if the fish breeding occurs on land zoned for agricultural use;

(3) the commercial boarding of horses if the boarding is done in conjunction with raising or cultivating agricultural products as defined in clause (1);

(4) property which is owned and operated by nonprofit organizations used for equestrian activities, excluding racing;

(5) game birds and waterfowl bred and raised for use on a shooting preserve licensed under section 97A.115;

(6) insects primarily bred to be used as food for animals;

(7) trees, grown for sale as a crop, and not sold for timber, lumber, wood, or wood products, except that short rotation woody crops that are cultivated using agricultural ✓ on previously assessed agricultural land practices to produce timber or forest products are agricultural products; and

(8) maple syrup taken from trees grown by a person licensed by the Minnesota Department of Agriculture under chapter 28A as a food processor.

(f) If a parcel used for agricultural purposes is also used for commercial or industrial purposes, including but not limited to:

(1) wholesale and retail sales;

(2) processing of raw agricultural products or other goods;

(3) warehousing or storage of processed goods; and

(4) office facilities for the support of the activities enumerated in clauses (1), (2), and (3),

the assessor shall classify the part of the parcel used for agricultural purposes as class 1b, 2a, or 2b, whichever is appropriate, and the remainder in the class appropriate to its use. The grading, sorting, and packaging of raw agricultural products for first sale is considered an agricultural purpose. A greenhouse or other building where horticultural or nursery products are grown that is also used for the conduct of retail sales must be classified as agricultural if it is primarily used for the growing of horticultural or nursery products from seed, cuttings, or roots and occasionally as a showroom for the retail sale of those products. Use of a greenhouse or building only for the display of already grown horticultural or nursery products does not qualify as an agricultural purpose.

The assessor shall determine and list separately on the records the market value of the homestead dwelling and the one acre of land on which that dwelling is located. If any farm buildings or structures are located on this homesteaded acre of land, their market value shall not be included in this separate determination.

(g) To qualify for classification under paragraph (b), clause (4), a privately owned public use airport must be licensed as a public airport under section 360.018. For purposes of paragraph (b), clause (4), "landing area" means that part of a privately owned public use airport properly cleared, regularly maintained, and made available to the public for use by aircraft and includes runways, taxiways, aprons, and sites upon which are situated landing or navigational aids. A landing area also includes land underlying both the primary surface and the approach surfaces that comply with all of the following:

(i) the land is properly cleared and regularly maintained for the primary purposes of the landing, taking off, and taxiing of aircraft; but that portion of the land that contains facilities for servicing, repair, or maintenance of aircraft is not included as a landing area;

(ii) the land is part of the airport property; and

(iii) the land is not used for commercial or residential purposes.

The land contained in a landing area under paragraph (b), clause (4), must be described and certified by the commissioner of transportation. The certification is effective until it is modified, or until the airport or landing area no longer meets the requirements of paragraph (b), clause (4). For purposes of paragraph (b), clause (4), "public access area" means property used as an aircraft parking ramp, apron, or storage hangar, or an arrival and departure building in connection with the airport.

[EFFECTIVE DATE.] <u>This section is effective for taxes levied in 2005, payable in 2006, and thereafter.</u>

PROPERTY TAX
Short Rotation Trees as Agricultural Products

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

March 16, 2005

Department of Revenue
Analysis of S.F. 1786 (Skoe)

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

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

Current Law: Current law provides that for the purpose of the agricultural property tax classification, trees grown for sale as a crop and not sold for timber, lumber, wood, or wood products are classified as agricultural products.

Proposed Law: The proposal adds short rotation trees to the definition of agricultural products. Short rotation woody crops that are cultivated using agricultural practices to produce timber or forest products would be included in the definition of agricultural products.

REVENUE ANALYSIS DETAIL

- There is no state cost associated with the modification to the definition of agricultural products.

Number of Taxpayers: Unknown.

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

sf1786_1/nrg

Agenda #9

Senator Pogemiller introduced--

S.F. No. 1683: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing that certain elderly living facilities are exempt from the property tax; amending Minnesota Statutes 2004, section 272.02, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 272.02, is amended by adding a subdivision to read:

Subd. 68. [QUALIFIED ELDERLY LIVING FACILITY.] An elderly living facility is exempt from taxation if it meets all of the following requirements:

(1) the facility is located in a city of the first class with a population of more than 350,000;

(2) the facility is owned and operated by a nonprofit corporation organized under chapter 317A or by a limited liability company formed under chapter 322B, the sole member of which is a nonprofit corporation organized under chapter 317A;

(3) the facility consists of no more than 60 living units;

(4) the owner of the facility is an affiliate of entities that own and operate assisted living and skilled nursing facilities that:

(i) are located across a street from the facility;

(ii) are adjacent to a church that is exempt from taxation under subdivision 6;

(iii) include a congregate dining program; and

(iv) provide assisted living or similar social and physical support;

(5) the residents of the facility must be:

(i) at least 62 years of age; or

(ii) handicapped; and

(6) at least 20 percent of the units in the facility are occupied by persons whose annual income does not exceed 50 percent of median family income for the area or, in the alternative, 40 percent of the units in the facility are occupied by persons whose annual income does not exceed 60 percent of median family income for the area.

For purposes of this subdivision, "affiliate" means any entity directly or indirectly controlling or controlled by or under direct or indirect common control with an entity. For this purpose, "control" means the power to direct management and policies through membership or ownership of voting securities.

The property is exempt under this subdivision for taxes levied in each year or partial year of the term of the facility's initial permanent financing or 25 years, whichever is later.

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

MINNESOTA · REVENUE

PROPETY TAX
Property Tax Exemption for Elderly Living Facility

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

March 16, 2005

Department of Revenue
Analysis of S.F. 1683 (Pogemiller)

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

Effective for taxes payable in 2006 and thereafter.

EXPLANATION OF THE BILL

The bill provides a property tax exemption to an elderly living facility that meets all of the following requirements:

- located in a first class city with a population greater than 350,000;
- owned and operated by a nonprofit corporation or an LLC in which the sole member is a nonprofit corporation;
- consists of no more than 60 living units;
- the residents of the facility must be at least 62 years of age or handicapped;
- a portion of the units are occupied by persons whose annual income does not exceed specified limits.
- the owner of the facility is an affiliate of entities that own and operate assisted living and skilled nursing facilities that are located across a street from the facility, are adjacent to a church, include congregate dining programs, and provide assisted living.

The property is exempt for the term of the facility's initial permanent financing or 25 years, whichever is later.

REVENUE ANALYSIS DETAIL

- It is assumed one facility in the city of Minneapolis would be the only property affected by the proposal.
- The property tax exemption will reduce the local tax base relative to the base under current law, and cause a property tax shift to all other property including homesteads. The increased property tax burden on homesteads caused by the exemption (relative to current law) will increase state-paid homeowner property tax refunds by less than $5,000 beginning in FY 2007.

Number of Taxpayers: One facility in Minneapolis would be directly affected.

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

sf1683_1/nrg

Agenda #10

Senator Pogemiller introduced--

S.F. No. 1685: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing a reduction in the assessed market value of energy-efficient new commercial property; amending Minnesota Statutes 2004, section 273.11, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 273.11, is amended by adding a subdivision to read:

Subd. 21. [VALUATION OF ENERGY-EFFICIENT COMMERCIAL PROPERTIES.] (a) The market value of certain energy-efficient property classified under section 273.13, subdivision 24, that is used for commercial purposes, is reduced as provided in this subdivision.

(b) To be eligible for a valuation reduction under this subdivision, property must be certified by a qualified inspector as having been constructed in a manner that will achieve a level of energy consumption that is at least 20 percent lower than the standard set in the state energy code rules. The percentage reduction in the market value of a qualifying property is determined as follows:

percentage of energy consumption below energy code requirement	percentage of market value reduction
20-30	5
31-50	10
over 50	15

The reductions will remain in effect for the first ten assessment years after the property has been certified as qualifying under this subdivision.

(c) The Department of Commerce must establish a process for determining eligibility for the valuation reduction under this subdivision, including certification of persons who are qualified to perform this function.

(d) To claim a valuation reduction under this subdivision, the owner of the commercial property must obtain a certification of the level of qualification determined under paragraph (b), which must be prepared by a person certified as provided in paragraph (c). The property owner must furnish this certification to the assessor by May 1 of the assessment year in order to qualify for the valuation reduction for taxes payable in the following year.

[EFFECTIVE DATE.] This section is effective for assessments in 2006, taxes payable in 2007, and thereafter.

MINNESOTA · REVENUE

PROPERTY TAX
Energy Efficient Commercial Property Assessment

March 16, 2005

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

Department of Revenue
Analysis of S.F. 1685 (Pogemiller)

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

Effective for taxes payable in 2007 and thereafter.

EXPLANATION OF THE BILL

The bill provides a market value reduction for certain commercial property. The reduction is related to the percentage of energy consumption below state energy code rules. A schedule of percentages and related market value reductions is listed. Buildings must be inspected and certified to qualify for the market value reductions. The reductions remain in effect for the first ten assessment years after the property has been certified. The Department of Commerce must establish a process for determining eligibility and certification of inspectors. The property owner must furnish certification to the assessor by May 1 of the assessment year in order to qualify for the valuation reduction for taxes payable in the following year.

REVENUE ANALYSIS DETAIL

- The number of commercial properties that would qualify and be certified is not known.
- The total amount of state general levy would remain the same as current law.
- Taxes would be shifted from qualifying energy efficient buildings to other property types, including homestead property. Property tax refunds would increase, reflecting increased net taxes shifted onto homesteads.

Number of Taxpayers: Owners of qualifying commercial property would be directly affected.

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

sf1685_1 / LM

HANDOUT #2

SF 1685 High Performance Buildings

Senate File 1685 provides tax incentives for high performance commercial buildings.

While several states (New York, Maryland and Oregon) offer tax credits for the construction and ownership of high performance and green buildings, this legislation takes a somewhat different approach. The proposed legislation in Minnesota provides incentives for high performance buildings with no impact on the state's budget.

The proposal provides a market value reduction for high performance commercial buildings keyed to the percentage of energy consumption below the state's energy code requirement. To qualify, the building must be certified by a qualified inspector as having been constructed in a manner that will achieve a level of energy consumption that is at least 20 percent lower than the standard set in the state energy code rules. The property owner must pay the costs of the certification process.

The market value reduction is as follows:

Percentage of Energy Consumption below energy code requirement	*Percentage of Market Value reduction*
20-30	5
31-50	10
over 50	15

High performance buildings add significantly to the property tax base due to more durable, higher quality and healthier buildings. They use highly efficient and durable Minnesota products. Skilled labor making good wages are needed to construct these buildings and businesses interested in innovative, highly efficient and environmentally friendly buildings are attracted.

And, most importantly, these buildings require significantly less energy. A lowered demand for energy means a lessened demand for the construction of new, more expensive electric energy generating facilities, so the rate-paying consumer benefits. Also, a lessened demand for energy means cleaner air, cleaner water, and a healthier and safer environment.

For further information, please contact Dee Long at Minnesotans for an Energy-Efficient Economy – long@me3.org or 651-726-7561.

Agenda #11

Senators Pogemiller, Moua, Bakk, Pappas and Belanger introduced--

S.F. No. 1659: Referred to the Committee on Taxes.

A bill for an act

relating to taxation; providing an income tax credit for expenditures for historic structure rehabilitation; proposing coding for new law in Minnesota Statutes, chapter 290.

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

Section 1. [290.0676] [CREDIT FOR HISTORIC STRUCTURE REHABILITATION.]

Subdivision 1. [DEFINITIONS.] (a) As used in this section, the terms defined in this subdivision have the meanings given.

(b) "Certified historic structure" means a property located in Minnesota and listed individually on the National Register of Historic Places or a historic property designated by either a certified local government or a heritage preservation commission created under the National Historic Preservation Act of 1966 and whose designation is approved by the state historic preservation officer.

(c) "Eligible property" means a certified historic structure or a structure in a certified historic district that is offered or used for residential or business purposes.

(d) "Structure in a certified historic district" means a structure located in Minnesota that is certified by the State Historic Preservation Office as contributing to the historic significance of a certified historic district listed on the National Register of Historic Places or a local district that has been certified by the United States Department of the Interior.

Subd. 2. [CREDIT ALLOWED.] A taxpayer who incurs costs for the rehabilitation of eligible property may take a credit against the tax imposed under this chapter in an amount equal to 25 percent of the total costs of rehabilitation. Costs of rehabilitation include, but are not limited to, qualified rehabilitation expenditures as defined under section 47(c)(2)(A) of the Internal Revenue Code, provided that the costs of rehabilitation must exceed 50 percent of the total basis in the property at the time the rehabilitation activity begins and the rehabilitation must meet standards consistent with the standards of the Secretary of the Interior for rehabilitation as determined by the State Historic Preservation Office of the Minnesota Historical Society.

Subd. 3. [CARRYBACK AND CARRYFORWARD.] If the amount of the credit under subdivision 2 exceeds the tax liability under this chapter for the year in which the cost is incurred, the amount that exceeds the tax liability may be carried back to any of the three preceding taxable years or carried forward to each of the ten taxable years succeeding the taxable year in which the expense was incurred. The entire amount of the credit must be carried to the earliest taxable year to which the amount may be carried. The unused portion of the credit must be carried to the following taxable year.

Subd. 4. [PARTNERSHIPS; MULTIPLE OWNERS; TRANSFERS.] (a) Credits granted to a partnership, a limited liability company taxed as a partnership, or multiple owners of property shall be passed through to the partners, members, or owners, respectively, pro rata or pursuant to an executed agreement among the partners, members, or owners documenting an alternate distribution method.

(b) Taxpayers eligible for credits may transfer, sell, or assign the credits in whole or part. Any assignee may use acquired credits to offset up to 100 percent of the taxes otherwise imposed by this chapter. The assignee shall perfect such transfer by notifying the Department of Revenue in writing within 30 calendar days following the effective date of the transfer in such form and manner as shall be prescribed by the Department of Revenue. The proceeds of any sale or assignment of a credit shall be exempt from taxation under this chapter.

Subd. 5. [PROCESS.] To claim the credit, the taxpayer must apply to the State Historic Preservation Office of the Minnesota Historical Society before a historic rehabilitation project begins. The State Historic Preservation Office shall determine the amount of eligible rehabilitation costs and whether the rehabilitation meets the standards of the United States Department of the Interior. The State Historic Preservation Office shall issue certificates verifying eligibility for and the amount of credit. The taxpayer shall attach the certificate to any income tax return on which the credit is claimed. The State Historic Preservation Office of the Minnesota Historical Society may collect fees for applications for the historic preservation tax credit. Fees shall be set at an amount that does not exceed the costs of administering the tax credit program.

Subd. 6. [MORTGAGE CERTIFICATES; CREDIT FOR LENDING INSTITUTIONS.] (a) The taxpayer may elect, in lieu of the credit otherwise allowed under this section, to receive a historic rehabilitation mortgage credit certificate.

(b) For purposes of this subdivision, a historic rehabilitation mortgage credit is a certificate that is issued to the taxpayer according to procedures prescribed by the State Historic Preservation Office with respect to the certified rehabilitation and which meets the requirements of this paragraph. The face amount of the certificate must be equal to the credit that would be allowable under subdivision 2 to the taxpayer with respect to the rehabilitation. The certificate may only be transferred by the taxpayer to a lending institution, including a nondepository home mortgage lending institution, in connection with a loan:

(1) that is secured by the building with respect to which

the credit is issued; and

(2) the proceeds of which may not be used for any purpose other than the acquisition or rehabilitation of the building.

(c) In exchange for the certificate, the lending institution must provide to the taxpayer an amount equal to the face amount of the certificate discounted by the amount by which the federal income tax liability of the lending institution is increased due to its use of the certificate in the manner provided in this section. That amount must be applied, as directed by the taxpayer, in whole or in part, to reduce:

(1) the principal amount of the loan;

(2) the rate of interest on the loan; or

(3) the taxpayer's cost of purchasing the building, but only in the case of a qualified historic home that is located in a poverty-impacted area as designated by the State Historic Preservation Office.

The lending institution may take as a credit against the tax due under this chapter an amount equal to the amount specified in the certificate. If the amount of the discount retained by the lender exceeds the amount by which the lending institution's federal income tax liability is increased due to the use of a mortgage credit certificate, the excess shall be refunded to the borrower with interest at the rate prescribed by the State Historic Preservation Office. The lending institution may carry forward all unused credits under this subdivision until exhausted. Nothing in this subdivision requires a lending institution to accept a historic rehabilitation certificate from any person.

Sec. 2. [DETERMINATION OF ECONOMIC IMPACT.]

The Minnesota Historical Society shall annually determine the economic impact to the state from the rehabilitation of eligible property for which credits are provided under section 1 and report on the impact to the committees on taxes of the senate and house of representatives.

Sec. 3. [EFFECTIVE DATE.]

Section 1 is effective for taxable years beginning after

December 31, 2004.

MINNESOTA · REVENUE

INDIVIDUAL INCOME TAX
CORPORATE FRANCHISE TAX
Credit for Historic Rehabilitation

March 16, 2005

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

Department of Revenue
Analysis of H.F. 1731 (Lanning) / S.F. 1659 (Pogemiller)

	Revenue Gain or (Loss)			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
		(000's)		
Corporate Franchise Tax	($2,600)	($3,500)	($3,900)	($4,300)
Individual Income Tax				
Income Producing	(800)	(1,100)	(1,300)	(1,400)
Homestead	(700)	(900)	(1,200)	(1,700)
General Fund Total	($4,100)	($5,500)	($6,400)	($7,400)

Effective for tax years beginning after December 31, 2004.

EXPLANATION OF THE BILL

Both individual income and corporate franchise taxpayers would receive a non-refundable tax credit equal to 25% of the total cost to rehabilitate a historic structure. The credit may also be sold to another taxpayer. To qualify for the credit, the rehabilitation costs must exceed 50% of the property's basis before rehabilitation. If the credit exceeds a taxpayer's liability, it may be carried back three years and carried forward ten years. Also, in lieu of claiming the tax credit, building owners may transfer the value of the tax credit to their lender. Under this option the lender claims a tax credit.

In a process similar to the process used by taxpayers now receiving the federal tax credit, the State Historic Preservation Office of the Minnesota Historical Society will approve historic rehabilitation work eligible for the tax credit and issue certificates to taxpayers so that they can claim their tax credits.

The proposed credit is similar to the 20% federal tax credit for historic structure rehabilitation. Federal law permits the tax credit to be taken on income producing property. In addition to income producing property, the bill extends the credit to qualified homestead property in historic districts.

March 16, 2005

REVENUE ANALYSIS DETAIL

Income Producing Property:

- The estimate uses Department of Treasury tax expenditure estimates labeled tax incentives for preservation of historic structures in the Fiscal Year 2006 budget, Analytical Perspectives, Chapter 5.
- Minnesota's portion of federal estimates is initially based on Minnesota's portion of the total U.S. tax credit for historic rehabilitation expenditures. Minnesota's portion of federal estimates is assumed to increase in future years toward the Minnesota portion of total U.S. income.
- Apportioned federal tax expenditure estimates are increased to reflect the proposed 25% state tax credit versus the 20% federal tax credit.

Homestead Property:

- The estimate uses a Joint Committee on Taxation 1999 estimate of a similar bill introduced during the 106^{th} Congress, H.R. 1172 / S 664. This estimate was based on a maximum tax credit of $40,000. Since there is no limit on the tax credit in this bill, the federal estimate was increased to reflect the lack of a maximum credit.
- Minnesota's portion of federal estimates is initially based on one quarter of Minnesota's portion of the total U.S. tax credit for historic rehabilitation expenditures. Minnesota's portion of federal estimates is assumed to increase in future years toward the Minnesota portion of total U.S. income in fiscal years beyond FY 2007.
- Since homesteads are not covered by the current federal tax credit, the estimate assumes only small number of projects will qualify for the tax credit during fiscal years 2006 through 2009. However, given the experience of the tax credit in Wisconsin where over 200 projects qualify for this credit, it is assumed there will be a large growth in the usage of the credit.
- Apportioned federal estimates are increased to reflect the proposed 25% state tax credit versus the 20% federal tax credit.
- This bill contains a lender credit provision, where a building owner may transfer the value of the tax credit to a lender, which appears to be unique to Minnesota. It is unknown what effect this provision will have on the revenue loss estimate.
- There is great deal of uncertainty about the cost of the credit because the bill lacks a provision on the maximum dollar value of the credit. In Minnesota there are 6,000 properties in the national register of historic places. A large percentage of these properties could qualify for the credit.

Number of Taxpayers: At least 50 taxpayers per year.

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

hf1731(sf1659)-1/dkd

HANDOUT #3

Building on our Heritage

Preservation Alliance of Minnesota

". . . to preserve, protect, and promote Minnesota's historic resources."

Preservation Alliance of Minnesota

"… to preserve, protect and promote Minnesota's historic resources"

Dear Tax Committee Member:

The Alliance is pleased to be working with a coalition of statewide partners in the public and private sectors to seek passage of the Minnesota Historic Structure & Community Re-Investment Tax Credit.

As an organization whose mission is to preserve, protect and promote the state's historic resources we could consider such legislation from a purely altruistic perspective, but the underlying value of this initiative goes much further. We believe this legislation will provide a strong and proven economic driver for communities across the state and an incentive to accelerate private development, restoration and reuse projects into reality.

The legislation would also be very beneficial to state and local governments that often hold excess properties of historic significance. Enhanced economic incentive for private developers would facilitate viable reuses and bring them back onto local tax rolls. Properties such as the state's institutions in Fergus Falls, Willmar and the Upper Bluffs at Fort Snelling come to mind as just a few examples of where this tax credit could stimulate reuse development.

Passage would also provide incentives for "Main Street" businesses to undertake building restorations that would help breathe new life into their downtowns and bolster heritage tourism as has been so successfully demonstrated in cities like Red Wing, New Ulm, Stillwater and Lanesboro, to name a few.

We don't need to look far to see how similar legislation has benefited economic development in Missouri, Wisconsin, Iowa and 21 other states. We urge your support of the Minnesota Historic Structure & Community Re-Investment Tax Credit and the many benefits it will bring to our state.

Sincerely,

Roger D. Randall
Chair

219 Landmark Center
75 West Fifth Street
Saint Paul, MN 55102
Phone (651) 293-9047 • Fax (651) 293-9047 • Website: www.mnpreservation.org

MINNESOTA HISTORIC STRUCTURE AND COMMUNITY RE-INVESTMENT TAX CREDIT

KEY PROVISIONS

- Allows credit on state income taxes equal to 25% of the qualified cost of a historic rehabilitation project
- Available for property meeting *one* of the following:
  - Listed on National Register of Historic Places
  - Certified as contributing to a National Register Historic District
  - Certified historic by the local historic preservation commission

- Compliments and enhances federal 20% preservation tax credit
- Similar to state credits in 24 other states, including Wisconsin, Iowa, and North Dakota
- Beneficial for:
  - Both commercial and residential property
  - Both developers and homeowners

ECONOMIC IMPACT STUDIES IN STATES WITH STATE HISTORIC TAX CREDITS

MISSOURI

Missouri has recently completed a comprehensive economic study documenting the positive effects of historic preservation on the state's economy.

"The study demonstrates how the preservation of historic properties boosts the state's economy by approximately $1 billion annually."
Bob Holden
Governor of Missouri

HISTORIC PRESERVATION ECONOMIC BENEFITS

$346 million/year of historic preservation expenditures yields:
In-state impact:

8,060 jobs / total income	$249 million
GSP (gross state product)	$332 million
Local and state taxes	$30 million
Federal taxes	$40 million
In-state wealth (GSP - federal taxes)	$292 million

Source: Center for Urban Policy Research Rutgers, The State University of New Jersey

HERITAGE TOURISM ECONOMIC BENEFITS

$660 million/year of heritage travel-related expenditures yields:
In-state impact

20,077 jobs / total income	$325 million
GSP (gross state product)	$574 million
Local and state taxes	$79 million
Federal taxes	$68 million
In-state wealth (GSP - federal taxes)	$506 million

Source: Center for Urban Policy Research Rutgers, The State University of New Jersey

MISSOURI – MAIN STREET ACTIVITY ECONOMIC BENEFITS

$3.4 million/year of construction expenditure plus180 retail/service jobs yields:
In-state impact

504 jobs / total income	$8 million
GSP (gross state product)	$11 million
Local and state taxes	$2 million
Federal taxes	$1 million
In-state wealth (GSP - federal taxes)	$10 million

Source: Center for Urban Policy Research Rutgers, The State University of New Jersey

VIRGINIA

State Rehabilitation Tax Credit in effect since 1997.
Spurred over $316 million in the rehabilitation of more than 264 landmark buildings.

HISTORIC PRESERVATION ECONOMIC BENEFITS JOB CREATION

- Each $1 million spent on rehabilitation creates 3.4 *more* jobs than each $1 million spent on new construction because, while rehabilitation is generally cost competitive, it is more labor intensive.
- Each $1 million spent on rehabilitation creates 15.6 construction jobs and 14.2 jobs elsewhere in the economy.

Source: Virginia Department of Historic Resources

HISTORIC PRESERVATION ECONOMIC BENEFITS LOCAL REVENUES

- Between 1980 and 1990, assessments in Richmond's Shockoe Slip rose 245% compared with a citywide average of 8.9%.
- Between 1987 and 1995, commercial properties in Staunton's historic districts increased by 27% to 256% compared with an average of 25% outside the districts.

Source: Virginia Department of Historic Resources

HERITAGE TOURISM

Visitors who stop at historic sites:

Stay longer
Visit twice as many places
Spend, on average, 2.5 times *more* than other visitors

Source: Virginia Division of Tourism

FLORIDA

The Economic Impacts of Historic Preservation in Florida [study] also reveals the startling statistic that for every dollar generated in Florida's historic preservation grants, *two dollars* return to the state in direct revenues. A dollar directed to the Florida Main Street program shows a tenfold return."
Glenda E. Hood
Florida Secretary of State

HISTORIC PRESERVATION ECONOMIC BENEFITS

$350 million/year of historic preservation expenditures yield:
In-state impact

10,443 jobs / total income	$317 million
GSP (gross state product)	$496 million
Local and state taxes	$50 million
Federal taxes	$61 million
In-state wealth (GSP - federal taxes)	$446 million

Source: The Economic Impacts of Historic Preservation in Florida

Historic properties account for 6.5% of rehabilitation of existing buildings (residential and non-residential)

10,443 in-state jobs generated from historic building rehabilitation are from the following categories:

Construction	2,666 jobs
Services	2,107 jobs
Retail	1,700 jobs

Source: The Economic Impacts of Historic Preservation in Florida

Historic Preservation Comparative Property Values Analysis

- Historic preservation helps to maintain property values.
- In 15 of 18 cases studied, historic district property appreciated greater than in non-historic comparison neighborhoods.
- No instance was found where historic designation depressed property values.

Source: The Economic Impacts of Historic Preservation in Florida

Heritage Tourism Economic Benefits

$3.721 billion/year of heritage travel-related expenditures yields:
In-state impact

107,607 jobs / total income	$2.314 billion
GSP (gross state product)	$4.552 billion
Local and state taxes	$583 million
Federal taxes	$510 million
In-state wealth (GSP - federal taxes)	$4.042 billion

Source: The Economic Impacts of Historic Preservation in Florida

Main Street Activity Economic Benefits

$64 million/year of construction expenditure plus
850 retail/service jobs yields:
In-state impact

3,202 jobs / total income	$81 million
GSP (gross state product)	$132 million
Federal, state, and local taxes	$31 million
In-state wealth (GSP - federal taxes)	$116 million

Source: The Economic Impacts of Historic Preservation in Florida

Colorado

$64 million/year of construction expenditure plus 850 retail/service jobs yields:
In-state impact

3,202 jobs / total income	$81 million
GSP (gross state product)	$132 million
Federal, state, and local taxes	$31 million
In-state wealth (GSP - federal taxes)	$116 million

Source: The Economic Impacts of Historic Preservation in Florida

Historic Preservation Economic Benefits

From 1981 to 2000:

Direct rehabilitation costs	$676.2 million
Indirect rehabilitation costs	$865.5 million

Resulted in:

21,327 jobs / total income	$522.7 million
Business income tax	$4.0 million
Personal income tax	$10.8 million
Colorado sales tax	$27.4 million

- From 1981 to 2000, property taxes on buildings with historic rehabilitation activities increased about $10 million statewide.
- Unlike sales and income taxes, property taxes are collected each year, providing a continuing revenue source for local governments.

Source: Clarion Associates

Historic Preservation Property Values Study

- Historic designation does not *decrease* property values.
- Property values in designated areas experienced increases that were either higher than, or the same as, nearby undesignated areas.

Source: Clarion Associates

Historic Preservation Contributions to the Community

- To provide affordable housing
- To update buildings for new and expanded use
- To contribute to local economies
- To preserve public buildings
- To incorporate historic resources into new developments

Source: Clarion Associates

Historic Preservation Affordable Housing

- Historic districts comprise some of Colorado's most economically diverse neighborhoods and house Coloradans of all income levels.
- In the studied historic districts, more than half of the households had annual household incomes of $30,000 or less.
- Historic rehabilitation has created nearly 2,000 housing units in Colorado, including more than 1,000 low-income units.

Source: Clarion Associates

Historic Preservation in Rural Areas

- Historic preservation plays a key role in the economic development strategies of rural communities.
- By promoting reinvestment and revitalization of existing resources, historic preservation helps counter the problems created by too much growth and development, or not enough.

Source: Clarion Associates

Heritage Tourism Economic Benefits

- Heritage tourists spend slightly more than other tourists ($58 per day per visitor versus $55).
- Heritage tourists stayed in Colorado slightly longer than other tourists (5.3 nights versus 5.1).
- Heritage tourists are more likely to stay in a hotel or motel (versus the homes of friends or relatives).
- Heritage tourists are more likely to try unique local foods.

Source: Clarion Associates

Compilation of Economic Impact data by David Inman for Historic Saint Paul

Economic Impacts of Historic Preservation: Minnesota

Excerpted from the full report, "Historic Preservation Tax Credit: Potential Economic Impacts in Minnesota," an MPP Professional Paper by Janelle Taylor & Ross Weber in Partial Fulfillment of the Master of Public Policy Degree Requirements, The Hubert H. Humphrey Institute of Public Affairs, The University of Minnesota, December 14, 2004

Federal Tax Credit Use

Minnesota's use of the federal historic preservation tax credit is one predictor of what the use of a statewide credit would be. Overall, the use of the federal tax credit has varied over time in respect to the number of projects, the overall costs of the projects, and their purpose. A detailed list of Minnesota projects using the federal historic preservation tax credit from 1996-2003 is available in Appendix C.

Table 1 below summarizes the overall use of the tax credit for years 1996-2003. The overall cost of the credit varies from year to year depending on the number, and types of the projects. Looking at the federal historic tax credit use, Minnesota has been able to leverage over $23.5 million in federal dollars from the historic preservation tax credit alone, and millions more in private and other investment. Instituting a state tax credit may spur additional activity allowing Minnesota to obtain additional federal dollars.

Table 1: Use of Federal Historic Preservation Tax Credit in Minnesota (1996-2003)

Year	Total Projects	Total Rehab Cost	Amount of Federal Credit (20% of Rehab)	Amount of Potential State Credit (25% of Rehab)
1996	15	$13,076,197	$2,615,239	$3,269,049
1997	17	$14,260,170	$2,852,034	$3,565,043
1998	10	$3,451,142	$690,228	$862,786
1999	3	$2,378,588	$475,718	$594,647
2000	11	$17,081,666	$3,416,333	$4,270,417
2001	11	$15,663,495	$3,132,699	$3,915,874
2002	6	$31,795,822	$6,359,164	$7,948,956
2003	6	$19,931,820	$3,986,364	$4,982,955
TOTAL	79	$117,638,900	$23,527,780	$29,409,725

SOURCE: Minnesota State Historic Preservation Office

Metro vs. Non-Metro

Use of the tax credit in Minnesota has been scattered throughout the state (see Appendix D, Map 1). Between 1996 and 2003, the use of the federal tax credit was pretty evenly divided between the seven-county metro area (Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington counties) and the rest of Minnesota. In fact, 48% (38 of the 79 total projects) of the projects were outside of the metro area. The equity in distribution is not as evident when looking at total dollar amounts of the credit. Approximately 18% of the $23.5 million in federal tax credits was used towards non-metro projects. The difference arises because of the overall costs of projects in the metro vs. non-metro. Metro projects tend to be much larger in scale and cost than the non-metro projects, however, this is not always the case. Looking at the types of projects (see Appendix D, Map 2), it is evident that the purpose of the projects, whether they are commercial, single family, or income producing residential properties also varies.

Minnesota's Affordable Housing

Affordable housing has become an important element of historic preservation and Minnesota's experience with historic preservation is no exception. Of the 79 projects from 1996 to 2003, approximately one third resulted in at least one unit of affordable housing. In total, the projects helped create 473 housing units, 360 of those were affordable. The distribution of the affordable housing created was also very evenly split between the metro and non-metro. The number of affordable housing projects in the metro vs. non-metro is the same. The overall total number of affordable housing units outside of the seven county metro was 148 units. Two of the case studies discussed in the next section provide detail on the types of affordable housing projects being done in Minnesota.

Case Studies

It is difficult to measure the overall economic impact of establishing a state historic preservation tax credit or measuring the relative need of such a credit. This section addresses both of these issues by examining individual projects throughout the state. The first portion of the section helps shed light on how historic preservation projects affect their local economies by looking at successful projects that have used the federal tax credit. The second portion of this section addresses the need for additional financial incentives to carry on preservation work. It examines three types of projects: projects that could have been accelerated had a state credit been available, projects that are in need of a state credit to begin, and projects that have been lost due to the lack of financial support.

Successful Projects

This portion of the examination looks at four projects that have taken advantage of the federal historic preservation tax credit. Each project is assessed based on the effects it has had (when available/appropriate) on the local economy, property values, heritage tourism, and affordable housing.

Buckman Hotel, Little Falls

The Buckman Hotel project, completed in 1994, has helped improve the downtown area of Little Falls. The project allowed the city of Little Falls to satisfy two of its goals, to revitalize the downtown district and meet the growing need for senior housing. The overall investment in the project was approximately $2 million. The project took advantage of a number of financial supports including the federal historic preservation tax credit. The project brought in 25 construction jobs during the renovation, and directly created one permanent job. In addition, the Buckman Hotel is now a senior housing complex, offering 27 affordable rental units to seniors meeting who meet income requirements. The project has been successful both in preserving a downtown landmark, meeting affordable housing needs, and spurring activity in the downtown area.

Winona Middle School, Winona

The new Washington Crossing building, completed in 2004, is the result of the rehabilitation of the historic Winona Middle School. The total development cost was about $7.75 million. The project was completed by an out of state construction firm which created indirect benefits to the community. Workers rented housing and purchased other services from local businesses. Locals estimate that approximately 150-200 construction jobs, including local subcontractors were supported by the project. Two full time jobs were created as a result. The project created 62 apartments; two thirds of the units are affordable. The project is also being credited with inspiring redevelopment of an adjacent Auditorium, built in 1927. The City and a local arts group are planning to restore building to create a performing arts venue.

Kaddatz Hotel, Fergus Falls

The Kaddatz Hotel, completed in 2004, was renovated by Artspace Projects, a unique organization whose mission is to "create, foster and preserve affordable space for artists and arts organizations." Approximately $2.3 million was invested into the hotel that had been vacant since the 1960's to create ten mixed income housing units. The project also created 4,200 square feet of commercial space and 6,000 square feet of community arts space.

Cannon Falls Elementary School, Cannon Falls

Stonehouse, the former Cannon Falls Elementary School, completed in 1995, has brought stability to a previously decaying residential neighborhood in Cannon Falls. Roughly $2.3 million was invested into the project. The direct result of the investment is one permanent position and 25 construction jobs. The project created 32 senior apartments. Indirect impacts, such as the redevelopment of neighboring blocks to include new town homes have brought a substantial improvement to the community.

Need for State Historic Preservation Tax Credit

With the success of the projects discussed above, it appears that the federal tax credit is working. Is there a need for a state historic preservation tax credit? Other states have seen a need, and there appears to be a need in Minnesota. The need for a state historic preservation tax credit in Minnesota is apparent in many ways, first, there are projects that have taken years to complete that could have been accelerated had there been a state credit. Additionally, many projects sit waiting for action due to a lack of financial incentive; these projects remain vacant and vulnerable to deterioration and loss. Finally, buildings can become tragic examples of how history, culture, and opportunity are lost.

One of the most prominent examples of a project that could have been accelerated by a state historic tax credit is the Grain Belt Brewery in Minneapolis. The brewery, which is now a successful element of Minneapolis, was vacant for nearly 20 years. Other projects that could have gotten underway sooner include the Milwaukee Road Depot (Minneapolis), the Sears Building (Minneapolis), Lanesboro School (Lanesboro), and the Red Wing School (Red Wing). There are also numerous projects that need additional financial support in order to get underway. They include the Hamm and Schmidt Breweries in St. Paul, the Armory and Wireworks Buildings in Duluth, two school projects (Austin and Bemidji), and a Catholic School/Church project in Bemidji. There is also the potential that some projects will be lost. The Northwestern Guarantee Loan (Metropolitan) building in Minneapolis (demolished in the early 1960s) is an early example of a lost architectural landmark that can never be recovered.

Economic Impacts of Historic Preservation

Tax Credits in Other States

Excerpted from the full report, "Historic Preservation Tax Credit: Potential Economic Impacts in Minnesota," an MPP Professional Paper by Janelle Taylor & Ross Weber in Partial Fulfillment of the Master of Public Policy Degree Requirements, The Hubert H. Humphrey Institute of Public Affairs, The University of Minnesota, December 14, 2004

State historic tax credits have numerous benefits. The credits create jobs, increase tourism revenue, increase income, sales, and property tax revenues, and preserve affordable housing. These benefits more than outweigh the initial costs to the state in lost revenues. Missouri, for example, spends $25 million on state historic tax credits, and the result of the credits is a net gain of about $900 million in gross state product.

Job Creation

State historic tax credits create retail and office jobs in addition to contract construction positions for the rehabilitation work itself. In Missouri, 28,000 jobs are created each year by historic preservation. In New Jersey, 22,000 jobs are created. In Texas, 41,000 jobs are added, and in South Carolina, roughly 12,000 more positions are created. These jobs not only help people sustain their lifestyle and provide for themselves, but they help the state by lowering the unemployment rate and increasing the tax base.

It is important to note that when job creation is discussed in this and other similar studies, "jobs" is taken to mean job-years. That is, each year that a job exists counts as one job created within that year. Counting jobs in this manner makes examining the effects of tax credits easier, but can be deceiving. Using the above statistic about Missouri's job creation as an example, 28,000 jobs may be created in the first year; but after the second year the total number of jobs created will still be closer to 28,000 than to 56,000. The 28,000 job-year figure includes a large number of construction jobs, and the capacity of that job market is not continually expanded by historic preservation. In subsequent years, most of the annual increase in jobs occurs as new retail and office spaces open in rehabilitated buildings. Additionally, job-years are figured as full-time positions only.

This means that several part-time jobs may be added up until one full-time equivalent position is represented as one job-year.

Increased Tax Revenue

Historic preservation tax credits create increased tax revenues in several ways. The buildings' values rise after the projects have ended, resulting in higher property tax assessments. New businesses and jobs are created, resulting in increased income and sales taxes. New storefronts lead to increased retail sales, which lead to higher sales tax revenues for the state. Additionally, historic preservation increases the property value, and therefore property tax amount of historic properties as well. In South Carolina, for instance, the average increase in property values following historic preservation projects is 30%, so the increases in property tax assessments are substantial. These increases in property tax, like increases in sales and income tax help lessen the burden on the state associated with state income tax credits for historic preservation.

Tourism Revenue

Historic preservation also has a large positive effect on tourism revenue. Historic tourism is responsible for $660 million in revenue for Missouri, $3.7 billion in Florida, and $1.43 billion in Texas. Historic preservation leads to increased hotel stays, restaurant patronage, and local/downtown shopping.

Affordable Housing

Historic preservation has a major effect on affordable housing. It dramatically affects the availability of centrally located affordable housing. Especially in small to mid-sized towns, where public transportation is limited, historic preservation helps to keep affordable housing near business and retail districts. By preserving historic storefronts and the apartments above them, sprawl is limited and the residents of the apartments are able to get to work and shops with ease.

The relationship between sprawl and affordable housing is so vital to the stability of municipalities that groups have been formed in some states to study the effects in depth. One such example is the group Greater Ohio, which tracks the infrastructure and housing cost increases associated with sprawl. Similar groups have also been organized at the national level, for example Saving America's Cities is tasked with evaluating job creation and housing issues in America's large urbanities. Both of these groups have come to the preliminary conclusion that affordable housing is best maintained when sprawl is contained. Historic preservation has been found to be an effective means by which to limit urban sprawl. Incentives that help to make historic preservation more affordable, such as income tax credits, help to increase the amount of low-income housing retention, central-city business retention, and limit sprawl (Funders Network, 2002).

Another proven track taken by states with income tax credits for historic preservation is to target low-income housing and distressed districts specifically. Connecticut's tax credit contains language that limits the eligible properties to those within specifically designated "distressed districts." Numerous properties have taken advantage of Connecticut's 30% credit for residential improvements in these districts. Similarly, Delaware focuses on affordable housing by offering a 10% bonus credit for both single-family homes and rental properties that qualify as low-income housing. When combined with the 20% credit for commercial properties or the 30% homeowner credit, the affordable housing credit makes preservation and rehabilitation of affordable housing quite affordable.

PRESERVATION MATTERS

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Tax Credits for Historic Rehabilitation Work Pending Again at State Legislature

Preservationists are nothing if not persistent. For six years, they have argued that Minnesota needs to cut taxes for people who invest in historic properties. For six years, they have supported a new state program to give Minnesotans an income tax credit to help offset the costs of rehabilitating qualifying historic structures.

Preservationists argue that a tax credit for preservation would not only save historic structures, but stimulate economic activity across the state. If the experience of almost two dozen other states is any guide, the tax credit would generate more money in new taxes than it would cost the treasury in lost revenues.

The program is embodied in legislation that is about to be introduced by Representative Morrie Lanning (R-Moorhead), who carried the bill last session.

In draft form, the bill provides that "a taxpayer that incurs costs for the rehabilitation of eligible property may take a credit against [their income tax]...in an amount equal to 25 percent of the total costs of rehabilitation."

Nomination Deadline: February 9

Minnesota's 2005 10 Most Endangered

Nominations for the 2005 "10 Most Endangered Historic Properties" should be submitted by Wednesday, February 9. Nomination forms may be obtained from the PAM office, 651-293-9047.

Key Provisions of Tax Credit Proposal

✓ Allows credit on state income taxes equal to 25 % of the qualified cost of a historic rehabilitation project.

✓ Parallels federal 20% preservation tax credit creating more development opportunities in Minnesota.

✓ Useful for both commercial and residential property, developers and homeowners.

✓ Available for property:
- Listed on National Register of Historic Places,
- Certified as contributing to National Register Historic District, or
- Certified historic by local historic preservation commission.

Properties eligible for the tax credit would include structures that are 1) on the National Register of Historic Places, 2) designated as historic by a local government or HPC, or 3) in a local historic district.

When introduced previously, legislators expressed concern that the tax credit program would siphon money out of the state's revenue stream. But a subsequent study by Humphrey Institute scholars showed that the economic activity generated by the program would far offset the lost revenues.

The plan would augment an existing 20 percent federal tax credit for work on commercial properties. The state tax credit would make Minnesota competitive with neighboring states, like Iowa and Wisconsin, which have state tax credits and can often attract development business away from Minnesota.

Among other things, the plan would:
- Create jobs and economic activity far beyond the level of the tax credit.
- Leverage more federal dollars.
- Complement the JOBZ program by providing a job stimulus across the state.
- Encourage private investment in underused buildings in historic core neighborhoods.

Supporters of the proposal include: Cities of Duluth, St. Paul, and Minneapolis, Minnesota Historical Society, Minnesota Solutions, Preservation Alliance of Duluth, Historic St. Paul, Duluth LISC, Duluth Affordable Housing Coalition, State Historic Preservation Office, and National Trust for Historic Preservation. Preservation Alliance members and others interested in this important bill are urged to contact their legislators as soon as possible. **Ask your legislators to support the Historic Preservation Tax Credit bill!**

Quick Facts

- *The annual economic impact of rehab tax credit in Missouri is **$1.016 billion** due to economic activity related to historic preservation.*
- *In Florida, **$2 returned** for every $1 invested.*
- *In Virginia, over **$316 million** in rehabilitation spurred.*

Minnesota Preservation News

Rochester – A twelve thousand year old campsite, dating back to the Paleo-Indian Era, has been discovered east of Rochester. Numerous artifacts were initially uncovered as utility crews began a utility dig. Construction has been put on hold as State Archeologist Scott Anfinson with the Minnesota State Historic Preservation Office and The 106 Group, a St. Paul archeological firm, assesses the find.

Waseca – A "new" look supports the 4-Seasons Athletics building at 124 North State Street downtown. New in this case actually means restoration as the structure built in 1882 was given a vintage look. Armed with a financing package combining grants and loans from the Minnesota Department of Employment and Economic Development Departments Small Cities Development Program and the Waseca Housing and Redevelopment Authority, the project has been completed. The final result includes commercial and rental space at street level and three apartments upstairs.

Duluth – The nearly century-old Sacred Heart Convent on Second Avenue West near downtown, condemned in 2001, may soon get a new lease on life as the Women's Transitional Housing project propose to convert it into 11 efficiency apartments. Financing for restoration could receive a boost if HGTV selects the project as part of its "Restore America" program. Nearly a million in financing has been pledged for the project.

Albert Lea – Restoration work is nearing completion on the Bible Book Store downtown. The building took back its 1937 look after a false façade was removed. The building will house a coffee shop with wireless internet availability.

Le Sueur – Under the watchful eye of Marilyn Wells, this city's 1893 Cosgrove House has become a Bed and Breakfast. Although built as a single family dwelling for Carson Cosgrove, founder of Green Giant Company, over the years it had been converted into apartments. Fortunately many features including Victorian and Arts and Crafts styles remained including extensive built-ins, woodwork and fireplaces. The home is listed on the National Register of Historic Places.

Preservation Alliance of Minnesota

Roger Randall, Chair
Marvel Anderson and Bob Glancy, staff

Phone: 651-293-9047

516 Landmark Center
75 W. 5th Street
St. Paul, MN 55102-1406

Visit our Website:
MNpreservation.org

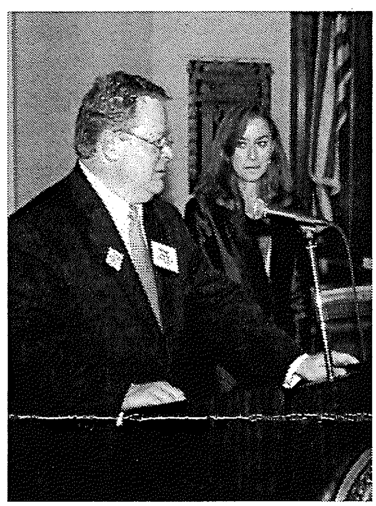
PAM Notes:

- A "Collaborative Partners" meeting, organized by the National Trust's Midwest Office (Chicago) was held on December 10 at the Minnesota Historical Society. Participants from PAM, the State Historic Preservation Office, city HPCs, Midwest Preservation Institute, and several other groups discussed cooperative opportunities, redundancies, technology needs, preservation incentives, education, and other topics.

- PAM will move its offices to 218 Landmark Center at the end of February.

- The PAM board will meet on the fourth Monday of every odd-numbered month. Most meetings are held at Landmark Center at 5:30-7:00 PM. At its January 24th meeting, the board heard presentations concerning the unused B'nai Abraham Synagogue in Virginia and MnDOT's program to preserve historic roadside markers (see: www.dot.state.mn.us/tecsup/site/historic/index.html).

- New PAM board members include: Mary Wingert (St. Paul), Patty Trocki (St. Paul), Anne Miller Meyer (Minneapolis), Amy Fistler (St. Paul), Marilyn Kingman (Wayzata), Lisa Washington (Minneapolis), and Jack Bowman (Duluth). Officers are Chair Roger Randall (Plymouth), Vice-Chair Linda Donaldson (Minneapolis), Secretary Laura Faucher (Minneapolis), and Treasurer Dan Hogan (Bloomington).



PAM Chair Roger Randall with First Lady Mary Pawlenty at PAM's 2004 annual meeting in St. Cloud.

May is National Historic Preservation Month

Minnesota Historic Structure & Community Re-Investment Tax Credit

Strengthening & Preserving Minnesota's Main Streets & Historic Places

A coalition of cities, historical groups, and property developers is actively promoting proposed legislation that would allow a credit on state income taxes equal to 25 percent of the qualified cost of a historic rehabilitation of residential or income-producing properties. The proposed legislation, similar to provisions in over 20 other states, would encourage private investment in historic properties in both urban and rural Minnesota, generating jobs and stimulating economic development within existing communities.

How Does It Work?

- Allows credit on state income taxes equal to 25% of the qualified cost of a historic rehabilitation.
- Parallels federal historic preservation 20% tax credit, creating more development opportunities in Minnesota.
- Useful for both commercial and residential property, developers and homeowners. Federal credit is for income producing properties only.

Economic and Social Benefits

- Creates jobs and economic activity far beyond level of tax credit.
- Leverages more federal resources for the state.
- Replenishes the tax base through new sales and payroll taxes and an increased tax base.
- Complements the JOBZ program by providing a business stimulus in the historic areas of large and small towns across the state.
- Creates affordable housing by
  - ⇒ helping first-time and moderate income buyers through mortgage credit provision. Lender uses tax credit and lets owner buy down rate or reduce mortgage.
  - ⇒ encouraging low-income rental housing when partnered with the federal low income housing tax credit.
- Encourages private investment in derelict or under-used buildings in historic core neighborhoods and puts neglected properties on the tax rolls at a higher value, stimulating more economic investment in surrounding areas, especially on main streets and in historic commercial corridors.
- Speeds redevelopment of long vacant buildings, returning them to income-producing and taxable status.
- Limits sprawl, supports open space preservation & promotes environmental conservation efforts by concentrating on already developed areas.
- Supports community identity efforts to capitalize on history and heritage as a tourism draw.

More labor intensive than new construction, rehab construction strengthens the local employment base.

In the state of Missouri, the cost of the credit was recouped in ***additional payroll taxes alone.***

Hotel Kaddutz Artists Lofts, Fergus Falls
Vacant for years
Rehabbed in 2003 for $2.3 million

National Guard Armory, Duluth
Waiting for rehab since the 1970s, underutilized for over thirty years

What is Eligible?

The tax credit would be available for a property that is any of the following:

- Listed on the National Register of Historic Places. (Minnesota has over 1,500 properties currently listed.)
- Certified as a contributing element of a National Register Historic District.
- Certified as historic by local heritage preservation commission or Certified Local Government.

Proposed Legislation

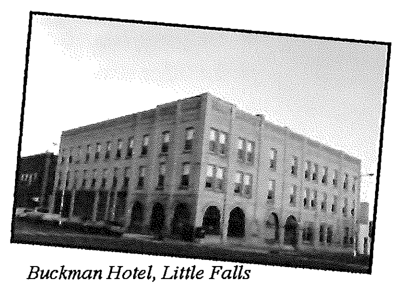
The proposed legislation, based on a highly successful Missouri law passed in 1997, provides an income tax credit for expenditures for historic structure rehabilitation. A taxpayer who incurs costs for the rehabilitation of an eligible property may take a credit against the tax imposed in an amount equal to 25 percent of the total costs of rehabilitation. The costs of rehabilitation must exceed 50 percent of the total basis in the property at the time the rehabilitation activity begins, and the rehabilitation must meet standards consistent with the standards of the Secretary of the Interior for rehabilitation as determined by the State Historic Preservation Office of the Minnesota Historical Society. Bills have been introduced in the 2005-2006 Legislature (Senate File 1659 and House File 1731). Chief authors are Representative Morrie Lanning (R) in the House and Senator Larry Pogemiller (DFL) in the Senate.

QUICK FACTS ON TAX CREDIT USE

- ⇒ In Missouri, annual economic impact of rehab tax credit - **$1.016 billion** – due to economic activity related to historic preservation.
- ⇒ In Florida, **$2 returned** for every $1 invested and a **10-fold return** for the Main Street program.
- ⇒ In Virginia, over **$316 million** in rehabilitation.
- ⇒ 24 other states, including Wisconsin, Iowa and North Dakota, have similar state tax credits.

Why Should We Act Now?

In the past 30 years, we have lost scores of historic buildings to deterioration and neglect because rehabilitation costs did not make them attractive to development. Many of them are in older residential neighborhoods, small-town main streets, and urban commercial cores. Reinvesting in these areas and spurring development will have a significant impact on their future health and vitality.



Buckman Hotel, Little Falls
Vacant many years
Rehabbed at $2 Million in 1994

Although the federal preservation tax credit provides incentives for rehabilitation, most projects cannot be accomplished using federal credits alone As a result, without a state credit, Minnesota receives lower federal tax credit per-capita than other states. Now is the time to augment the federal historic tax credit with a state credit that will encourage this redevelopment to occur before it is too late.

Supporting Organizations

City of Duluth
City of Minneapolis
City of Saint Paul
Duluth Affordable Housing Coalition
Duluth LISC
Duluth Preservation Alliance
Historic Saint Paul
Minnesota Historical Society
MN State Historic Preservation Office
Minnesota Solutions
National Trust for Historic Preservation
Preservation Alliance of Minnesota
Twin Cities LISC
White Bear Lake Area Historical Society

Preservation Alliance of Minnesota • Will Stark, Advocacy Committee Chairman
516 Landmark Center • 75 W. Fifth St. • St. Paul, MN 55102 • Phone: 651.293.9047
www.mnpreservation.org • director@mnpreservation.org

Fact Sources: State Historic Preservation Office of the Minnesota Historical Society
Donovan Rypkema, *The Economics of Historic Preservation*, 1994
Taylor & Weber, Historic Preservation Tax Credit Study, Humphrey Institute of Public Affairs, University of Minnesota, 2004

THOMAS K. HAGEN
315-2ND AVE SE
WASECA, MINNESOTA 56093

Mayor, City of Waseca, 2000-2005

Chair, Waseca Historic Preservation Commission, 2001-Present

Board Member, Waseca Housing & Redevelopment Authority, 1998-Present

Board Member, Waseca Economic Development Authority, 2001-2004

Founder, Waseca M&StL Railway Depot Society

Board Member, Preservation Alliance of Minnesota, 2004-Present

March 17, 2005

To: Members of the Senate Tax Committee

Re: Senate File 1659

Dear Tax Committee Members:

Unexpected surgery on Monday prevents me from testifying before you in person. However, I wish to state my strong support for S.F. 1659.

As a former Mayor in Greater Minnesota, I can vouch for the economic development benefits of this legislation. When I took office in 2000, I had long been interested in old buildings and history. It was only after I began studying the issue as Mayor that I became firmly convinced that **historic preservation equals economic development**.

The proposed tax credit will help revitalize our traditional main streets, neighborhoods and affordable rental housing stock.

The upfront price tag is nominal and studies from across the country demonstrate that the credit will more than pay for itself in short order in terms of increased economic activity, enhanced property values and thus increased property tax revenues.

If Waseca is any guide, it is my experience that many revitalization projects being undertaken in Greater Minnesota are being undertaken by small businesses and "mom & pop" operations. In speaking to many of them, every dollar that makes the project more financially "do-able" helps. In Waseca, for example, downtown property owners face market conditions that limit what they can charge for commercial rental to $2-4 a square foot. This economic reality can make major investments in building restoration hard to financially justify without such tax incentives and programs like the Small Cities Development grants. But the increased property values and economic activity will pay for the tax credit many times over almost immediately.

Speaking of the Small Cities Development Grant program, Waseca received a $1.3 million grant from the program a few years ago. We allocated about 2/3 of the funds for commercial and rental property rehabs in our traditional downtown commercial district.

I do not intend to diminish the importance of the SCDG program, but I believe the proposed tax credit before you has many additional benefits and would complement the SCDG program well.

For instance, given the limited funds available through the SCDG the number of communities that can benefit and the number of buildings that can be rehabbed is inherently limited. Now that Waseca has expended its SCDG funds, the community is looking for additional ways to keep the positive momentum moving with its downtown revitalization efforts.

The proposed tax credit can fill that gap. And compared to the SCDG, again without diminishing its importance, the estimated fiscal impact of the tax credit proposal is a bargain and has additional benefits. Other than the requirement that structures be "historically qualified," the tax credit does not artificially limit the number of communities that can participate and does not artificially limit the number or size of individual projects.

It also substantially reduces the paperwork and red tape. If I recall correctly, the checklist of steps for participation in the SCDG program stretched to near 30 and the burdensome process -- it took us more than 2 years to spend the money -- drove off at least HALF the property owners initially interested in the program monies. I'm not talking about replacing the SCDG program, but the tax credit will surely be another complement to it.

Our experience in Waseca is that even with the SCDG monies, it still took a package of financing sources (city revolving loan funds, an HRA facade improvement loan fund, to name a few) to make these projects financially attractive for the private sector. In many instances, this credit will be another tool in the tool box and could really make the difference for small businesses and mom & pop property owners in deciding not only to do a project, but how extensive of a project to undertake.

I thank you for your time and your support of S.F. 1659.

BUILDING *on* *our* HERITAGE

PRESERVATION
ALLIANCE *of* Minnesota

"... to preserve, protect,
and promote Minnesota's
historic resources."