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: April 26, 2005

RE: Bills to be Heard April 27, 2005

S.F. No. 782 (Reiter)

This bill appropriates $104,964 to the Commissioner of Revenue to make payments to the city of White Bear Lake. One-half of that amount would be paid on July 20, 2005, and one-half on December 6, 2005, the same dates on which local government aid payments are made.

S.F. No. 1962 (Betzold)

As proposed to be amended by the author, this bill provides payments to Anoka and Washington Counties to compensate them for postretirement costs of health insurance premiums for court employees. In 2006 and thereafter, $73,259.00 is annually allocated to Anoka County, and up to $59,664.00 is annually allocated to Washington County. One-half of those amounts are payable for aids in 2005 only to those counties.

S.F. No. 1880 (Belanger)

This bill delays for eight years the beginning of the repayment required from the city of Bloomington to the Metropolitan Area Fiscal Disparities Pool. From 1988 to 1999, the city essentially borrowed from the fiscal disparities pool the amount necessary to make interest payments on bonds that were sold for highway improvements related to the Mall of America development. Under current law, Bloomington's contribution to the fiscal disparities pool is scheduled to be increased for property taxes payable in years 2006 through 2015. This bill would delay the commencement of that repayment obligation to taxes payable in 2014, continuing through 2023.

JZS:dv

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) J3d

DATE: April 27, 2005

RE: Additional Bills to be Heard April 27, 2005

S.F. No. 2091 (Day)

This bill provides an exemption from the property tax for personal property and electric generation facility that is part of either a simple-cycle, combustion-turbine electric generation facility, or a combined-cycle, combustion-turbine electric generation facility, which does not exceed 325 megawatts of capacity. The facility must:

- utilize either a simple-cycle or combined-cycle, combustion-turbine generator fueled by natural gas;
- be connected to an existing 115 kilovolt high-voltage electric transmission line that is located within one mile of the facility;
- be located on an underground natural gas storage aquifer;
- be designed as either a peaking or a intermediate load facility; and
- have received approval from the governing body of the county for the exemption.

Construction of the facility must be commenced between January 1, 2006, and December 31, 2007.

S.F. No. 2163 (Pogemiller)

This bill modifies the requirements that apply to an existing exemption for personal property at 3.2 megawatt run-of-the-river hydroelectric generation facility. It eliminates the requirement that the facility be located on publicly owned land and extends the time frame from which construction of the facility must begin to the period between January 1, 2005, and December 31, 2006.

Section 2 of the bill provides a sales tax exemption for construction materials used in the construction of this facility.

S.F. No. 2166 (Anderson)

This bill provides a new method by which the Commissioner of Commerce must calculate the efficiency of an electric generation facility in order that the facility would qualify for a reduction in the market value that is used for property tax purposes. The efficiency will now be calculated as the ratio of useful energy outputs to energy inputs expressed as a percentage based on the performance of the facility's equipment during a heat rate test conducted according to specific performance codes of the American Society of Mechanical Engineers. The sliding scale exclusion for efficient facilities is modified. Under current law, five percent of the taxable market value of the property is excluded from taxation for each percentage point that the efficiency of the facility is above 35 percent. Under this provision, eight percent of the market value is excluded for each percent that the efficiency exceeds 40 percent.

S.F. No. 1743 (Wergin)

This bill modifies the tax base that is used to calculate debt service levies for school districts. It removes the effect of limited market value and green acres laws, which reduce the taxable market value of certain types of property, which then lowers the district's sales ratio, and thus increases the district's adjusted net tax capacity. When the effects of limited market value in green acres are removed from the sales ratio calculation for school district debt service equalization aid calculations, the amount of debt service equalization aid for school districts that have property subject to limited market value or green acres is increased.

Agenda #1

Senator Reiter introduced--

S.F. No. 782: Referred to the Committee on Finance.

A bill for an act

relating to taxation; requiring a payment to the city of White Bear Lake; appropriating money.

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

Section 1. [CITY OF WHITE BEAR LAKE.]

Subdivision 1. [PAYMENT REQUIRED.] The commissioner of revenue must make payments of $52,482 on each of July 20, 2005, and December 26, 2005, to the city of White Bear Lake.

Subd. 2. [APPROPRIATION.] $104,964 is appropriated from the general fund to the commissioner of revenue to make the payments required in this section.

MINNESOTA · REVENUE

PROPERTY TAX
City of White Bear Lake Payment

April 25, 2005

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

Department of Revenue
Analysis of S.F. 782 (Reiter) / H.F. 1582 (Meslow)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y. 2009**
		(000's)		
General Fund	($105)	$0	$0	$0

Effective July 1, 2005.

EXPLANATION OF THE BILL

The bill requires the Commissioner of Revenue to make payments to the city of White Bear Lake in the amount of $52,482 on both July 20, 2005, and December 26, 2005. An appropriation from the general fund is provided for the payments.

REVENUE ANALYSIS DETAIL

- The total payment to White Bear Lake of $104,964 would be made in FY 2006.
- In 2004, the city of White Bear Lake challenged the population estimate certified by the Metropolitan Council and used to calculate 2004 city local government aid. The initial challenge was denied because it was initiated beyond the time frame allowed for review. Recognizing that the time frame for review and appeal may have been relatively short, the Department of Revenue agreed to a partial adjustment to White Bear Lake's 2004 local government aid. The adjustment factored in the property tax levy limit reduction that would have been made if the higher local government aid amount could have been determined in time for the levy reduction. The levy limit reduction amount was approximately $105,000, which was subtracted from the revised 2004 local government aid amount for White Bear Lake.

Number of Taxpayers: The city of White Bear Lake.

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

sf0782(hf1582)_1/nrg

HF 1582
SF 782

2004 Local Government Aid allocated to the City of White Bear Lake

A.	2004 LGA approved by legislature for White Bear Lake	$382,424
B.	2004 LGA allocation for White Bear Lake as a result of error (-$249,571)	$132,853
C.	2004 corrected LGA approved by Revenue Commissioner and set to avoid excess levy (+$144,607)	$277,460
D.	Loss 2004 LGA (legislative authorization minus amount received)	$104,964
E.	Total amount of LGA requested by White Bear Lake for 2005	$104,964

April 5, 2004

Mark Sather, Manager
City of White Bear Lake
4701 Highway 61 N
White Bear Lake, MN 55110

Dear Mr. Sather,

On January 9, 2004 the Department of Revenue (DOR) informed you that your request to revise the City of White Bear Lake's (WBL) 2004 Local Government Aid (LGA), as certified on August 1, 2003, was denied. The city's request was based on the population estimate certified by the Metropolitan Council to the DOR on July 24, 2004.

At our meeting with you and Senator Reiter on March 9, 2004 the DOR agreed to consider a partial adjustment to your LGA. In that meeting, all parties agreed that while there was no explicit statutory language establishing an appeals process for cities to the Metropolitan Council, the Council had established its own time period and process by which local jurisdictions, in the metropolitan area, could appeal their population estimates. However, you indicated that the time period for White Bear Lake to review its population estimate was unusually short in 2003 and did not afford a "reasonable" time for review and appeal.

Recognizing that the time frame for review and appeal may have been relatively short, the Commissioner suggested that a partial adjustment to White Bear Lake's LGA may be the fair thing to do.

The adjustment would, in effect, factor in the property tax levy limit reduction that would have been made if the higher LGA amount could have been determined in time for the levy reduction. Both you and Senator Reiter agreed that such an adjustment would be appropriate.

Since all parties agreed that a revised LGA amount, adjusted for a levy limit offset, would be fair, the Department will authorize a revised 2004 LGA for the city of White Bear Lake in the amount of $277,460. The adjusted LGA amount is based on the calculations stated below.

The originally certified 2004 LGA amount for WBL was $132,853 which also resulted in an originally certified levy limit of $4,651,589. The total certified 2004 levy for WBL was $4,606,810.

Agenda #2

Senator Day introduced--

S.F. No. 2091: Referred to the Committee on Jobs, Energy and Community Development.

A bill for an act

relating to taxation; property; providing that certain personal property of an electric generation facility is exempt; 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. [ELECTRIC GENERATION FACILITY PERSONAL PROPERTY.] (a) Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of either a simple-cycle, combustion-turbine electric generation facility, or a combined-cycle, combustion-turbine electric generation facility that does not exceed 325 megawatts of installed capacity and that meets the requirements of this subdivision is exempt. At the time of construction, the facility must:

(1) utilize either a simple-cycle or a combined-cycle combustion-turbine generator fueled by natural gas;

(2) be connected to an existing 115-kilovolt high-voltage electric transmission line that is within one mile of the facility;

(3) be located on an underground natural gas storage aquifer;

(4) be designed as either a peaking or intermediate load

facility; and

(5) have received, by resolution, the approval from the governing body of the county for the exemption of personal property under this subdivision.

(b) Construction of the facility must be commenced after January 1, 2006, and before January 1, 2008. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

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

MINNESOTA · REVENUE

PROPERTY TAX
Exemption for an Electric Generating Facility

April 18, 2005

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

Department of Revenue
Analysis of S.F. 2091 (Day) / H.F. 2372 (Ruth)

	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: With some exceptions, attached machinery and other personal property which is part of an electric generating system are subject to property tax.

Proposed Law: Attached machinery and other personal property which are part of either a simple-cycle or combined-cycle combustion-turbine electric generating facility that does not exceed 325 megawatts of installed capacity would be exempt from the property tax. At the time of construction, the facility must be utilize natural gas as a primary fuel, be located on an underground natural gas storage aquifer, and be connected to an existing 115-kilovolt high-voltage electric transmission line that is within 1 mile of the facility. The facility must be designed as either a peaking or intermediate load facility and have received local approval for the property tax exemption. Construction of the facility must start after January 1, 2006, and before January 1, 2008.

REVENUE ANALYSIS DETAIL

- It is assumed that the proposed electric generating facility in Blooming Grove Township in Waseca County would be the only facility affected by the proposal.
- The total cost of attached machinery and other equipment, excluding currently exempt pollution control equipment, that would be exempt from personal property tax is about $130 million.
- Under the current contingent plan, it is assumed that the facility will be completed in the fall of 2007 and will affect property taxes starting with payable year 2009.

REVENUE ANALYSIS DETAIL (continued)

- Upon completion of the proposed facility, 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 about $60,000 beginning in FY 2010.

Number of Taxpayers: Property owners in Waseca County.

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

sf2091(hf2372)_1/nrg

To: Senator Anderson, Chair

Committee on Jobs, Energy and Community Development

Senator Kubly,

Chair of the Subcommittee on Energy, to which was referred

S.F. No. 2091: A bill for an act relating to taxation; property; providing that certain personal property of an electric generation facility is exempt; amending Minnesota Statutes 2004, section 272.02, by adding a subdivision.

Reports the same back with the recommendation that the bill be amended as follows:

Page 1, line 21, delete "one mile" and insert "two miles"

And when so amended that the bill be recommended to pass and be referred to the full committee.

....
(Subcommittee Chair)

April 8, 2005.....................
(Date of Subcommittee action)

Agenda #3

Senator Pogemiller introduced--

S.F. No. 2163: Referred to the Committee on Jobs, Energy and Community Development.

A bill for an act

relating to taxation; providing a personal property tax exemption and a sales tax exemption for construction materials used for an electric generating facility; amending Minnesota Statutes 2004, sections 272.02, subdivision 53; 297A.71, by adding a subdivision.

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

Section 1. Minnesota Statutes 2004, section 272.02, subdivision 53, is amended to read:

Subd. 53. [ELECTRIC GENERATION FACILITY; PERSONAL PROPERTY.] Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of a 3.2 megawatt run-of-the-river hydroelectric generation facility and that meets the requirements of this subdivision is exempt. At the time of construction, the facility must:

(1) utilize two turbine generators at a dam site existing on March 31, 1994~~;~~

(2) be located on ~~publicly-owned~~ land ~~and~~ within 1,500 feet of a 13.8 kilovolt distribution substation; and

(3) be eligible to receive a renewable energy production incentive payment under section 216C.41.

Construction of the facility must be commenced after ~~January 1, 2002~~ December 31, 2004, and before January 1, ~~2005~~ 2007. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

[EFFECTIVE DATE.] This section is effective for sales after June 30, 2005.

Sec. 2. Minnesota Statutes 2004, section 297A.71, is amended by adding a subdivision to read:

Subd. 33. [HYDROELECTRIC GENERATING FACILITY.] Materials and supplies used or consumed in the construction of a hydroelectric generating facility that meets the requirements of this subdivision are exempt. To qualify for the exemption under this subdivision, a hydroelectric generating facility must:

(1) utilize two turbine generators at a dam site existing on March 31, 1994;

(2) be located on land within 2,500 feet of a 13.8 kilovolt distribution circuit; and

(3) be eligible to receive a renewable energy production incentive payment under section 216C.41.

[EFFECTIVE DATE.] This section is effective for sales made after December 31, 2004, and on or before December 31, 2007.

MINNESOTA • REVENUE

PROPERTY TAX
SALES AND USE TAX
Hydroelectric Generating Facility

April 18, 2005

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

Department of Revenue
Analysis of S.F. 2163 (Pogemiller) / H.F. 2413 (Ellison)

	Fund Impact			
	F.Y. 2006	**F.Y. 2007**	**F.Y. 2008**	**F.Y.2009**
		(000's)		
Homeowner PTR Increase	$0	$0	$0	(Negligible)
Sales and Use Tax Exemption	($145)	($20)	$0	$0
General Fund Total	($145)	($20)	$0	(Negligible)

EXPLANATION OF THE BILL

Current Law: With some exceptions, personal property that is part of an electric generating system is subject to the local property tax. The attached machinery of an electric generation facility is exempt for the state general property tax levy. Regarding sales and use tax, capital equipment used by production industries, including electric generating plants, is exempt from sales and use tax. The capital equipment exemption is administered as a tax refund. Sales of building materials and supplies used or consumed in construction are normally considered taxable retail sales.

Exemptions were enacted in 2002 for construction and operation of a qualifying electric generating facility. The property tax exemption enacted in 2002 applied if the construction of the facility was commenced after January 1, 2002, and before January 1, 2005. Also, there was a requirement in the previous exemption that the facility be publicly owned. The sales and use tax exemption that was enacted in 2002, and extended in 2003, has expired.

Proposed Law: To qualify for both the property tax exemption and the sales and use tax exemption, the hydroelectric generating facility must: 1) utilize two turbine generators at a dam site existing on March 31, 1994, 2) be located on land within a specified distance of a 13.8 kilovolt distribution circuit, and 3) be eligible to receive a renewable energy production incentive payment.

For the attached machinery and other personal property exemption, the proposal amends current law by removing the requirement that the facility be publicly owned and adjusts the specified facility construction dates to after December 31, 2004, and before January 1, 2007.

The proposal would allow another sales tax exemption for materials and supplies used or consumed in the construction of this facility and would be effective for sales made after December 31, 2004, and on or before December 31, 2007.

REVENUE ANALYSIS DETAIL

- Project information was received from a representative of Xcel Energy. The proposed Minneapolis Crown Hydro plant will be built by Xcel Energy near St. Anthony Falls in Minneapolis.
- It is assumed that this project will meet the specified conditions.

Property Tax
- Upon completion of the proposed facility, 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 will increase state-paid homeowner property tax refunds by less than $5,000 beginning in FY 2009.

Sales and Use Tax
- The revised cost for construction materials and supplies is $2.5 million.
- The revised construction timeline is from the fall of 2005 to the fall of 2006.
- It is estimated that 90% of the purchases will have a fiscal impact in fiscal year 2006, and the remaining 10% will occur in fiscal year 2007.

Number of Taxpayers: This proposal is expected to apply to one project in Minneapolis.

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

sf2163(hf2413)_1/rs, ng

Agenda #4

Senators Anderson and Belanger introduced--

S.F. No. 2166: Referred to the Committee on Jobs, Energy and Community Development.

A bill for an act

relating to taxation; property; clarifying the market value exclusion for electric power generation efficiency; amending Minnesota Statutes 2004, section 272.0211, subdivisions 1, 2.

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

Section 1. Minnesota Statutes 2004, section 272.0211, subdivision 1, is amended to read:

Subdivision 1. [EFFICIENCY DETERMINATION AND CERTIFICATION.] An owner or operator of a new or existing electric power generation facility, excluding wind energy conversion systems, may apply to the commissioner of revenue for a market value exclusion on the property as provided for in this section. This exclusion shall apply only to the market value of the equipment of the facility, and shall not apply to the structures and the land upon which the facility is located. The commissioner of revenue shall prescribe the forms and procedures for this application. Upon receiving the application, the commissioner of revenue shall request the commissioner of commerce to make a determination of the efficiency of the applicant's electric power generation facility. ~~In-calculating the-efficiency-of-a-facility,~~ The commissioner of commerce shall ~~use-a-definition-of~~ calculate efficiency ~~which-calculates efficiency-as-the-sum-of:~~

~~(1)-the-useful-electrical-power-output,-plus~~

~~(2)-the-useful-thermal-energy-output,-plus~~

~~(3)-the-fuel-energy-of-the-useful-chemical-products,~~ ~~all-divided-by-the-total-energy-input-to-the-facility,-expressed-as-a-percentage~~ as the ratio of useful energy outputs to energy inputs, expressed as a percentage, based on the performance of the facility's equipment during a heat rate test conducted in conformance with the American Society of Mechanical Engineers Performance Test Codes PTC-46-1996: Performance Test Code on Overall Plant Performance. The commissioner must include in this formula the energy used in any on-site preparation of materials necessary to convert the materials into the fuel used to generate electricity, such as a process to gasify petroleum coke. The commissioner shall use the ~~high-heating-value~~ Higher Heating Value (HHV) for all substances in the commissioner's efficiency calculations, except for wood for fuel in a biomass-eligible project under section 216B.2424; for these instances, the commissioner shall adjust the heating value to allow for energy consumed for evaporation of the moisture in the wood. The applicant shall provide the commissioner of commerce with whatever information the commissioner deems necessary to make the determination. Within 30 days of the receipt of the necessary information, the commissioner of commerce shall certify the findings of the efficiency determination to the commissioner of revenue and to the applicant. ~~The-commissioner-of-commerce-shall-determine-the-efficiency-of-the-facility-and-certify-the-findings-of-that-determination-to-the-commissioner-of-revenue-every-two-years-thereafter-from-the-date-of-the-original-certification.~~

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

Sec. 2. Minnesota Statutes 2004, section 272.0211, subdivision 2, is amended to read:

Subd. 2. [SLIDING SCALE EXCLUSION.] Based upon the efficiency determination provided by the commissioner of commerce as described in subdivision 1, the commissioner of revenue shall subtract ~~five~~ eight percent of the taxable market value of the qualifying property for each percentage point that the efficiency of the specific facility, as determined by the commissioner of commerce, is above ~~35~~ 40 percent. The reduction in taxable market value shall be reflected in the taxable market value of the facility beginning with the assessment year immediately following the determination. For a facility that is assessed by the county in which the facility is located, the commissioner of revenue shall certify to the assessor of that county the percentage of the taxable market value of the facility to be excluded.

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

PROPERTY TAX
Market Value Exclusion for Energy Efficient Electric Generation Facilities

April 27, 2005

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

Department of Revenue
Analysis of S.F. 2166 (Anderson) / H.F. 2363 (Abrams)

	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

Current Law: Energy efficient equipment that is part of an electric power generation facility is eligible for a market value exclusion, provided its efficiency is above 35%. The efficiency of a facility is equal to the sum of (1) the useful electrical power output, plus (2) the useful thermal energy output, plus (3) the fuel energy of the useful chemical products, all divided by the total energy input to the facility. Qualifying property receives a market value exclusion equal to 5% for each efficiency percentage point above 35%.

Proposed Law: The bill modifies the calculation of the market value exclusion for energy efficient electric generation equipment. The efficiency calculation for a facility is clarified to use the energy outputs and inputs determined during a heat rate test conducted in conformance with the American Society of Mechanical Engineers Performance Test Codes PTC-46-1996. Qualifying property would receive a market value exclusion equal to 8% for each efficiency percentage point about 40%.

REVENUE ANALYSIS DETAIL

- There are four electric power generation facilities eligible for a market value exclusion for energy efficient equipment, three of which are in Dakota County and the other in Carlton County.
- Increasing both the efficiency threshold to 40% and the market value exclusion per point to 8% results in each of the facilities receiving approximately the same total market value exclusion as under current law. There is a possibility for a small increase in state-paid homeowner property tax refunds, estimated to be less than $5,000 beginning in FY 2007.

Number of Taxpayers: Four electric power generation facilities.

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

sf2166(hf2363)_1/nrg

Senator ..... moves to amend S.F. No. 2166 as follows:

Page 2, line 6, delete everything after "during"

Page 2, delete lines 7 and 8

Page 2, line 9, delete the new language and insert "normal full load operation"

Agenda #5

Senator Betzold introduced--

S.F. No. 1962: Referred to the Committee on Taxes.

A bill for an act

relating to retirement; abolishing payment of postretirement benefit costs; repealing Minnesota Statutes 2004, section 480.1811.

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

Section 1. [REPEALER.]

Minnesota Statutes 2004, section 480.1811, is repealed.

APPENDIX
Repealed Minnesota Statutes for 05-3672

480.1811 POST-RETIREMENT BENEFIT COSTS.

Where court administration, guardian ad litem, or interpreter employees elect to retain county insurance benefits under section 480.181 after July 1, 2001, and the county provides those employees post-retirement insurance benefits prior to July 1, 2001, the county shall pay the post-retirement cost of those benefits.

COUNTY PROGRAM AID
County Judicial Employee
Postretirement Benefits

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

April 26, 2005

Department of Revenue
Analysis of S.F. 1962 (Betzold) **As Proposed to be Amended**

	Fund Impact			
	F.Y. 2006	F.Y. 2007	F.Y. 2008	F.Y. 2009
	(000's)			
General Fund	($66)	$0	$0	$0

County tax-base equalization aid allocations effective for aids payable in 2006 and thereafter. Temporary court aid adjustments effective for aids payable in 2005 only.

EXPLANATION OF THE BILL

The bill provides for an annual allocation to certain counties to pay postretirement costs for court employees. For aids payable in 2006 and thereafter, allocations are made annually to Anoka County and Washington County from the appropriation for county tax-base equalization aid before it is apportioned among counties. The annual allocation to Anoka County is not to exceed $73,259, and the annual allocation to Washington County is not to exceed $59,664. The allocations would be in addition to any county tax-base equalization aid received.

Temporary court aid adjustments are also made, increasing aid to Anoka County by $36,630 and to Washington County by $29,832 for aids payable in 2005 only.

REVENUE ANALYSIS DETAIL

- The temporary court aid increase would total $66,462 and impact the general fund in FY 2006.
- There would be no state cost for the county tax-base equalization aid adjustment, as the total county program aid appropriation is fixed. The annual allocation of $132,923 would shift aid to the counties of Anoka and Washington and away from all other counties receiving tax-base equalization aid.

Number of Taxpayers: The counties of Anoka and Washington.

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

sf1962(hf2244)_1/nrg

Senator ..... moves to amend S.F. No. 1962 as follows:

Delete everything after the enacting clause and insert:

"Section 1. Minnesota Statutes 2004, section 477A.0124, subdivision 4, is amended to read:

Subd. 4. [COUNTY TAX-BASE EQUALIZATION AID.] (a) For ~~2005~~ 2006 and subsequent years, the money appropriated to county tax-base equalization aid each calendar year, after the payment under paragraph (f), shall be apportioned among the counties according to each county's tax-base equalization aid factor.

(b) A county's tax-base equalization aid factor is equal to the amount by which (i) $185 times the county's population, exceeds (ii) 9.45 percent of the county's net tax capacity.

(c) In the case of a county with a population less than 10,000, the factor determined in paragraph (b) shall be multiplied by a factor of three.

(d) In the case of a county with a population greater than or equal to 10,000, but less than 12,500, the factor determined in paragraph (b) shall be multiplied by a factor of two.

(e) In the case of a county with a population greater than 500,000, the factor determined in paragraph (b) shall be multiplied by a factor of 0.25.

(f) Before the money appropriated to county base equalization aid is apportioned among the counties as provided in paragraph (a), an amount up to $73,259 is allocated annually to Anoka County and up to $59,664 is annually allocated to Washington County for the county to pay postretirement costs of health insurance premiums for court employees. The allocation under this paragraph is in addition to the allocations under paragraphs (a) to (e).

[EFFECTIVE DATE.] This section is effective aids payable in 2006 and thereafter.

Sec. 2. [COURT AID ADJUSTMENT.]

For aids payable in 2005 only, the amount of court aid paid to Anoka County under section 273.1398, subdivision 4, is increased by $36,630 for aids payable in 2005 only and the amount paid to Washington County under section 273.1398, subdivision 4, is increased by $29,832 for aids payable in 2005 only.

[EFFECTIVE DATE.] This section is effective aids payable in 2005 only."

Amend the title accordingly

Agenda #6

S.F. No. 1743: Referred to the Committee on Finance.

Senators Wergin, Stumpf and Kelley introduced--

A bill for an act

relating to education finance; modifying the tax base used to calculate debt service levies; amending Minnesota Statutes 2004, sections 123B.53, subdivision 5; 126C.01, by adding a subdivision; 127A.48, by adding a subdivision; 273.11, subdivision 1a.

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

Section 1. Minnesota Statutes 2004, section 123B.53, subdivision 5, is amended to read:

Subd. 5. [EQUALIZED DEBT SERVICE LEVY.] (a) The equalized debt service levy of a district equals the sum of the first tier equalized debt service levy and the second tier equalized debt service levy.

(b) A district's first tier equalized debt service levy equals the district's first tier debt service equalization revenue times the lesser of one or the ratio of:

(1) the quotient derived by dividing the ~~adjusted~~ debt service net tax capacity of the district for the year before the year the levy is certified by the adjusted pupil units in the district for the school year ending in the year prior to the year the levy is certified; to

(2) $3,200.

(c) A district's second tier equalized debt service levy equals the district's second tier debt service equalization revenue times the lesser of one or the ratio of:

(1) the quotient derived by dividing the ~~adjusted~~ debt

service net tax capacity of the district for the year before the year the levy is certified by the adjusted pupil units in the district for the school year ending in the year prior to the year the levy is certified; to

(2) $8,000.

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

Sec. 2. Minnesota Statutes 2004, section 126C.01, is amended by adding a subdivision to read:

Subd. 2a. [DEBT SERVICE NET TAX CAPACITY.] A school district's debt service net tax capacity means the net tax capacity of the taxable property of the district as adjusted by the commissioner of revenue under section 127A.48, subdivision 17. The debt service net tax capacity for any given calendar year must be used to compute the debt service levy limitations for levies certified in the succeeding calendar year and aid for the school year beginning in the second succeeding calendar year.

[EFFECTIVE DATE.] This section is effective the day following final enactment for computing taxes payable in 2006.

Sec. 3. Minnesota Statutes 2004, section 127A.48, is amended by adding a subdivision to read:

Subd. 17. [DEBT SERVICE NET TAX CAPACITY.] To calculate each district's debt service net tax capacity, the commissioner of revenue must recompute the amounts in this section using an alternative sales ratio comparing the sales price to the estimated market value of the property.

[EFFECTIVE DATE.] This section is effective the day following final enactment for computing taxes payable in 2006.

Sec. 4. Minnesota Statutes 2004, section 273.11, subdivision 1a, is amended to read:

Subd. 1a. [LIMITED MARKET VALUE.] In the case of all property classified as agricultural homestead or nonhomestead, residential homestead or nonhomestead, timber, or noncommercial seasonal residential recreational, the assessor shall compare the value with the taxable portion of the value determined in the preceding assessment.

For assessment year 2002, the amount of the increase shall not exceed the greater of (1) ten percent of the value in the preceding assessment, or (2) 15 percent of the difference between the current assessment and the preceding assessment.

For assessment year 2003, the amount of the increase shall not exceed the greater of (1) 12 percent of the value in the preceding assessment, or (2) 20 percent of the difference between the current assessment and the preceding assessment.

For assessment year 2004, the amount of the increase shall not exceed the greater of (1) 15 percent of the value in the preceding assessment, or (2) 25 percent of the difference between the current assessment and the preceding assessment.

For assessment year 2005, the amount of the increase shall not exceed the greater of (1) 15 percent of the value in the preceding assessment, or (2) 33 percent of the difference between the current assessment and the preceding assessment.

For assessment year 2006, the amount of the increase shall not exceed the greater of (1) 15 percent of the value in the preceding assessment, or (2) 50 percent of the difference between the current assessment and the preceding assessment.

This limitation shall not apply to increases in value due to improvements. For purposes of this subdivision, the term "assessment" means the value prior to any exclusion under subdivision 16.

The provisions of this subdivision shall be in effect through assessment year 2006 as provided in this subdivision.

For purposes of the assessment/sales ratio study conducted under section 127A.48, and the computation of state aids paid under chapters 122A, 123A, 123B, <u>excluding section 123B.53,</u> 124D, 125A, 126C, 127A, and 477A, market values and net tax capacities determined under this subdivision and subdivision 16, shall be used.

[EFFECTIVE DATE.] <u>This section is effective the day following final enactment for computing taxes payable in 2006.</u>

MINNESOTA · REVENUE

PROPERTY TAX
School Debt Service Tax Base Modification

April 20, 2005

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

Department of Revenue
Analysis of H.F. 1577 (Erickson) / S.F. 1743 (Wergin)

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

Effective for taxes payable in 2006.

EXPLANATION OF THE BILL

The bill would require the Department of Revenue to use a new alternative sales ratio when adjusting the tax base for equalizing debt service levies. The bill substitutes estimated market value (EMV) for taxable market value (LMV) in calculating the sales ratios. The term adjusted net tax capacity would be renamed debt service net tax capacity for calculating the debt service tax base.

REVENUE ANALYSIS DETAIL

- Sales ratio formula changes replace LMV with EMV. Jurisdictions with relatively more market value limitation would be favored by this proposal The fiscal impact on tax base is unknown.
- Any net tax shift onto homesteads would result in an increase in property tax refunds.

Number of Taxpayers: Unknown.

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

hf1577(sf1743)_1 / LM

HANDOUT #1

2003 School District Sales Ratios (used for payable 2005 school aid amounts)

Dist No.	District Name	Current Sales Ratio (based on LMV)	Alternative Sales Ratio (based on EMV)	Percentage of Current underassessment due to assessor	Percentage of Current underassessment due to LMV
Maximum effort districts:					
2	Hill City (Isd #2)	73.2%	80.1%	74.2%	25.8%
36	Kelliher (Isd #36)	69.7%	73.6%	87.3%	12.7%
38	Red Lake (Isd #38)	93.9%	95.4%	75.4%	24.6%
51	Foley (Isd #51)	70.9%	85.9%	48.4%	51.6%
91	Barnum (Isd #91)	71.0%	80.9%	65.9%	34.1%
95	Cromwell (Isd #95)	65.7%	81.4%	54.2%	45.8%
192	Farmington (Isd #192)	84.0%	90.1%	62.0%	38.0%
299	Caledonia (Isd #299)	82.7%	91.8%	47.4%	52.6%
306	Laporte (Isd #306)	65.8%	77.2%	66.7%	33.3%
333	Ogilvie (Isd #333)	70.7%	74.0%	88.7%	11.3%
362	Littlefork-Big F (Isd #36	81.7%	86.9%	71.6%	28.4%
363	South Koochichin (Isd #36	75.5%	77.8%	90.5%	9.5%
390	Lake Of The Wood (Isd #39	77.1%	81.4%	81.2%	18.8%
682	Roseau (Isd #682)	89.4%	89.4%	100.0%	0.0%
690	Warroad (Isd #690)	83.8%	86.5%	83.1%	16.9%
707	Nett Lake (Isd #707)	95.8%	108.1%	0.0%	100.0%
727	Big Lake (Isd #727)	79.1%	85.3%	70.3%	29.7%
786	Bertha-Hewitt (Isd #786)	78.3%	86.4%	62.7%	37.3%
885	St. Michael-Albe (Isd #88	99.6%	99.6%	100.0%	0.0%
2580	Sandstone-Askov (Isd #258	65.3%	81.9%	52.1%	47.9%
2897	Belview-Redwood Falls	90.1%	91.5%	86.2%	13.8%
Other affected districts:					
12	Centennial (Isd #12)	82.6%	87.5%	71.8%	28.2%
23	Frazee (Isd #23)	72.8%	85.9%	52.0%	48.0%
31	Bemidji (Isd #31)	79.6%	84.2%	77.3%	22.7%
32	Blackduck (Isd #32)	78.3%	85.2%	68.0%	32.0%
47	Sauk Rapids (Isd #47)	80.9%	85.5%	75.9%	24.1%
62	Ortonville (Isd #62)	75.7%	78.7%	87.5%	12.5%
75	St. Clair (Isd #75)	89.6%	89.9%	97.1%	2.9%
85	Springfield (Isd #85)	94.9%	96.8%	62.0%	38.0%
94	Cloquet (Isd #94)	83.1%	90.3%	57.5%	42.5%
99	Esko (Isd #99)	82.6%	85.2%	85.1%	14.9%
100	Wrenshall (Isd #100)	79.3%	88.6%	55.1%	44.9%
112	Chaska (Isd #112)	81.3%	81.3%	100.0%	0.0%
115	Cass Lake (Isd #115)	79.4%	87.2%	62.2%	37.8%
129	Montevideo (Isd #129)	86.8%	87.5%	94.4%	5.6%
138	North Branch (Isd #138)	74.3%	83.0%	66.2%	33.8%
139	Rush City (Isd #139)	64.7%	78.6%	60.6%	39.4%
150	Hawley (Isd #150)	87.9%	87.9%	100.0%	0.0%
152	Moorhead (Isd #152)	89.6%	89.9%	97.1%	2.9%
162	Bagley (Isd #162)	78.3%	80.9%	88.0%	12.0%
177	Windom (Isd #177)	91.6%	92.5%	88.8%	11.2%
204	Kasson-Mantorvil (Isd #20	84.3%	86.4%	86.4%	13.6%
213	Osakis (Isd #213)	70.9%	76.6%	80.7%	19.3%
229	Lanesboro (Isd #229)	70.2%	83.4%	55.7%	44.3%
241	Albert Lea (Isd #241)	85.7%	87.1%	90.2%	9.8%
242	Alden (Isd #242)	85.5%	87.7%	84.9%	15.1%

2003 School District Sales Ratios (used for payable 2005 school aid amounts)

Dist No.	District Name	Current Sales Ratio (based on LMV)	Alternative Sales Ratio (based on EMV)	Percentage of Current underassessment due to assessor	Percentage of Current underassessment due to LMV
253	Goodhue (Isd #253)	76.4%	85.0%	63.5%	36.5%
261	Ashby (Isd #261)	75.3%	83.1%	68.6%	31.4%
281	Robbinsdale (Isd #281)	83.1%	90.4%	56.8%	43.2%
286	Brooklyn Center (Isd #286	83.1%	90.4%	56.8%	43.2%
300	Lacrescent (Isd #300)	84.5%	88.0%	77.2%	22.8%
314	Braham (Isd #314)	64.4%	81.1%	53.1%	46.9%
347	Willmar (Isd #347)	87.8%	88.3%	95.9%	4.1%
381	Lake Superior (Isd #381)	72.9%	81.8%	67.1%	32.9%
392	Lecenter (Isd #392)	85.1%	93.7%	42.3%	57.7%
413	Marshall (Isd #413)	90.5%	90.8%	96.8%	3.2%
435	Waubun (Isd #435)	70.8%	86.3%	47.1%	52.9%
447	Grygla (Isd #447)	84.0%	86.2%	86.0%	14.0%
463	Eden Valley (Isd #463)	72.3%	81.9%	65.4%	34.6%
466	Dassel-Cokato (Isd #466)	75.1%	84.7%	61.3%	38.7%
477	Princeton (Isd #477)	75.9%	81.8%	75.6%	24.4%
484	Pierz (Isd #484)	71.3%	82.8%	60.0%	40.0%
485	Royalton (Isd #485)	73.6%	90.0%	38.0%	62.0%
487	Upsala (Isd #487)	69.5%	87.6%	40.8%	59.2%
495	Grand Meadow (Isd #495)	90.1%	93.9%	61.6%	38.4%
511	Adrian (Isd #511)	86.3%	86.3%	100.0%	0.0%
518	Worthington (Isd #518)	90.3%	90.8%	94.8%	5.2%
531	Byron (Isd #531)	81.3%	87.1%	69.0%	31.0%
533	Dover-Eyota (Isd #533)	85.7%	96.0%	28.0%	72.0%
534	Stewartville (Isd #534)	80.6%	86.7%	68.6%	31.4%
547	Parkers Prairie (Isd #547	68.5%	83.6%	52.1%	47.9%
550	Underwood (Isd #550)	76.2%	82.8%	72.4%	27.6%
553	New York Mills (Isd #553)	78.1%	88.9%	50.4%	49.6%
564	Thief River Fall (Isd #56	87.4%	87.7%	96.9%	3.1%
593	Crookston (Isd #593)	91.4%	91.9%	94.2%	5.8%
601	Fosston (Isd #601)	85.8%	89.2%	76.0%	24.0%
630	Red Lake Falls (Isd #630)	89.8%	89.8%	99.7%	0.3%
659	Northfield (Isd #659)	80.5%	88.0%	61.8%	38.2%
698	Floodwood (Isd #698)	80.5%	85.4%	75.0%	25.0%
704	Proctor (Isd #704)	80.6%	85.1%	76.8%	23.2%
717	Jordan (Isd #717)	75.4%	84.6%	62.6%	37.4%
719	Prior Lake (Isd #719)	81.6%	85.5%	78.8%	21.2%
720	Shakopee (Isd #720)	87.9%	92.6%	61.2%	38.8%
728	Elk River (Isd #728)	83.1%	85.8%	84.0%	16.0%
738	Holdingford (Isd #738)	79.3%	88.9%	53.7%	46.3%
739	Kimball (Isd #739)	75.5%	87.0%	53.1%	46.9%
740	Melrose (Isd #740)	82.9%	90.6%	55.1%	44.9%
741	Paynesville (Isd #741)	79.6%	86.5%	66.3%	33.7%
743	Sauk Centre (Isd #743)	78.5%	86.0%	65.3%	34.7%
745	Albany (Isd #745)	81.1%	85.5%	76.7%	23.3%
748	Sartell (Isd #748)	89.8%	92.0%	78.7%	21.3%
750	Cold Spring (Isd #750)	77.1%	83.8%	70.7%	29.3%
761	Owatonna (Isd #761)	92.6%	93.7%	85.1%	14.9%
763	Medford (Isd #763)	87.7%	89.4%	85.9%	14.1%
768	Hancock (Isd #768)	85.4%	87.4%	86.5%	13.5%

2003 School District Sales Ratios (used for payable 2005 school aid amounts)

Dist No.	District Name	Current Sales Ratio (based on LMV)	Alternative Sales Ratio (based on EMV)	Percentage of Current underassessment due to assessor	Percentage of Current underassessment due to LMV
769	Morris (Isd #769)	88.7%	90.4%	85.0%	15.0%
806	Elgin-Millville (Isd #806	75.2%	84.8%	61.6%	38.4%
810	Plainview (Isd #810)	78.1%	86.0%	63.7%	36.3%
818	Verndale (Isd #818)	79.7%	88.9%	54.8%	45.2%
821	Menahga (Isd #821)	71.9%	84.3%	55.9%	44.1%
837	Madelia (Isd #837)	85.4%	86.0%	95.5%	4.5%
858	St. Charles (Isd #858)	83.0%	89.6%	61.1%	38.9%
877	Buffalo (Isd #877)	80.7%	88.6%	58.7%	41.3%
879	Delano (Isd #879)	79.2%	87.7%	59.3%	40.7%
881	Maple Lake (Isd #881)	77.7%	88.7%	50.7%	49.3%
883	Rockford (Isd #883)	82.7%	85.7%	82.7%	17.3%
891	Canby (Isd #891)	84.2%	87.3%	80.3%	19.7%
912	Milaca (Isd #912)	73.9%	88.8%	43.0%	57.0%
914	Ulen-Hitterdal (Isd #914)	82.1%	89.5%	58.7%	41.3%
2155	Wadena-Deer Creek (Isd #2	86.5%	92.3%	57.0%	43.0%
2164	Dilwrth-Glynd-Fel (Isd #2	91.5%	92.5%	88.2%	11.8%
2167	Lakeview (Isd #2167)	86.0%	86.7%	95.0%	5.0%
2184	Luverne-Magnolia (Isd #21	84.6%	84.9%	97.9%	2.1%
2215	Norman Co. East Schools	71.3%	71.3%	100.0%	0.0%
2311	Clearbrook - Gonvick	90.6%	92.8%	76.3%	23.7%
2364	Belgrade-Brooten-Elrosa	80.3%	82.0%	91.8%	8.2%
2609	Win-E-Mac (Isd #2609)	76.9%	87.0%	56.6%	43.4%
2689	Pipestone - Jasper	89.4%	90.6%	88.1%	11.9%
2753	Long Prairie - Grey Eagle	69.9%	78.3%	72.3%	27.7%
2895	Jackson Co. Central (Isd	92.0%	92.5%	93.8%	6.2%

HANDOUT #C

Debt Service Levies under alternative proposals - Taxes Payable in 2005

Dist No.	District Name	Total Aid	Current Law: Total Levy	Current Law: Tax Rate	Current Law: Tax on $125K Home	Current law with 28% Max effort rate: Aid Change From C.L.	Current law with 28% Max effort rate: Levy Change From C.L.	Current law with 28% Max effort rate: Tax Rate	Current law with 28% Max effort rate: Tax on $125K Home	EMV-based ANTC w/28% Max Effort Rate *(State Paid)*: Aid Change From C.L.	EMV-based ANTC w/28% Max Effort Rate *(State Paid)*: Levy Change From C.L.	EMV-based ANTC w/28% Max Effort Rate *(State Paid)*: Tax Rate	EMV-based ANTC w/28% Max Effort Rate *(State Paid)*: Tax on $125K Home
Maximum effort districts:		**7,345,335**	**28,951,333**			**-470,851**	**-1,937,236**			**684,143**	**-3,554,327**		
2	Hill City	78,166	295,497	36.3%	454	0	-36,937	31.8%	397	18,793	-59,295	29.0%	363
36	Kelliher	58,556	234,780	40.5%	506	0	-29,347	35.4%	443	9,208	-40,082	33.6%	420
38	Red Lake	1,866	3,518	34.1%	426	-439	-440	29.8%	373	-462	-488	29.4%	367
51	Foley	259,995	2,041,154	39.0%	487	-30,722	-255,144	34.1%	426	253,277	-566,032	28.2%	352
91	Barnum	107,161	748,792	38.1%	476	-57,270	-93,599	33.4%	417	-36,063	-173,777	29.3%	366
95	Cromwell	49,139	456,997	41.3%	516	0	-49,139	36.8%	460	50,388	-99,527	32.3%	403
192	Farmington	1,378,164	6,760,144	31.8%	397	0	-362,889	30.1%	376	282,889	-645,778	28.7%	359
213	Osakis	113,267	1,000,520	39.4%	492	0	-102,207	35.4%	442	38,998	-141,205	33.8%	423
299	Caledonia	152,504	1,179,773	34.4%	430	-87,145	-147,472	30.1%	376	-63,446	-249,802	27.1%	339
306	Laporte	56,813	657,655	39.8%	498	0	-13,216	39.0%	488	49,993	-63,208	36.0%	450
333	Ogilvie	138,151	693,444	38.1%	477	0	-86,681	33.4%	417	24,904	-113,893	31.9%	398
362	Littlefork-Big F	73,132	288,176	36.0%	450	0	-36,022	31.5%	393	12,868	-51,111	29.6%	370
363	South Koochichin	80,562	284,967	37.6%	471	0	-35,621	32.9%	412	6,152	-43,125	32.0%	399
390	Lake Of The Wood	269,889	904,590	37.2%	465	0	0	37.2%	465	32,835	-32,835	35.9%	449
682	Roseau	303,372	1,032,716	32.6%	407	-78,874	-129,090	28.5%	356	-78,855	-129,113	28.5%	356
690	Warroad	460,125	944,885	35.5%	444	0	-118,111	31.1%	388	23,121	-144,259	30.1%	376
707	Nett Lake	5,380	10,927	27.9%	348	-1,313	-1,366	24.4%	305	-1,739	-2,455	21.6%	270
727	Big Lake	1,382,318	3,391,382	34.5%	432	0	0	34.5%	432	247,204	-247,204	32.0%	400
786	Bertha-Hewitt	243,886	299,918	36.0%	451	0	-37,490	31.5%	394	22,285	-62,035	28.6%	357
885	St. Michael-Albe	1,747,370	4,501,760	29.6%	370	0	0	29.6%	370	0	0	29.6%	370
2580	East Central	146,123	1,484,669	40.1%	501	-83,499	-185,584	35.1%	438	-83,826	-449,431	27.9%	349
2897	Redwood Area Sch	239,398	1,735,067	33.0%	412	-131,589	-216,883	28.8%	360	-124,380	-239,671	28.4%	355

Dist No.	District Name	Total Aid	Current Law: Total Levy	Current Law: Tax Rate	Current Law: Tax on $125K Home	Current Law with 28% Max effort rate: Aid Change From C.L.	Current Law with 28% Max effort rate: Levy Change From C.L.	Current Law with 28% Max effort rate: Tax Rate	Current Law with 28% Max effort rate: Tax on $125K Home	EMV-based ANTC w/28% Max Effort Rate *(Revenue Neutral)*: Aid Change From C.L.	EMV-based ANTC w/28% Max Effort Rate *(Revenue Neutral)*: Levy Change From C.L.	EMV-based ANTC w/28% Max Effort Rate *(Revenue Neutral)*: Tax Rate	EMV-based ANTC w/28% Max Effort Rate *(Revenue Neutral)*: Tax on $125K Home
Maximum effort districts:		**7,345,335**	**28,951,333**			**-470,851**	**-1,937,236**			**-239,825**	**-2,931,819**		
2	Hill City	78,166	295,497	36.3%	454	0	-36,937	31.8%	397	8,010	-59,295	29.0%	363
36	Kelliher	58,556	234,780	40.5%	506	0	-29,347	35.4%	443	258	-40,082	33.6%	420
38	Red Lake	1,866	3,518	34.1%	426	-439	-440	29.8%	373	-570	-488	29.4%	367
51	Foley	259,995	2,041,154	39.0%	487	-30,722	-255,144	34.1%	426	177,291	-490,047	29.6%	370
91	Barnum	107,161	748,792	38.1%	476	-57,270	-93,599	33.4%	417	-61,999	-173,777	29.3%	366
95	Cromwell	49,139	456,997	41.3%	516	0	-49,139	36.8%	460	40,194	-89,333	33.2%	415
192	Farmington	1,378,164	6,760,144	31.8%	397	0	-362,889	30.1%	376	109,816	-472,706	29.6%	369
213	Osakis	113,267	1,000,520	39.4%	492	0	-102,207	35.4%	442	17,254	-119,462	34.7%	433
299	Caledonia	152,504	1,179,773	34.4%	430	-87,145	-147,472	30.1%	376	-106,108	-249,802	27.1%	339
306	Laporte	56,813	657,655	39.8%	498	0	-13,216	39.0%	488	35,199	-48,415	36.9%	461
333	Ogilvie	138,151	693,444	38.1%	477	0	-86,681	33.4%	417	-2,763	-113,893	31.9%	398
362	Littlefork-Big F	73,132	288,176	36.0%	450	0	-36,022	31.5%	393	1,995	-51,111	29.6%	370
363	South Koochichin	80,562	284,967	37.6%	471	0	-35,621	32.9%	412	-4,640	-43,125	32.0%	399
390	Lake Of The Wood	269,889	904,590	37.2%	465	0	0	37.2%	465	6,706	-6,706	37.0%	462
682	Roseau	303,372	1,032,716	32.6%	407	-78,874	-129,090	28.5%	356	-117,364	-129,113	28.5%	356
690	Warroad	460,125	944,885	35.5%	444	0	-118,111	31.1%	388	-15,458	-144,259	30.1%	376
707	Nett Lake	5,380	10,927	27.9%	348	-1,313	-1,366	24.4%	305	-2,049	-2,455	21.6%	270
727	Big Lake	1,382,318	3,391,382	34.5%	432	0	0	34.5%	432	85,464	-85,464	33.7%	421
786	Bertha-Hewitt	243,886	299,918	36.0%	451	0	-37,490	31.5%	394	10,224	-62,035	28.6%	357
885	St. Michael-Albe	1,747,370	4,501,760	29.6%	370	0	0	29.6%	370	-138,849	138,849	30.5%	381
2580	East Central	146,123	1,484,669	40.1%	501	-83,499	-185,584	35.1%	438	-106,298	-449,431	27.9%	349
2897	Redwood Area Sch	239,398	1,735,067	33.0%	412	-131,589	-216,883	28.8%	360	-176,138	-239,671	28.4%	355

Debt Service Levies under alternative proposals - Taxes Payable in 2005

Dist No.	District Name	Total Aid	Current Law Total Levy	Current Law Tax Rate	Current Law Tax on $125K Home	EMV-based ANTC w/28% Max Effort Rate (State Paid) Aid Change From C.L.	(State Paid) Levy Change From C.L.	(State Paid) Tax Rate	(State Paid) Tax on $125K Home	EMV-based ANTC w/28% Max Effort Rate (Revenue Neutral) Aid Change From C.L.	(Revenue Neutral) Levy Change From C.L.	(Revenue Neutral) Tax Rate	(Revenue Neutral) Tax on $125K Home
Other affected districts:		**18,578,702**	**110,517,815**			**3,466,644**	**-3,466,644**			**190,913**	**-190,913**		
12	Centennial	1,242,206	7,285,479	30.5%	382	396,798	-396,798	28.9%	361	75,952	-75,952	30.2%	378
23	Frazee	0	924,608	22.2%	277	25,426	-25,426	21.6%	270	5,740	-5,740	22.1%	276
32	Blackduck	40,742	458,081	23.8%	297	21,546	-21,546	22.7%	283	4,394	-4,394	23.6%	294
47	Sauk Rapids	1,160,538	4,168,577	33.5%	419	180,190	-180,190	32.1%	401	34,681	-34,681	33.3%	416
62	Ortonville	196,783	558,126	35.4%	442	21,621	-21,621	34.0%	425	-5,874	5,874	35.7%	447
75	St. Clair	280,957	683,918	30.0%	375	2,317	-2,317	29.9%	374	-32,576	32,576	31.5%	393
85	Springfield	14,745	457,074	19.8%	248	3,202	-3,202	19.7%	246	-6,363	6,363	20.1%	252
94	Cloquet	37,834	1,485,417	18.8%	235	39,535	-39,535	18.3%	229	7,890	-7,890	18.7%	234
99	Esko	334,264	785,588	27.3%	341	23,973	-23,973	26.4%	331	-16,291	16,291	27.8%	348
112	Chaska	667,910	12,085,874	26.8%	335	0	0	26.8%	335	-214,076	214,076	27.3%	341
115	Cass Lake	940,605	1,316,292	39.1%	489	117,417	-117,417	35.7%	446	54,647	-54,647	37.5%	469
129	Montevideo	72,164	826,449	20.5%	256	3,143	-3,143	20.4%	255	-19,496	19,496	21.0%	262
138	North Branch	279,892	4,272,306	29.9%	374	272,869	-272,869	28.0%	350	170,752	-170,752	28.7%	359
139	Rush City	127,608	1,290,829	36.0%	450	141,015	-141,015	32.0%	400	109,587	-109,587	32.9%	411
150	Hawley	473,284	491,235	26.2%	328	0	0	26.2%	328	-26,950	26,950	27.7%	346
152	Moorhead	1,837,126	4,519,635	26.9%	336	15,082	-15,082	26.8%	335	-219,253	219,253	28.2%	353
162	Bagley	120,551	782,300	27.8%	347	25,142	-25,142	26.9%	336	-14,452	14,452	28.3%	353
177	Windom	161,109	1,115,077	28.0%	349	7,209	-7,209	27.8%	347	-21,608	21,608	28.5%	356
204	Kasson-Mantorvil	15,175	952,292	17.4%	217	5,745	-5,745	17.3%	216	-7,445	7,445	17.5%	219
242	Alden	1,880	256,145	18.2%	227	1,292	-1,292	18.1%	226	-1,527	1,527	18.3%	228
261	Ashby	174,828	433,663	42.4%	531	32,348	-32,348	39.3%	491	16,141	-16,141	40.9%	511
286	Brooklyn Center	319,786	1,926,427	31.7%	396	125,029	-125,029	29.6%	370	51,772	-51,772	30.8%	385
347	Willmar	7,477	2,203,321	15.7%	197	1,583	-1,583	15.7%	197	-7,477	7,477	15.8%	197
392	Lecenter	0	663,703	24.4%	306	20,471	-20,471	23.7%	296	2,606	-2,606	24.3%	304
413	Marshall	372,551	2,675,752	28.9%	361	5,309	-5,309	28.8%	360	-60,583	60,583	29.5%	369
435	Waubun	67,203	709,611	33.8%	422	80,614	-80,614	29.9%	374	63,165	-63,165	30.7%	384
447	Grygla	2,477	89,203	17.2%	215	853	-853	17.0%	213	-1,126	1,126	17.4%	218
466	Dassel-Cokato	23,185	1,743,912	25.8%	322	90,734	-90,734	24.4%	305	36,303	-36,303	25.2%	316
485	Royalton	2,282	534,874	23.4%	293	37,599	-37,599	21.8%	272	23,550	-23,550	22.4%	280
487	Upsala	386,067	507,247	49.8%	622	104,540	-104,540	39.5%	494	83,187	-83,187	41.6%	520
495	Grand Meadow	72,985	523,670	29.3%	366	11,888	-11,888	28.6%	358	-505	505	29.3%	367
511	Adrian	92,931	527,373	26.3%	329	0	0	26.3%	329	-27,112	27,112	27.6%	346
518	Worthington	39,887	1,526,297	20.6%	257	2,717	-2,717	20.5%	256	-25,805	25,805	20.9%	261
531	Byron	741,389	1,693,234	33.5%	419	113,102	-113,102	31.3%	391	31,685	-31,685	32.9%	411
533	Dover-Eyota	631,914	778,207	27.6%	346	83,495	-83,495	24.7%	309	45,651	-45,651	26.0%	325
534	Stewartville	19,263	1,195,790	21.3%	266	27,963	-27,963	20.8%	260	2,856	-2,856	21.2%	265
550	Underwood	35,628	523,773	29.7%	371	24,862	-24,862	28.3%	354	12,480	-12,480	29.0%	362
553	New York Mills	78,760	484,038	26.4%	330	59,150	-59,150	23.2%	290	36,405	-36,405	24.4%	305
564	Thief River Fall	202,597	1,235,119	23.6%	295	5,554	-5,554	23.5%	293	-59,981	59,981	24.7%	309
577	Willow River	0	604,160	27.0%	337	15,852	-15,852	26.3%	328	5,168	-5,168	26.7%	334
593	Crookston	118,997	997,079	24.5%	306	5,422	-5,422	24.3%	304	-42,155	42,155	25.5%	319
601	Fosston	373,539	445,898	31.1%	389	17,050	-17,050	29.9%	374	-6,076	6,076	31.6%	395
630	Red Lake Falls	250,897	218,375	27.0%	338	65	-65	27.0%	338	-11,925	11,925	28.5%	356
698	Floodwood	338,835	652,666	40.4%	505	32,716	-32,716	38.4%	480	6,562	-6,562	40.0%	500

Debt Service Levies under alternative proposals - Taxes Payable in 2005

Dist No.	District Name	Total Aid	Current Law Total Levy	Tax Rate	Tax on $125K Home	EMV-based ANTC w/28% Max Effort Rate (State Paid) Aid Change From C.L.	Levy Change From C.L.	Tax Rate	Tax on $125K Home	EMV-based ANTC w/28% Max Effort Rate (Revenue Neutral) Aid Change From C.L.	Levy Change From C.L.	Tax Rate	Tax on $125K Home
728	Elk River	1,698,025	14,343,848	30.1%	376	246,771	-246,771	29.6%	370	-78,602	78,602	30.2%	378
738	Holdingford	234,414	751,246	27.0%	337	81,083	-81,083	24.0%	301	45,168	-45,168	25.3%	317
739	Kimball	172,364	1,032,489	32.5%	406	98,361	-98,361	29.4%	367	63,332	-63,332	30.5%	381
740	Melrose	267	840,591	16.3%	203	9,662	-9,662	16.1%	201	1,567	-1,567	16.2%	203
745	Albany	46,997	1,226,602	24.8%	311	36,366	-36,366	24.1%	301	-5,897	5,897	25.0%	312
748	Sartell	1,481,681	3,500,653	33.6%	420	74,175	-74,175	32.9%	411	-50,539	50,539	34.1%	426
763	Medford	169,043	770,583	31.4%	392	9,454	-9,454	31.0%	388	-11,116	11,116	31.8%	398
769	Morris	789,403	1,503,291	41.1%	514	21,034	-21,034	40.5%	507	-29,473	29,473	41.9%	524
810	Plainview	0	751,843	20.3%	254	16,029	-16,029	19.9%	248	4,193	-4,193	20.2%	252
818	Verndale	45,742	192,730	22.8%	284	19,864	-19,864	20.4%	255	10,186	-10,186	21.6%	269
821	Menahga	0	345,790	17.6%	220	11,969	-11,969	17.0%	212	5,421	-5,421	17.3%	216
858	St. Charles	4,422	732,775	20.4%	256	16,091	-16,091	20.0%	250	2,184	-2,184	20.4%	255
877	Buffalo	218,331	6,184,261	27.9%	349	311,578	-311,578	26.5%	332	175,461	-175,461	27.1%	339
881	Maple Lake	4,045	1,119,263	28.7%	358	75,250	-75,250	26.7%	334	51,539	-51,539	27.3%	342
883	Rockford	503,944	2,588,934	32.8%	410	55,050	-55,050	32.1%	402	-11,814	11,814	33.0%	412
914	Ulen-Hitterdal	172,356	474,988	41.9%	524	27,712	-27,712	39.5%	493	13,098	-13,098	40.8%	509
2155	Wadena-Deer Cree	21,282	556,418	17.1%	214	14,322	-14,322	16.6%	208	85	-85	17.1%	214
2164	Dilworth-Glyndon	181,125	773,302	22.5%	281	8,360	-8,360	22.2%	278	-32,488	32,488	23.4%	293
2167	Lakeview	111,476	751,689	29.6%	370	3,574	-3,574	29.5%	369	-14,626	14,626	30.2%	378
2215	Norman County Ea	31,457	288,331	29.9%	373	0	0	29.9%	373	-14,924	14,924	31.4%	393
2311	Clearbrook-Gonvi	59,863	827,454	26.6%	333	9,337	-9,337	26.3%	329	-6,711	6,711	26.8%	335
2609	Win-E-Mac	40,640	543,540	30.8%	385	53,457	-53,457	27.8%	347	28,579	-28,579	29.2%	365
2689	Pipestone-Jasper	229,714	1,615,934	29.2%	366	13,754	-13,754	29.0%	362	-26,408	26,408	29.7%	372
2753	Long Prairie-Gre	3,257	1,192,567	27.9%	348	50,952	-50,952	26.7%	333	20,177	-20,177	27.4%	342
State Totals (HF 27 only)		**25,924,037**	**665,290,490**			**-470,851**	**-1,937,236**			**-470,851**	**-1,937,236**		
State Totals (HF 1577 only)		**25,924,037**	**665,290,490**			**4,728,062**	**-5,190,160**			**421,938**	**-1,185,496**		
State Totals (HF 27 & HF 1577)		**25,924,037**	**665,290,490**			**4,257,212**	**-7,127,396**			**-48,912**	**-3,122,732**		

Is the current ANTC still the "Gold Standard" for Equalizing State-wide the Debt Equalization Aid Formula and Maximum Effort Rate?

- What is ANTC?
- How is currently calculated?
- What is the role of the sales ratio and how is it calculated?
- How does LMV distort ANTC and therefore distort the application of debt aid formula and Max Effort calculation from district to district?

- Can ANTC be reformed to remove the effects of LMV?

To study these issues, Foley Public Schools hosted a conference on the sales ratio in July 2005

Welcome to the Minnesota
Sales Ratio Conference
Thursday, July 29th
9:00 am - 2:30 pm
Henry's Banquet Center
6774 Hwy 25
Foley, MN

Presenters:
Leonard Peterson, Tom Clark, Al Heim,
Minnesota Department of Revenue

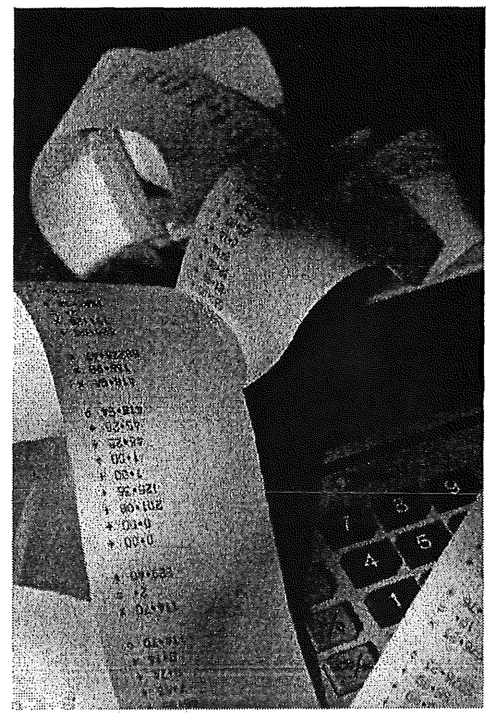
Brian Koester, Gary Grossinger, Dale Smith,
County Assessors for Benton, Stearns, and Carlton Counties
Tim Strom, Karen Baker, Steve Heize
Research Department of the Minnesota House of Representatives
Tom Melcher
Director, Program Finance Division of Minnesota Department of Education

Conference Host:
Foley Public Schools, ISD #51
Sponsoring Partners:
Minnesota Association
of School Administrators
Ehlers & Associates
Springsted Incorporated

This reform effort grew from the work of these presenters both in preparation for the conference and afterwards.

Adjusted Net Tax Capacity (ANTC)

The state's school finance formulas use the sales ratio to form adjusted net tax capacity which is the primary tax base used to compute school district levy amounts.



Currently

Adjusted Net Tax Capacity (ANTC) =
Net Tax Capacity (NTC)/Sales Ratio

Current Sales ratio calculation

$$\text{The Current Sales Ratio} = \frac{\text{Assessor's Market Value* or Limited Market Value, Which ever is lower}}{\text{Sale Price}}$$

*Assessors Market Value is known as the Estimated Market Value (EMV)

General Uses of Sales Ratio Studies

Assessors:

- Monitor appraisal performance
- Establish reappraisal priorities
- Identify appraisal procedure problems
- Adjust values between reappraisals

Uses of Sales Ratio Studies Cont.

Oversight Agencies:

- Provide technical assistance
- Equalize
  - Direct equalization, State Board of Equalization
  - Indirect equalization, School aids, levy apportionment
  - Tax court

Effects of the Sales Ratio on Debt Levies

- **The debt levy is the primary levy affected by the sales ratio.**

- **Since only districts that are relatively property poor qualify for debt aid, those are the districts most impacted by the sales ratio.**

- **This effect is even more pronounced for the maximum effort school districts, where the repayment amount is directly related to the level of the sales ratio.**

- **This effect is exacerbated by Limited Market Value (LMV).**

Defining Limited Market Value (LMV)

- **Limited Market Value was created by the legislature as a way to slow the growth in property taxes paid by properties with rapidly rising values.**
- **Limited market value is a tool designed to limit year-to-year increases in a homeowner's market value.**
- **Another form of Limited Market Value is "Green Acres" which primarily affects districts in areas where farm land is being purchased for future development or for non-farm use.**
- **According to current law, Limited Market Value is being phased out, Green Acres is not.** (In January 2005, the Assessor of Benton County sent out informational packets about Green Acres including application forms to 1800 land owners owning 4,000 parcels labeled as agricultural in the County. 2900 of those parcels are in one school district, Foley. This represents 50% of the parcels in the School District.)
- **Will Limited Market Value be reinstated or extended?** (An article in the Mpls Star Tribune, Jan. 28, 2005, p B1, indicated an legislative interest in extending LMV.)

Limited Market Value's Impact

Limited Market Value distorts the sales ratio.

Because the sales ratio is computed by comparing the Limited Market Value of the property to its actual sales price, a taxing jurisdiction with a significant number of properties subject to Limited Market Value will have a lower sales ratio, leading to a higher ANTC.

This increases the district's levy share of equalized school finance formulas and raises the total tax bill for Maximum Effort School Districts.

Four Examples of Districts affected by Limited Market Value with the current Sales Ratio Definition

School District	Property Classification	2003 Net Tax Capacity	Property Classification	2003 Net Tax Capacity	District Sales Ratio
Foley*	Residential	83.9	Farm with buildings	59.3**	70.9
Barnum*	Residential	76.0	Seasonal/ Recreational	59.2**	71.0
Rush City	Residential	70.5	Farm with Buildings	33.5**	57.3
Annandale	Residential	80.6	Seasonal/ Recreational	59.0**	69.7

*Maximum Effort School Districts

**Affected by Limited Market Value

State-wide distribution of LMV

- 120 school districts receive Debt Service Aid
- Median sales ratio = 80.9
- Median effect of LMV on sales ratio = 28.2%
- Maximum effect of LMV on sales ratio = 72%
- Minimum effect of LMV on sales ratio = 0%
- Most affected types of school districts
  - Seasonal/rec and Residential -15.9% EMV to LMV
  - Farm and Seasonal/rec -15.8% EMV to LMV

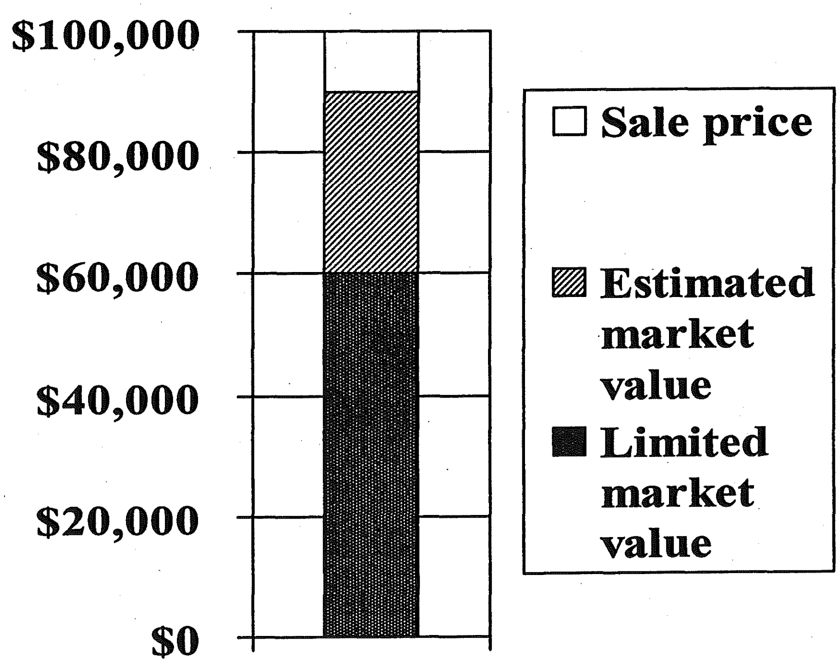
SF 1743 Proposed
Sales ratio calculation

Proposed Sales Ratio = $\dfrac{\text{Assessor's Market Value*}}{\text{Sale Price}}$

This proposal removes the effect of LMV from the sales ratio and returns the sales ratio to its original purpose, adjusting for assessor practices across the State of Minnesota to truly equalize aid and levies.

*Assessors Market Value is known as the Estimated Market Value (EMV)

Adjusted net tax capacity under SF 1743



- Under current law, sales ratio for this property (type) is 60%
- Under current law, adjusted net tax capacity is $600 / 60%, or $1,000
- Under SF 1743, sales ratio for this property (type) is 90%
- Under HF 1577, adjusted net tax capacity is $600 / 90%, or $667

An Example Showing Limited Market Value's Distorting Effect on a District's Equalized Debt Service Aid as Compared to the Proposed EMV Basis for the Sales Ratio.

A	Total district NTC	$7,200,000	
B	Sales Price of typical home	$150,000	
C	Assessors valuation of typical home (EMV)	$135,000	
D	Taxable market value of typical home (LMV)	$100,000	
		Current ANTC	**Proposed ANTC**
		Based on NTC	**Based on EMV**
E	Homestead sales ratio (current law = D/B, EMV= C/B, NTC= D/D	66.7%	90.0%
F	Sales ratio for other types of property (assumed)	90.0%	90.0%
G	Sales Ratio for district (E + F)/2	78.3%	90.0%
H	Adjusted Net Tax Capacity	$9,191,489	$8,000,000
I	Students in the district (Resident AMPCU's)	3,000	3,000
J	ANTC/Pupil	$3063.83	$2666.67
K	105% of annual debt payment	$2,000,000	$2,000,000
L	Debt Service Aid based on current formula, tier one $3200/pupil	$26,437.33	$133,333.33
M	Debt Service District Levy based on current formula, tier one $3200/pupil	$1,973,562.67	$1,866,666.67
N	Tax on typical home (LMV = $100,000)	$274.11	$259.26
O	Tax on $150,000 home	$411.16	$388.89
P	Tax on $150,000 business	$616.74	$583.33

An Example Showing Limited Market Value's Distorting Effect on a District's Maximum Effort Levy as Compared to the Proposed EMV Basis for the Sales Ratio.

A	Total district NTC	$7,200,000	
B	Sales Price of typical home	$150,000	
C	Assessors valuation of typical home (EMV)	$135,000	
D	Taxable market value of typical home (LMV)	$100,000	
		Current ANTC	**Proposed ANTC**
		Based on NTC	**Based on EMV**
E	Homestead sales ratio (current law = D/B, EMV= C/B, NTC= D/D	66.7%	90.0%
F	Sales ratio for other types of property (assumed)	90.0%	90.0%
G	Sales Ratio for district (E + F)/2	78.3%	90.0%
H	Adjusted Net Tax Capacity	$9,191,489	$8,000,000
I	Statutory maximum effort tax rate	32.0%	32.0%
J	Maximum Effort Levy	$2,941,277	$2,560,000
K	Actual maximum effort tax rate	40.85%	35.56%
L	Maximum effort tax on typical home (LMV = $100,000)	$409	$356
M	Maximum effort tax on $150,000 home	$613	$533
N	Maximum effort tax on $150,000 business	$919	$800

What are the options for reforming ANTC and making it once again "the Gold Standard" for equalizing aids and levies in Minnesota?

- Do nothing and expect LMV to phase out in two years, and out of debt formula by 2009.
- Question? Will LMV phase out? What will happen to Green Acres?

- Decouple LMV from debt aid formula by moving to ANTC based on EMV as proposed in HF 1577 so LMV does not affect School District Debt Aid and Max Effort required levies.
- This improved equalization can be achieved two ways:

- Leave Debt aid formulas the same and have state assume the cost of a transition to an ANTC based on EMV (all districts' taxpayers are helped). The estimated cost is $4,728,062 as proposed in SF 1743.

- Adjust the debt aid formulas so there is no net cost to the state and some districts' taxpayers pay less and other districts' pay more. Equalization state-wide is achieved, but there are winners and losers.

State-wide summary to change ANTC from NTC to EMV in Debt Service Equalization

Data prepared by Steve Hinze, House Res.	ANTC based on EMV for Debt Aid Formula	Tax Change on $125 K home
No Change in Formula State Assumes Cost, HF 1577		
Levy Reduction	State-wide: -$5,190,160 Max Effort: -$1,723,516 Other SD's: -$3,466,644	State-wide: -$18 Max Effort: -$29 Other SD's: -$15
Aid increase	State-wide: $4,728,062 Max Effort: $1,261,418 Other SD's: $3,466,644	
No Cost to State Formulas Adjusted		
Levy Reduction	State-wide: -$1,895,496 Max Effort: -$994,583 Other SD's: -$190,913	State-wide: -$9 Max Effort: -$29 Other SD's: -$3
Aid Change	State-wide: $421,938	

Other considerations

- The Governor's proposals include a number of equalized levies tied to the current ANTC. Should the House and Senate move towards reforming ANTC and basing it on EMV, the administration's proposals should be amended to use the new ANTC rather than add to the formulas subject to the distortions of LMV.

- While Debt Service Equalization is the largest school formula based on ANTC, there are others. Should HF 1577 become the basis for a new ANTC, between the sessions for the 2006 session, work should be done on moving the other education formulas to the new ANTC so there are not two ANTC formulas complicating the ed finance world.

- These other levies include: Capital Health and Safety, Operating Capital, Community Ed, ECFE, School Age Care

Agenda #7

Senators Belanger, Michel and Ranum introduced--

S.F. No. 1880: Referred to the Committee on State and Local Government Operations.

A bill for an act

relating to taxation; property; extending the fiscal disparities Bloomington repayment by eight additional years; amending Minnesota Statutes 2004, section 473F.08, subdivision 3a.

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

Section 1. Minnesota Statutes 2004, section 473F.08, subdivision 3a, is amended to read:

Subd. 3a. [BLOOMINGTON COMPUTATION.] Beginning in 1987 and each subsequent year through 1998, the city of Bloomington shall determine the interest payments for that year for the bonds which have been sold for the highway improvements pursuant to Laws 1986, chapter 391, section 2, paragraph (g). Effective for property taxes payable in 1988 through property taxes payable in 1999, after the Hennepin County auditor has computed the areawide portion of the levy for the city of Bloomington pursuant to subdivision 3, clause (a), the auditor shall annually add a dollar amount to the city of Bloomington's areawide portion of the levy equal to the amount which has been certified to the auditor by the city of Bloomington for the interest payments for that year for the bonds which were sold for highway improvements. The total areawide portion of the levy for the city of Bloomington including the additional amount for interest repayment certified pursuant to this subdivision shall be certified by the Hennepin County auditor to the administrative auditor pursuant to subdivision 5. The Hennepin County auditor shall distribute to the city of Bloomington the additional areawide portion of the levy computed pursuant to this subdivision at the same time that payments are made to the other counties pursuant to subdivision 7a. For property taxes payable from the year ~~2006~~ 2014 through ~~2015~~ 2023, the Hennepin County auditor shall adjust Bloomington's contribution to the areawide gross tax capacity upward each year by a value equal to ten percent of the total additional areawide levy distributed to Bloomington under this subdivision from 1988 to 1999, divided by the areawide tax rate for taxes payable in the previous year.

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

MINNESOTA · REVENUE

PROPERTY TAX
Delay Metropolitan Fiscal Disparities
Bloomington Bond Payback

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

April 25, 2005

Department of Revenue
Analysis of H.F. 1867 (Lenczewski)/ S.F. 1880 (Belanger)

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

Effective day following final enactment.

EXPLANATION OF THE BILL

Current Law: Fiscal disparities distribution levies are disbursed on a formula primarily based on real property market value and population. The contribution to the "pool" is 40% of the growth since 1971 in commercial and industrial tax capacity. From payable 1988 to 1999, Bloomington highway improvement bond interest for the Mall of America was paid from the distribution pool. Bloomington is required to pay back the pool for taxes payable in 2006 through 2015.

Proposed Law: The bill delays the provision of the metropolitan fiscal disparities law that relates to the Bloomington highway bond loan repayment. The payback schedule would be delayed eight years.

REVENUE ANALYSIS DETAIL

- The major state paid property tax aids such as local government aid (LGA) and homestead market value credits are independent of fiscal disparities distribution levies.
- The total amount paid from the fiscal disparities pool from 1988 to 1999 for highway bond interest is $48,644,878. That amount would be repaid by Bloomington to the pool over ten years under current law. Overall, there is no levy impact; the size of the pool remains the same. Bloomington pays a smaller share under the proposal, while the other cities pay a larger share.

Number of Taxpayers Affected: Primarily metropolitan home and business property owners.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

hf1867(sf1880)_1 / lm

C list

Agenda #8

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

Page ..., after line ..., insert:

"Sec. ... Minnesota Statutes 2004, section 275.025, subdivision 1, is amended to read:

Subdivision 1. [LEVY AMOUNT.] (a) The state general levy is levied against commercial-industrial property and seasonal residential recreational property, as defined in this section. The state general levy base amount is $592,000,000 for taxes payable in 2002. For taxes payable in subsequent years on seasonal residential recreational property, the levy base amount is increased each year by multiplying the levy base amount for that class of property for the prior year by the sum of one plus the rate of increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysts of the United States Department of Commerce for the 12-month period ending March 31 of the year prior to the year the taxes are payable. For taxes payable in 2006 and subsequent years on commercial-industrial property, the tax is imposed under this subdivision at the rate of the tax imposed under this subdivision for taxes payable in 2002. The tax under this section is not treated as a local tax rate under section 469.177 and is not the levy of a governmental unit under chapters 276A and 473F.

(b) Beginning with taxes payable in 2008, and in each year thereafter, the commissioner of finance shall deposit in the education reserve account established in S.F. No. 1683, article 4, section 73, the increased amount of the state general levy for that year over the state general levy base amount for taxes payable in 2002.

(c) The commissioner shall increase or decrease the preliminary or final rate for a year as necessary to account for errors and tax base changes that affected a preliminary or final rate for either of the two preceding years. Adjustments are allowed to the extent that the necessary information is available to the commissioner at the time the rates for a year must be certified, and for the following reasons:

(1) an erroneous report of taxable value by a local official;

(2) an erroneous calculation by the commissioner; and

(3) an increase or decrease in taxable value for commercial-industrial or seasonal residential recreational property reported on the abstracts of tax lists submitted under section 275.29 that was not reported on the abstracts of assessment submitted under section 270.11, subdivision 2, for the same year.

The commissioner may, but need not, make adjustments if the total difference in the tax levied for the year would be less than $100,000.

[EFFECTIVE DATE.] This section is effective for taxes payable in 2006 and subsequent years."

Renumber the sections in sequence and correct the internal references

Amend the title accordingly

State General Levy - Property Tax Estimates (RSC 1190)

FY 2003 - FY 2009

February 10, 2004

Calculation of Inflation in CY State Levy on Regular Tax Base:

Quarter/Yr	IPD Index	Source	Change Ratio	CY	CY State Levy Payable Reg. Tax Base	Tax Rate
1st Q. 2001	1.1472	BEA, 9/27/02		2002	592,000,000	57.933%
1st Q. 2002	1.1529	BEA, 9/27/02	1.004969	2003	594,941,423	54.447%
1st Q. 2003	1.1921	BEA, 9/26/03	1.034001	2004	615,170,153	54.109%
1st Q. 2004	110.1310	JPGSL, Feb 05	1.017508	2005	625,940,675	51.121%
1st Q. 2005	115.1267	JPGSL, Feb 05	1.045361	2006	654,198,157	48.610% (Est.)
1st Q. 2006	118.2105	JPGSL, Feb 05	1.026786	2007	671,641,243	
1st Q. 2007	121.3100	JPGSL, Feb 05	1.026220	2008	689,173,133	
1st Q. 2008	124.6567	JPGSL, Feb 05	1.027588	2009	708,103,276	

Calendar Year Payable Amounts:

	CY 2002	CY 2003	CY 2004	CY 2005	CY 2006	CY 2007	CY 2008	CY 2009
Regular Tax Base:								
Real property:								
Est. from abstract	546,737,852	553,504,321	572,770,153	583,540,675	611,798,157	629,241,243	646,773,133	665,703,276
Changes to abstract	(3,634,175)	(2,700,042)	(3,402,956)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)	(3,000,000)
Adj. real property	543,103,677	550,804,279	569,367,197	580,540,675	608,798,157	626,241,243	643,773,133	662,703,276
Personal property:								
Est. from abstract	45,262,148	41,437,102	42,400,000	42,400,000	42,400,000	42,400,000	42,400,000	42,400,000
Airport value error	(3,022,643)							
Adj. personal property	42,239,505	41,437,102	42,400,000	42,400,000	42,400,000	42,400,000	42,400,000	42,400,000
Est. full pay in June	37,091,290	36,043,697	37,000,000	37,000,000	37,000,000	37,000,000	37,000,000	37,000,000
Est. half pay in June	5,148,215	5,393,405	5,400,000	5,400,000	5,400,000	5,400,000	5,400,000	5,400,000
Total base before adjust.	592,000,000	594,941,423	615,170,153	625,940,675	654,198,157	671,641,243	689,173,133	708,103,276
Total base after adjust.	585,343,182	592,241,381	611,767,197	622,940,675	651,198,157	668,641,243	686,173,133	705,103,276
Previous years recapture			9,356,860	3,402,956	3,000,000	3,000,000	3,000,000	3,000,000
Manufactured bldgs.	118,011	129,579	133,985	136,331	142,515	146,332	150,169	154,312
Transmission & distrib.	2,252,902	2,092,906	2,164,067	2,201,956	2,301,840	2,363,498	2,425,469	2,492,383
Total Payable After Adj.	587,714,095	594,463,866	623,422,110	628,681,918	656,642,512	674,151,073	691,748,771	710,749,971

HANDOUT # 1

GREATER MINNEAPOLIS BUILDING OWNERS & MANAGERS ASSOCIATION

February 10, 2005

Senator Larry Pogemiller, Chair
Senate Tax Committee
235 State Capitol Building
St. Paul, MN 55155

Dear Senator Pogemiller:

Thank you for your taking the time last week to meet and discuss the property tax structure in the State of Minnesota. We appreciate your candid views and the opportunity to share the views with some of the largest downtown Minneapolis property owners.

While we understand your concerns about the shift in real estate tax burden from commercial to residential property owners, we disagree with the premise that it was almost solely the result of the 2001 tax law changes. With respect to the city of Minneapolis, the primary cause of the shift in the burden could be termed "the perfect storm", with the convergence of double digit increases in residential property values (great news by most standards) coupled with the steady erosion in the commercial real estate values over the past five years due to a severe economic recession.

Between 1995 and 2000, both commercial and residential market values increased at a compounded annual rate of 8.5% and 8.6%, respectively. During that time, the relationship between commercial and residential values "tax capacity" stayed very constant at about 44% for commercial property and 35% for residential property.

However, during the next five years, the market values of residential and commercial properties changed as follows, according to the Minneapolis city assessor's office (Billions $):

	Values @ 1/2/00	Values @ 1/2/04	Increase	
Residential	$11.7 B	$21.5B	$9.8B	84%
Commercial	4.5 B	4.6 B	.1B	2%
Apartments	1.8B	3.2B	1.4B	78%
Other	1.1B	1.4B	.3B	27%
Total	19.1B	$30.7B	$11.6B	61%

121 S. 8th Street, Suite 610, Minneapolis, MN 55402
www.bomampls.org • Phone: 612.338.8627 • Fax: 612.340.9744

As is obvious, residential property grew tremendously at a compounded annual rate of 16% during this period, while the commercial property stayed virtually unchanged. In 2001/02 when the tax law changes were implemented, the tax capacity of commercial property was reduced by 16% while the residential tax capacity increased by 15%. This was approximately what was anticipated when the law was proposed, although the true impact to those classes of taxpayers was affected by the State takeover of a greater share of education funding, and enactment of a statewide property tax that applies to C/I but not homesteads.

However, beginning the following year and every year since, the residential values have increased at a compounded rate of 14% per year while commercial values have declined by a compounded 2% per year, with a resulting reduction in commercial tax capacity of an additional 24% and an equal increase in the residential tax capacity. This additional shift is solely due to the changing market conditions of both residential and commercial and NOT due to the 2001 tax law changes.

Clearly, the negative impact on residential has been more severe than anticipated, but it has been primarily caused by the fact that the commercial values have not provided the buffer as has been the case in the past due to the severe downturn in economic and business conditions since 2001. Assuming that the commercial property values increase as the market continues to recover, commercial property will have an increasing percentage of the total market value in the city, which will translate into increased tax capacity and a larger share of the tax burden by commercial property. Please also remember that lower and middle income homeowners are shielded from the full impact of soaring residential values on their taxes by the State's Circuit Breaker Program.

Because of the unique circumstances, this is not the time to roll back the real estate tax reforms that were accomplished in 2001. Let the markets for both commercial and residential run their natural course, which will result in a balance once again between commercial and residential property. Even with the changes in the tax law over the years, C/I property is still paying at a rate about 2.5 times what the average residential property is paying, significantly higher than that of most other states with which we compete.

We hope this information will be helpful to you in understanding our position and concerns. Please let us know if you need any further information to assist you in your difficult decisions this year.

Yours very truly,

Kent D. Warden, RPA
Executive Director

HANDOUT #2

Minneapolis Assessor Data
Downtown Office Values – January 2005
Ranked by Est. Value Per Sq. Ft.

	2004	2005	Incr	+%
U.S. Bancorp Center	$114.50	$137.69	$23.19	20.3
Wells Fargo Center	$113.94	$134.17	$20.23	17.8
Amex Headquarters	$107.58	$126.81	$19.23	17.9
IDS Center	$73.12	$123.84	$50.72	69.4
LaSalle Plaza	$106.39	$114.95	$8.56	8.0 *
Dain Rauscher	$98.29	$112.57	$14.28	14.5*
Retek	$95.60	$110.69	$15.09	15.8
50 South Sixth	$88.49	$105.01	$16.52	18.7
Target Plaza	$86.51	$100.58	$14.07	16.3
Fifth Street Towers/150	$84.59	$98.61	$14.02	16.6

* Minimum assessment agreement applied

Source:
Greater Minneapolis Builder Owners and Managers Association
Minneapolis City Assessors Office

Revised, Confidential Request

State General Levy
($000s)

	FY 2006	FY 2007	FY 2008	FY 2009
General Fund	$63,200	$133,500	$169,200	$207,800

This proposal would freeze the state general levy tax rate for commercial and industrial property at payable 2002 levels. The commercial-industrial rate would be 57.933%. The state general levy total increases by the amount of inflation each year. Because commercial and industrial market values have been growing at a rate faster than inflation, the state general levy tax rate has been declining. Freezing the tax rate would therefore increase the amount of tax paid to the state. The proposal includes splitting the rate, so that the cabin tax rate would be calculated as current law, and commercial and industrial properties would be taxed at 57.933%.

Assumed effective for taxes payable 2006 and following.

Assumptions and sources:

- Simulated on pay 2005 and 2006 estimated market values.
- Commercial and industrial market values were assumed to grow at 7.0% for pay 2007 and following years. Estimated 2006 market values used for pay 2006.
- Estimates are consistent with the February 2005 forecast.
- Payable year general fund amounts split 55% to June payment, 45% December payment.

Minnesota Department of Revenue
Tax Research Division
April 26, 2005

StateGenLevy3/lm