

Comparison of Local Sales Tax Provisions in the House and Senate bills

Article/section	Political subdivision(s)	New tax or change to existing	Authorized rate	Projects funded	Referendum Required?	Bonding authority?	Expiration date	Meets House General Requirements	Additional Comments
House General Provision: Art. 7, sec. 35	Cities outside metro area	New Tax	½ of 1 %	Projects of “regional significance”	Yes, for each individual project	Up to amount included in referendum	Earlier of 12 years or when specified revenues are raised		Total tax cannot exceed ½ of 1 % so cannot be imposed in cities with existing taxes
Other House Provisions: Art. 7, sec. 34	1 st class cities	New Tax	½ of 1 %	General purposes	Yes, to impose	No	None	No	LGA amount reduced based on a portion of revenues that could be raised under this authority
Art. 7, sec. 41	Rochester	Modify use of existing tax	-	No additional funding – existing allowed revenues can be used for more generic student/ community facilities	None	None	No Change from current law	No	Changes also included in other Rochester provision
Art. 7, sec. 44	Mankato	Change expiration date of existing	-	Continues to fund debt repayments and capital improvements to airport and civic center; eliminates current use for operating expenses	No	No	December 31, 2018; currently expires when \$29.5 million raised	No (no referendum)	Senate has similar provision (Senate. Art. 7, sec. 26 and 43) which allows continued spending on operations; requires a reverse referendum
Art. 7, sec. 45	St Cloud, St. Joseph, Waite Park, Sartell, and St. Augusta	Replaces existing tax in some cities which expires 12/31/2005 New tax in St. Joseph and Waite Park	½ of 1%	At least \$900,000 annually up to \$30 million to regional library under joint powers Remainder to other projects in each city approved by referenda	Held 2004 in St. Cloud and St. Joseph; 2003 in Waite Park; 1999 in Sartell; next general in others	\$30 million for regional library, undetermined amount for other projects	When sufficient revenue raise, but no later than 11 years	No (some referenda held before 2004 or didn't include library project)	Senate has similar provision (Senate Art. 7, sec. 47). Include Sauk Rapids; allows Waite Park and Sartell to fund library, even though not in the referendum. Expires after 17 years in St. cloud, 20 years all other cities.

Article/s ection	Political subdivision(s)	New tax or change to existing	Authorized rate	Projects funded	Referendum Required?	Bonding authority?	Expiration date	Meets House General Requirements	Additional Comments
Art. 7, sec. 46	Bemidji	New tax	½ of 1%	No \$ limit – parks, open space, and trail system	Held November 5, 2002	Up to \$9.826 million	Sufficient revenues raised to fund projects	No (referendum held in 2002)	Senate has similar provision (Senate Art. 7, sec. 40)
Art. 7, sec. 48	Rochester	Modify use of existing tax	-	For highway and higher education/community projects	None	As needed for highway projects	December 31, 2014	No (no referendum)	Senate has similar provision (Senate Art. 7, sec. 28 and 29). allows up to \$40 million more in bonding for the authorized projects
Senate Provisions with no comparable House provision:									
Senate Art. 7, sec. 27	Hermantown	Modifies existing	Additional ½ of 1%	\$13 million - city hall; public works facility; major roads; sewer interceptor	General or special election	Up to \$13 million more	Raised \$13 million plus bond costs	No	Would exceed the ½ of 1 % limit in general provision, allows a special election
Senate Art. 7, sec. 30-32	Proctor	Modifies existing	Additional ½ of 1%	No \$ limit - city streets, public utilities, sidewalks, bikeways and trails	General or special election	Up to \$7.2 million more	Sufficient revenues raised to fund projects	No	Would exceed the ½ of 1 % limit in general provision, allows a special election
Senate Art. 7, Sec. 37	Albert Lea	New tax	½ of 1%	\$15 million – lake improvement projects	Next general or special	None	Earlier of 10 years or \$15 million raised	Probably	Qualifies if referendum held at general election
Senate Art. 7, sec. 38	Baxter	New tax	½ of 1% \$20 on M.V.	\$15 million – water and waste water facilities, fire substation, A bridge	Next general	Up to \$15 million	When \$15 million plus bond costs raised	Maybe	Depends on if projects meet “regional” test
Senate Art. 7, sec. 39	Beaver Bay	New tax	1%	\$1.5 million – community center debt, recreational facilities, water and sewer, fire equipment, streets	Next general or special	None	When \$1.5 million is raised	Probably not	Some projects do not look like they would meet “regional” test; referendum must be held at general election
Senate Art. 7, sec. 41	Cloquet	New tax	½ of 1% \$20 on M.V.	No \$ limit – specific park improvements, ice arena debt service, infrastructure for industrial park; closing landfill	Next general	Up to \$7 million	Earlier of 14 years or sufficient funds raised	Probably not	Some projects do not look like they would meet “regional” test;

Article/s action	Political subdivision(s)	New tax or change to existing	Authorized rate	Projects funded	Referendum Required?	Bonding authority?	Expiration date	Meets House General Requirements	Additional Comments
Senate Art. 7, sec. 42	Clearwater	New tax	½ of 1%	No \$ limit – parks, trails, open space, community and recreation center	Next general or special	Up to \$3 million	Sufficient revenues raised to fund projects	Maybe	Depends on if projects meet “regional” test and referendum is held at general election
Senate Art. 7, sec. 44	Medford	New tax	½ of 1%	Up to \$5 million for wastewater treatment improvements	Next general election	Up to \$5 million	Earlier of 20 years or when \$5 million is raised	Maybe	Depends on if project meets the “regional” test
Senate Art. 7, sec. 45	Park Rapids	New tax	½ of 1%	No \$ limit 2/3 of community center; water, sewer, storm sewer, streets, water tower and well, trunk Hwy. 34, park improvements	Next general or special	Yes – no limit in bill	Earlier of July 1, 2023 or when revenues sufficient to pay bonds	Probably not	At least some projects may not meet the “regional” test
Senate Art. 7, sec. 49	Waseca	New tax	½ of 1%	No \$ limit – water quality and lake improvements; community center improvements, industrial incubator, and downtown improvements	Next general	Up to \$1.82 million	Earlier of 10 years or sufficient revenues raised	Probably not	At least some projects may not meet the “regional” test
Senate Art. 7, sec. 50	Willmar	New tax	½ of 1%	No \$ limit - airport/industrial park; trails; connection between Blue Line and Civic Center; purchase of part of regional treatment center	Held November 2, 2004	Up to \$8 million	7 years or sufficient funds for project	Maybe	Depends on if projects meet the “regional” test
Senate Art. 7, sec. 51	Winona	New tax	½ of 1% \$20 on M.V.	No \$ limit – transportation, cultural, or library projects	Next general election	Up to \$20 million	Later of 15 years or sufficient funds raised	Maybe	Depends on if projects meet the “regional” test
Senate Art. 21, sec. 11	Mower County	New tax	½ of 1%	No \$ limit – County criminal justice center	Next general or special	Yes – no limit in bill	When sufficient funds are raised for the project	No	General provision only applies to cities

Article/s ection	Political subdivision(s)	New tax or change to existing	Authorized rate	Projects funded	Referendum Required?	Bonding authority?	Expiration date	Meets House General Requirements	Additional Comments
Senate Art. 21 Sec. 12	Worthington	New tax	½ of 1% \$20 on M.V.	\$4.6 million – multipurpose community/senior center with swimming pool; Memorial Auditorium renovations	Next general or special	Up to \$7.8 million	Earlier of 10 years or \$7.8 million plus bond costs raised	Maybe	Depends on if projects meet the “regional” test and if referendum is held at the general election

Test For regional Significance in House General Provision:

- The following automatically qualify as regional projects – lake improvement projects from a watershed plan; collector and arterial roads and bridges connected or adjacent to a state highway; rails overpasses and crossing improvements on roads connected or adjacent to a state highway; and any projected fund through a joint powers agreement if no one city provides 80 percent of the project funding;
- The following projects are regional if 20 percent of the users or 20 percent of the direct benefit accrue to persons or businesses located outside of the city:
 - convention or civic center
 - regional airport
 - regional library, history center, or arts center;
 - parks, trails, regional recreation centers, and open space;
 - flood control or protection;
 - wastewater project to mitigate water pollution; and
 - regional government center or jail owned and operated by two or more local jurisdictions.

House Research Department
June 13, 2005

Gov./House

6/25/05

#1

Proposal

- Senate drops all income and statewide property taxes.
- Governor/House Republicans will find additional revenue of \$180 million (including racino) to bring the spending total to \$30,394 billion which is more than one-third of the compromise between the House/Senate/Governor positions.
- The \$180 million in additional revenue can address Senate, House and Governor expenditure "hot spots."
- House will agree up to \$100 million from the Health Impact Fee in Health and Human Services for buying back eligibility for healthcare. This assumes funding for caregivers at House COLA levels (2.26/2.26), all House reforms and the Governor's investments that passed both the House and Senate at the House levels.
- Governor/House will agree to two suggested Senate proposals (statewide health insurance and No Child Left Behind limited waiver) for two suggested Governor/House reforms (no strike during school year and meaningful choice for parents and children – Buesgens/Hann bill). *— they would be open to STATEWIDE*
- For dropping the statewide property tax, the Governor/House will work with the Senate to reduce all non-voter approved levies.

Senate Offer

8:00 pm Sunday, June 26, 2005

- E-12
 - Gov/Senate level \$867.4 M
 - Senate early childhood
 - Gov Q Comp using Senate language

- HHS –
 - repeal limited benefit set August 1, 2005
 - Berglin health care cost containment reform proposal
 - eliminate Mn Care Eligibility cuts
 - Senate COLA for nursing homes

- Local property tax and police and fire service level protection (LGA) - \$86 M

- Middle Class tax relief (approx \$150 M)
 - AMT (alternative minimum tax) fix
 - Married Joint Federal Conformity

- Corporate loophole fix - \$187 (Senate compromise)

- Fair Share Tax Proposal
 - 4th tier Fair Share Tax – 8.9 % (affects fewer than 4% of filers
– example... over \$ 300,000 married gross income)
 - State Business Prop Tax Fair Share (capture only valuation growth since 2002)

- Governor Cigarette Tax (Health Impact Fee)

- Accept Gov/House offer of \$180 M to address House, Governor, Senate expenditure “hot spots”

- House/Senate compromise on family provision on ^{education} tuition tax credit

- Pension funding reform – Statewide Health Plan

- No Shifts or Gimmicks

#3

Senate Offer
June 27, 2005, 7:00PM

- E-12 Education Funding
 - Gov/Senate level \$867.4 M
 - Senate Early Childhood
- Governor Cigarette Tax/Health Impact Fee
- The Senate takes the 4th tier income tax rate off the table for Human Services and/or Education funding.
- The Senate is willing to consider some of the Governor's property taxes on homeowners, equalized, for education funding if the Governor is willing to consider some property taxes on businesses for education funding
- Continuation of orderly events which would eliminate state employee layoffs and continue government services (eliminate shutdown)


 #4
 Administration

 201 First Street NE, Austin, Minnesota 55912
 Phone: (507) 437-9549 Fax: (507) 437-9471

June 20, 2005

VIA FACSIMILE
1-651-296-4165

 Tax Committee
 Saint Paul, Minnesota 55155

 RE: Sales Tax Initiative – Mower County
 HF 1903 & SF 1832

Dear Members of the Tax Committee:

Mower County requests continued consideration of the Mower County sales tax legislation. This was introduced as HF 1903 and SF 1832. During the regular session this legislation was approved by the Senate tax committee but not the House.

The purpose of the proposed legislation is to assist in funding the construction of a Criminal Justice Center. We feel this request falls under the general purpose of a local option sales tax for the following reasons:

1. This will require a vote of the people of Mower County.
2. The request is for a ½ cent sales tax and is specific to a facility project. The funding will only be used to develop and construct the facility and will not be used for operational purposes. The local option sales tax will expire once the facility costs are recovered.
3. This project does have regional significance. The facility will house state, county and city functions. All offices that are related to criminal justice activities will be located in the facility. The state functions will be courts and corrections. People who will benefit from this facility will include those in the region. Many of the people in our courts and jails are not residents of the county. In addition, people who are associated with our clients will come to our community and use our other resources. Our businesses will therefore indirectly benefit from this project through sales of their product and services from people in the region.

In addition to meeting the general criteria of the local sales tax option, the justification is also, in part, a response to a request from the general public. Our criminal justice center project has been discussed at a number of public meetings over the last two to three years. The questions are not about the need to build it but how it is going to be paid for. The popular sentiment is for the public to vote on funding this project through a local option sales tax. We have explored all funding options ranging from property taxes, sales tax and boarding prisoners from other counties and states. A local option sales tax of ½ cent will fund a little over 50% of the projected costs. Property taxes will need to be added to our budget to fund the other portion.

 Craig Oscarson
 County Coordinator

 Al Cordes
 Human Resources
 Director

 Donna Welsh
 Finance Director

 Val Kruger
 Payroll and Benefits
 Coordinator

 Jeff Kasak
 MIS Manager

Page 2
Tax Committee
June 20, 2005

On behalf of the people of Mower County, please consider our legislation and allow the public to have a voice on how to fund this much needed facility.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Oscarson". The signature is fluid and cursive, with a large initial "C" and "O".

Craig Oscarson
County Coordinator

CO/dmb

cc: Representative Poppe

Nobles County

www.co.nobles.mn.us

ADMINISTRATION

315 Tenth Street
PO Box 757
Worthington, MN 56187
Phone: 507-372-8241
Fax: 507-372-8363

June 13, 2005

Senator Jim Vickerman
226 State Capitol Building
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Representative Rod Hamilton
423 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Senator Larry Pogemiller
235 State Capitol Building
75 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Representative Doug Magnus
515 State Office Building
100 Rev. Dr. Martin Luther King Jr. Blvd.
St. Paul, MN 55155

Re: S.F. 1907 (and related provisions in Senate Omnibus Tax Bill) / H.F. 2273

Dear Senators Vickerman and Pogemiller and Representatives Hamilton and Magnus:

As you are aware, Nobles County (the "County") and the Rural Development Financing Authority of the Counties of Nobles and Jackson, Minnesota (the "Authority"), have been in negotiations with the Minnesota Soybean Processors ("MnSP") to resolve issues relating to the inability of the County to levy ad valorem taxes on a soybean crushing facility constructed on property owned by MnSP located in the County as a result of MnSP's participation in Minnesota's Job Opportunity Building/Agricultural Processing Facility Zone program.

It was contemplated under a 2002 Development Agreement between the Authority and MnSP that tax increment within the Authority's Tax Increment Financing District No.1-1 would be generated by the MnSP soybean crushing facility, and such tax increment was pledged to pay debt service on the County's \$2,805,000 Taxable General Obligation Tax Increment Bonds, Series 2003 (the "Bonds"), issued at the request of the Authority. Bond proceeds were used to pay certain public development costs related to the construction of the soybean crushing facility pursuant to the Development Agreement.

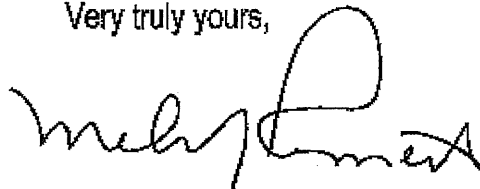
The County, the Authority and MnSP have been encouraged to resolve this issue without the enactment of legislation. I am happy to report that the County, the Authority and MnSP have entered into a Termination Agreement, dated as of June 7, 2005 (enclosed for your review), pursuant to which MnSP will pay, and the County and the Authority will accept, an amount sufficient to defease the Bonds and release the parties from all of their respective obligations and liabilities under the Development Agreement and related to the Bonds.

Page 2

Therefore, the County has agreed to, and does hereby, withdraw its support of legislation that would eliminate the property tax exemption for MnSP's soybean crushing facility located in the City of Brewster's "Ag Zone," as well as any other legislation that would provide that the ad valorem property tax exemption does not apply to property located within the Authority's Tax Increment Financing District No.1-1.

The County and the Authority sincerely thank you for your willingness to consider this legislation and for your efforts to help us protect the interests of the holders of the County's Bonds and the taxpayers of the County.

Very truly yours,

A handwritten signature in black ink, appearing to read "Melvin Ruppert". The signature is fluid and cursive, with a large loop at the end.

Melvin Ruppert
Nobles County Administrator

encl.

cc: Gordon Moore, Nobles County Attorney
Lynnette Slater, Dorsey & Whitney LLP
Lynn Endorf, Dorsey & Whitney LLP
Board of Commissioners, County of Jackson, Minnesota
Board of Directors, Rural Development Financing Authority
Janice Fransen, Jackson County Coordinator
Board of Directors, Minnesota Soybean Processors
Michael Weaver, Lindquist & Vennum, P.L.L.P.

TERMINATION AGREEMENT

THIS TERMINATION AGREEMENT, dated as of June 7, 2005, is entered into by and among MINNESOTA SOYBEAN PROCESSORS, a Minnesota cooperative corporation ("MnSP"), the COUNTY OF NOBLES, MINNESOTA, a political subdivision of the State of Minnesota (the "County"), and the RURAL DEVELOPMENT FINANCING AUTHORITY OF THE COUNTIES OF NOBLES AND JACKSON, MINNESOTA, a public nonprofit corporation of the State of Minnesota (the "Authority").

WHEREAS, MnSP, the County and the Authority have been engaged in discussions relating to the inability of the County to levy ad valorem taxes on improvements constructed on certain property owned by MnSP located in the County (the "Project") to generate tax increment as contemplated pursuant to that certain Development Agreement dated as of December 1, 2002, between the Authority and MnSP (the "Development Agreement"), as a result of MnSP's Business Subsidy Agreement with the City of Brewster, Minnesota, and MnSP's participation in Minnesota's "Job Opportunity Building Zone" program;

WHEREAS, the County and the Authority desire to protect the holders of the County's \$2,805,000 General Obligation Taxable Tax Increment Bonds, Series 2003, which are secured by tax increment generated by the Project pursuant to the Development Agreement, and to protect the taxpayers of the County in the absence of tax increment generated by the Project and in the event that MnSP fails to make shortfall payments as required under the Development Agreement;

WHEREAS, MnSP desires to protect its shareholders through the intended benefits of the "Job Opportunity Building Zone" program and MnSP's qualification thereunder, including the property tax exemption for MnSP's soybean crushing facility located in an agricultural processing zone, and to protect MnSP's reputation by finding an alternative method to meet the obligations under the Development Agreement in the absence of tax increment; and

WHEREAS, this Termination Agreement is being entered into to set forth the terms and conditions on which MnSP will make a payment to the Authority in a sufficient amount to defease the Bonds and satisfy other all other obligations and liabilities of the parties under the Development Agreement and related to the Bonds.

NOW, THEREFORE, in consideration of the foregoing premise and the mutual obligations set forth in this Termination Agreement, the parties hereto hereby agree as follows:

- I. Payment Amount. MnSP hereby agrees to pay and the County and the Authority agree to accept, as further provided below, \$3,201,318.02 (the "Payment Amount"), which amount is sufficient to defease the Bonds and release MnSP, the County and the Authority from all of their respective obligations and liabilities under the Development Agreement and related to the Bonds, and which amount has been calculated as follows:

Principal amount of Bonds	\$2,805,000.00
Additional amount necessary to defease Bonds	59,034.09
County/Authority administrative/legal expenses	40,000.00
Present value of remaining payments to County Economic Development Revolving Fund	<u>400,000.00</u>
Subtotal	\$3,304,034.09
Less Bond proceeds used for water research	\$33,333.00
Less undisbursed Bond proceeds	<u>69,383.07</u>
TOTAL	\$3,201,318.02

At 11:00 o'clock A.M., Minneapolis, Minnesota, time, on June 14, 2005, or at such other time, or on such earlier or later date as MnSP, the County and the Authority mutually agree, MnSP will transfer to the County the Payment Amount by Federal Reserve wire system transfer in immediately available Federal funds or by any other form of immediately available Federal funds.

2. Conditions Precedent to Transfer of Funds. Prior to the transfer of the Payment Amount as provided in paragraph 1 hereof, the County agrees to withdraw its support of legislation that would eliminate the property tax exemption for MnSP's soybean crushing facility located in an agricultural processing zone, or that would provide that such property tax exemption does not apply to property located within the Authority's Tax Increment Financing District No.1-1, by written communication, to Minnesota State Senators Vickerman and Pogemiller and to Minnesota State Representative Magnus.
3. Effect of Payment. Effective upon payment of the Payment Amount to the County pursuant to paragraph 1 hereof:
 - a. The Development Agreement shall terminate, and MnSP, the County and the Authority are released from all of their respective obligations and liabilities under the Development Agreement and related to the Bonds;
 - b. The County shall promptly fully discharge its obligations with respect to the Bonds under the resolution relating to the issuance of the Bonds (the "Resolution") by depositing irrevocably in escrow, with a bank qualified by law as an escrow agent for this purpose, cash or securities which are general obligations of the United States or securities of United States agencies which are authorized by law to be so deposited, sufficient to defease the Bonds under the Resolution; and
 - c. The Authority shall promptly submit a written request for decertification of Tax Increment Financing District No.1-1 to the County auditor pursuant to Minnesota Statutes, Section 469.177, Subd. 12.
4. Resolution of Disputes. Execution of this Termination Agreement and payment of the Payment Amount hereunder shall resolve all disputes between the County,

the Authority and MnSP with respect to the Development Agreement and the Bonds. Upon execution of this Termination Agreement and payment of the Payment Amount hereunder, neither the County nor the Authority shall assert any defaults by MnSP under or related to the Development Agreement or the Bonds, and MnSP shall not assert any defaults by the County or the Authority under or related to the Development Agreement or the Bonds.

[the remainder of this page left blank intentionally]

IN WITNESS WHEREOF, the parties have caused this Termination Agreement to be duly executed by its authorized representative as of the date first above written.

MINNESOTA SOYBEAN PROCESSORS

By: Bruce A. Hill
Its: Pres

THE COUNTY OF NOBLES,
MINNESOTA

By: [Signature]
Its: County Administrator

RURAL FINANCING AUTHORITY OF
NOBLES AND JACKSON COUNTIES,
MINNESOTA

By: [Signature]
Its: President

STATE OF Minnesota)
) SS.
COUNTY OF Nobles)

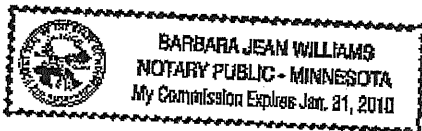
The foregoing instrument was acknowledged before me this 10th day of June,
2005, by Bruce Hill, the President of Minnesota Soybean
Processors.



Barbara J. Williams
Notary Public

STATE OF MINNESOTA)
) SS.
COUNTY OF NOBLES)

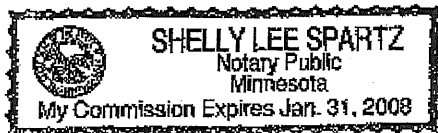
The foregoing instrument was acknowledged before me this 10th day of June,
2005, by Melvin Ruppert, the Cd. Administrator of the County of
Nobles, Minnesota.



Barbara J. Williams
Notary Public

STATE OF MINNESOTA)
) SS.
COUNTY OF NOBLES)

The foregoing instrument was acknowledged before me this 10th day of June,
2005, by Gary Hoffmann, the President of the
Rural Development Financing Authority of the Counties of Nobles and Jackson, Minnesota.



Shelly Lee Spartz
Notary Public

1 Senator moved to amend H.F. No. 785, the unofficial
2 engrossment, as follows:

3 Pages 511 to 513, delete section 9 and insert:

4 "Sec. 9. Laws 1993, chapter 375, article 9, section 46,
5 subdivision 2, as amended by Laws 1997, chapter 231, article 7,
6 section 40, and Laws 1998, chapter 389, article 8, section 30,
7 and Laws 2003 First Special Session chapter 21, article 8,
8 section 13, is amended to read:

9 Subd. 2. [USE OF REVENUES.] Revenues received from the tax
10 authorized by subdivision 1 may only be used by the city to pay
11 the cost of collecting the tax, and to pay for the following
12 projects or to secure or pay any principal, premium, or interest
13 on bonds issued in accordance with subdivision 3 for the
14 following projects.

15 (a) To pay all or a portion of the capital expenses of
16 construction, equipment and acquisition costs for the expansion
17 and remodeling of the St. Paul Civic Center complex, including
18 the demolition of the existing arena and the construction and
19 equipping of a new arena.

20 (b) Except as provided in paragraphs (e) and (f), the
21 remainder of the funds must be spent for:

22 (1) capital projects to further residential, cultural,
23 commercial, and economic development in both downtown St. Paul
24 and St. Paul neighborhoods ; and

25 (2) capital and operating expenses of cultural
26 organizations in the city, provided that the amount spent under
27 this clause must equal ten percent of the total amount spent
28 under this paragraph in any year.

29 (c) The amount apportioned under paragraph (b) shall be no
30 less than 60 percent of the revenues derived from the tax each
31 year, except to the extent that a portion of that amount is
32 required to pay debt service on (1) bonds issued for the
33 purposes of paragraph (a) prior to March 1, 1998; or (2) bonds
34 issued for the purposes of paragraph (a) after March 1, 1998,
35 but only if the city council determines that 40 percent of the
36 revenues derived from the tax together with other revenues

1 pledged to the payment of the bonds, including the proceeds of
2 definitive bonds, is expected to exceed the annual debt service
3 on the bonds.

4 (d) If in any year more than 40 percent of the revenue
5 derived from the tax authorized by subdivision 1 is used to pay
6 debt service on the bonds issued for the purposes of paragraph
7 (a) and to fund a reserve for the bonds, the amount of the debt
8 service payment that exceeds 40 percent of the revenue must be
9 determined for that year. In any year when 40 percent of the
10 revenue produced by the sales tax exceeds the amount required to
11 pay debt service on the bonds and to fund a reserve for the
12 bonds under paragraph (a), the amount of the excess must be made
13 available for capital projects to further residential, cultural,
14 commercial, and economic development in the neighborhoods and
15 downtown until the cumulative amounts determined for all years
16 under the preceding sentence have been made available under this
17 sentence. The amount made available as reimbursement in the
18 preceding sentence is not included in the 60 percent determined
19 under paragraph (c).

20 (e) In each of calendar years 2006, 2007, 2008, and 2009,
21 revenue not to exceed \$3,500,000 may be used to pay the
22 principal of bonds issued for capital projects of the city.
23 After December 31, 2009, revenue from the tax imposed under
24 subdivision 1 may not be used for this purpose.

25 (f) By January 15 of each ~~odd-numbered~~ year, the mayor and
26 the city council must report to the legislature on the use of
27 sales tax revenues during the preceding ~~two-year~~ one-year period.

28 Sec. 10. Laws 1993, chapter 375, article 9, section 46,
29 subdivision 3, as amended by Laws 1998, chapter 389, article 8,
30 section 31, is amended to read:

31 Subd. 3. [BONDS.] The city may issue general obligation
32 bonds or special revenue bonds to finance all or a portion of
33 the cost for projects authorized in subdivision 2, paragraph (a)
34 or paragraph (b). The debt represented by the bonds shall not
35 be included in computing any debt limitations applicable to the
36 city. The bonds may be paid from or secured by any funds

1 available to the city, including the tax authorized under
2 subdivision 1, any revenues derived from the project, tax
3 increments from the tax increment district that includes the
4 project, and revenue from any lodging tax imposed under Laws
5 1982, chapter 523, article 25, section 1. The bonds may be
6 issued in one or more series and sold without election on the
7 question of issuance of the bonds or a property tax to pay
8 them. Except as otherwise provided in this section, the bonds
9 must be issued, sold, and secured in the manner provided in
10 Minnesota Statutes, chapter 475. The aggregate principal amount
11 of bonds issued under this subdivision for projects authorized
12 in subdivision 2, paragraph (a), may not exceed \$65 million,
13 provided that the city may issue additional bonds under this
14 subdivision for projects authorized in subdivision 2, paragraph
15 (a), as long as the total principal amount of the additional
16 bonds together with the outstanding principal amount of the
17 bonds previously issued under this subdivision for projects
18 authorized in subdivision 2, paragraph (a), does not exceed \$130
19 million. The bonds authorized by this subdivision shall not be
20 included in local general obligation debt as defined in Laws
21 1971, chapter 773, as amended, including Laws 1992, chapter 511,
22 and shall not affect the amount of capital improvement bonds
23 authorized to be issued by the city of St. Paul. Bonds to pay
24 for projects authorized in subdivision 2, paragraph (b), may be
25 issued if the city council first determines that 20 percent of
26 the revenues derived from the tax authorized under section 1
27 together with other revenues pledged to payment of the bonds,
28 including the proceeds of definitive bonds, is expected to
29 exceed the annual debt service on the bonds."

30 Renumber the sections in sequence and correct the internal
31 references

32 Amend the title accordingly

Set aside

1 moves to amend .. F. No. as follows:

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

3 "Sec. ... Minnesota Statutes 2004, section 273.11, is
4 amended by adding a subdivision to read:

5 Subd. 1b. [VALUATION OF CERTAIN RESORTS.] The value of
6 class 1c property classified under section 273.13, subdivision
7 22, paragraph (c), and commercial class 4c property classified
8 under section 273.13, subdivision 25, paragraph (d), clause (1),
9 must be determined solely with reference to its appropriate
10 classification and value as a resort notwithstanding section
11 272.03, subdivision 8, and subdivision 1.

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

14 Renumber the sections in sequence and correct the internal
15 references

16 Amend the title accordingly

1 Senator moves to amend H.F. No. 785, the unofficial
2 engrossment, as follows:

3 Page 206, delete lines 30 to 36

4 Pages 207 to 209, delete section 42 and insert:

5 "Sec. 42. [273.1321] [VALUATION OF LOW-INCOME RENTAL
6 PROPERTY; CAPITALIZED VALUE OF NET OPERATING INCOME.]

7 Subdivision 1. [REQUIREMENT.] Low-income rental property
8 is entitled to valuation under this section for a maximum period
9 of five years if at least 75 percent of the units in the rental
10 housing property meet any of the following qualifications:

11 (1) the units are subject to a project-based housing
12 assistance payments contract under section 8 of the United
13 States Housing Act of 1937, as amended;

14 (2) the units are rent-restricted and income-restricted
15 units of a qualified low-income housing project receiving tax
16 credits under section 42(g) of the Internal Revenue Code of
17 1986, as amended;

18 (3) the units are financed by the Rural Housing Service of
19 the United States Department of Agriculture and receive payments
20 under the rental assistance program pursuant to section 521(a)
21 of the Housing Act of 1949, as amended; or

22 (4) the units are subject to rent and income restrictions
23 under the terms of financial assistance provided to the rental
24 housing property by a federal, state, or local unit of
25 government as evidenced by a document recorded against the
26 property. The restrictions must require units that receive
27 public assistance to be occupied by residents whose household
28 income at the time of initial occupancy does not exceed 60
29 percent of the greater of area or state median income, adjusted
30 for family size, as determined by the United States Department
31 of Housing and Urban Development. The restriction must also
32 require the rents for assisted units to not exceed 30 percent of
33 60 percent of the greater of area or state median income,
34 adjusted for family size, as determined by the United States
35 Department of Housing and Urban Development.

36 Subd. 2. [DETERMINATION OF VALUE.] (a) The value of any

1 units of rental housing property meeting the qualifications of
2 subdivision 1 shall be determined, upon timely application by
3 the owner in the manner provided in subdivision 3, on the basis
4 of the restricted use of the unit, notwithstanding sections
5 272.03, subdivision 8, and 273.11, by capitalizing the net
6 operating income prior to the payment of debt service.

7 (b) Net operating income prior to payment of debt service
8 must be the amounts shown in a financial statement prepared by
9 an independent certified public accountant or firm. The
10 financial statement must show the revenues, expenses, cash
11 flows, assets, liabilities, and net assets for the property for
12 which an application is made under this section.

13 (c) The capitalization rate applied to net operating income
14 shall be established jointly by the commissioner and the Housing
15 Finance Agency based on market data and industry standards. The
16 commissioner and the Housing Finance Agency shall jointly
17 establish separate rates based on types of rental housing
18 properties and their locations.

19 Subd. 3. [APPLICATION.] (a) Application for assessment
20 under this section must be filed by March 31 of the levy year,
21 or at a later date the Housing Finance Agency deems
22 practicable. The application must be filed with the Housing
23 Finance Agency, on a form prescribed by the agency, and must
24 contain the information required by the Housing Finance Agency.

25 (b) Each application must include:

26 (1) the property tax identification number;

27 (2) evidence that the property meets the requirements of
28 subdivision 1; and

29 (3) a true and correct copy of the financial statement
30 related to the property.

31 (c) The applicant must pay an application fee to be set by
32 the Housing Finance Agency. The application fee charged by the
33 agency must approximately equal the costs of processing and
34 reviewing the applications. The fee must be deposited in the
35 housing development fund.

36 (d) An owner of low-income rental property certified under

1 this section must reapply under this subdivision for
2 certification for continuation of valuation under this section
3 every five years.

4 Subd. 4. [CERTIFICATION.] By June 1 of each levy year, the
5 Housing Finance Agency must certify to local assessors the
6 valuation, as determined under this section, of rental
7 properties that apply and are qualified for valuation under this
8 section. In making the certification, the Housing Finance
9 Agency may rely on the application and supporting information
10 supplied by the property owner.

11 [EFFECTIVE DATE.] This section is effective for taxes
12 levied in 2006, payable in 2007, and thereafter."

13 Page 223, delete section 52

14 Page 229, delete section 58

15 Renumber the sections in sequence and correct the internal
16 references

17 Amend the title accordingly

Property Tax Outstanding Provisions

Side-by-side Page(s)	Provision	House Position	Senate Position
3-7	Taxpayer satisfaction survey	Art. 1. Institutes taxpayer satisfaction survey process, effective for pay '06. Referendum trigger effective for pay '07. T-n-T hearing and newspaper ad requirements repealed.	None.
151-154	Property tax freeze	None.	Art. 26. Institutes property tax freeze for all jurisdictions for pay '07 and thereafter. Establishes conditions for terminating the freeze.
7, 23	Soil & Water district levy authorization	None	Art. 8, Sec. 1-2 & 49. Allows levy if authorized by county.
7	School debt levy tax base	Art. 2, Sec. 51. Pilot program using alternate tax base for three districts	Art. 8, Sec. 3-6 & Art. 22, Sec.1-3. Allows districts to levy against either referendum market value or net tax capacity
7, 8, 30-32	School referendum levy based on income tax	None	Art. 8, Sec. 7-11 & 56. Allows school districts to levy an income tax by referendum
8	MnDOT required to notify county auditor when property is acquired by DOT	None	Art. 8, Sec. 13.
8, 34	Chemical dependency consolidated fund	None	Art. 22, Sec. 4 & 29. Reduces county maintenance-of-effort requirements with regard to chemical dependency spending; appropriates money to the commissioner of human services for the fund.
8	Valuation of land under wind towers	None	Art. 8, Sec. 14. Provides it is classified like neighboring property (was in 2004 DOR. bill)
11	Biomass generation facility personal property exemption – Minneapolis.	None	Art. 8, Sec. 19. Authorizes.
12	Cottage Grove generation facility personal property	None	Art. 8, Sec. 20. Authorizes (was in 2004 DOR bill)

Side-by-side Page(s)	Provision	House Position	Senate Position
	exemption		
12	Generic generation facility personal property exemption	Art. 2, Sec. 10. Authorizes.	None.
13	Personal rapid transit system	None.	Art. 8, Sec. 21. Property tax exemption.
13	Elderly living facility exemption	None.	Art. 8, Sec. 22. Exempts a particular facility in Minneapolis.
14	Authority for county assessor to replace local assessor	Art. 2, Sec. 11. Requires two-thirds vote of county board	None.
14	Improvements in assessment quality	Art. 2, Sec. 12, 49, & 50. Requires DOR to develop standards, etc. and more assessor training	None.
14	Limited market value	Art. 2, Sec. 13. Extends phase-out two years, so parameters for pay '06 and pay '07 are 15% max or 25% of EMV/LMV difference. Extends to all types of property.	Art. 8, Sec. 28. Eliminates phase-out and locks-in current parameters (15% max or 25% of EMV/LMV difference) for all subsequent years. Extends LMV to class 1c homestead resorts.
14	Class 1c resort property	Art. 2, Sec. 14. Includes in LMV. Prohibits more than 30% increase over 2003 value.	Art. 8, Sec. 29. Includes in LMV. Prohibits more than 15% increase over 2003 value.
19	Class 1c resort property	Art. 2, Sec. 21. Eliminates box. Provides 0.55% class rate for first \$300,000, 1% for next \$1,500,000 in value.	Art. 8, Sec. 39. Eliminates box. Provides 0.55% class rate for first \$600,000, 1% for next \$1,000,000 in value.
17	Class 1c resort property	None.	Art. 8, Sec. 34. Creates valuation and deferment program similar to Green Acres.
15	Septic system improvements	None.	Art. 8, Sec. 30. Provides for valuation exclusion.
15	Lead hazard reduction	Art. 2, Sec. 15. Authorizes valuation exclusion.	Art. 8, Sec. 31. Authorizes valuation exclusion.
15	Energy-efficient commercial property	None.	Art. 8, Sec. 32. Provides for valuation exclusion.
16	Green acres applications	Art. 2, Sec. 16. Requires county to report rejected applications to DOR.	None.

Side-by-side Page(s)	Provision	House Position	Senate Position
16	Aggregate resource preservation	None.	Art. 8, Sec. 33 & 40. Establishes program for land containing aggregate commercial deposit, similar to Green acres.
17	Polo grounds	None.	Art. 8, Sec. 35. Allows polo grounds to qualify for open space valuation
17	Homesteads damaged by mold	Art. 2, Sec. 17. Allows county board to grant valuation reduction and abatement for house that is uninhabitable due to mold	Art. 8, Sec. 36. Requires county board to grant valuation reduction and abatement for house that is uninhabitable due to mold
18	Homestead used for licensed child care	None.	Art. 8, Sec. 37. Provides they are to be classified as homestead (was in 2004 tax bill)
18	Manufactured home taxes	None.	Art.8, Sec. 12. Provides that delinquent taxes to not need to be paid to transfer title to park owner.
18	Manufactured home taxes	Art. 2, Sec. 19. Provides that manufactured homes in parks, resorts, and campgrounds are personal property, even if owned by same owner.	None.
18, 21, 24	Low-income housing	Art. 2, Sec. 20 & 23. Recreates class 4d, using deemed units (readily identifiable) only. No change in how properties are valued. Class rate of 1%.	Art. 8, Sec. 41, 42, & 58. Recreates class 4d, using deemed units plus others. Valuation to be based on restricted rents. Class rate of 0.55%.
19	Blind/disabled homesteads	Art. 2, Sec. 21. Increases valuation of class 1b property to qualify for reduced class rate from \$32,000 to \$50,000.	None.
20	Ag homestead valuation	Art. 2, Sec. 22. Increases valuation of ag homestead property to qualify for reduced class rate from \$600,000 to \$750,000.	None.
20	Definition of agricultural products	None.	Art. 8, Sec. 40. Adds "short rotation woody crops" to list of products qualifying for ag classification.
21	Disabled veteran homestead	Art. 2, Sec. 24. Provides \$200,000 homestead valuation exclusion to permanently disabled veteran with total service-related disability.	None.
22	Vacant commercial-	None.	Art. 8, Sec. 43. Allows city to establish

Side-by-side Page(s)	Provision	House Position	Senate Position
	industrial properties		program to encourage redevelopment of blighted commercial properties. Border city. (Was in 2004 bill)
22	Valuation of utility property	None.	Art. 8, Sec. 45. Delays application of new rules regarding method of valuing electric and transmission pipeline utility property.
22	Valuation adjustments	Art. 2, Sec. 25. Removes prohibition against local board reducing value if owner has not allowed assessor access.	None.
22	State general levy	Art. 2, Sec. 26. Apportions levy into separate shares for commercial-industrial and seasonal-recreational	Art. 22, Sec. 10. Locks-in the state rate on commercial-industrial property at the rate in effect in 2002.
23	Joint truth-in-taxation hearings	Article 1 eliminates truth-in-taxation hearings.	Art. 8, Sec. 47 & 48. Authorizes joint hearings for Aitkin County and Nobles County.
23	Cruelty to animals levy	None.	Art. 8, Sec. 50. Provides levy is outside levy limits.
23	Regional rail levy on property tax statement	Art. 2, Sec. 27. Provides metro regional rail authority levies will be shown separately on tax statement	None.
24	Petitions involving low-income rental property	None.	Art. 8, Sec. 52. Allows owners of low-income rental property to include multiple parcels when petitioning for valuation reduction.
24	Resort tax due date	None.	Art. 8, Sec. 53-55. Allows resort owners to delay first half taxes until June 15.
24	Notice to homeowners with delinquent taxes	Art. 2, Sec. 28. Requires the county to send information to certain homeowners with delinquent taxes.	None.
25, 26	Rent constituting property taxes	Art. 2, Sec. 29-32 & 34. Provides that property tax refunds for renters will be based on actual property taxes.	None.
27	St. Louis County nursing homes	Art. 2, Sec. 39. Requires St. Louis County to subsidize all public nursing homes if it subsidizes any.	Art. 8, Sec. 71. Extends date for local approval of special taxing district for nursing home.

Side-by-side Page(s)	Provision	House Position	Senate Position
27	Costs of improvements	None.	Art. 24, Sec. 4. Allows municipality to assess costs of communications/utility work to affected properties.
27	HRA levies	None.	Art. 22, Sec. 12. Provides that HRA levy limit is based on current assessment year rather than previous.
27	St. Paul airport	Art. 2, Sec. 40. Clarifies St. Paul airport is exempt from fiscal disparities.	None.
28	Bloomington extra FD contribution	None.	Art. 22, Sec. 13. Delays Bloomington pay-back by 8 years.
28	Uncompensated care reimbursement	None.	Art. 8, Sec. 59. Provides reimbursement to hospitals for uncompensated health care costs from fiscal disparities pool.
28	Hennepin County public defender reimbursement	None.	Art. 8, Sec. 60. Provides reimbursement to Hennepin county for public defender costs from fiscal disparities pool.
28	LUP land PILT payments	Art. 2, Sec. 41-45. Establishes LUP lands @ \$.75 per acre.	Art. 8, Sec. 62-66. Establishes LUP lands @ \$3.00 per acre.
29	Lakeview cemetery	None.	Art. 22, Sec. 22. Increases levy authorization from \$15,000 to \$25,000.
30	Crow Wing County sewer district	None.	Art. 22, Sec. 26. Authorizes county to create a sewer district.
30	Dakota County Regional Rail authorization.	None.	Art. 22, Sec. 27. Allows Dakota County regional rail authority to develop and maintain a bus rapid transit system.
32	Education reserve account	None.	Art. 8, Sec. 73. Establishes account and provides that state levy revenues over base amount will be deposited
32	Pollution Control exemption.	None.	Art. 8, Sec. 74. Requires study by DOR.
32	Land-value tax	None.	Art. 8, Sec. 76. Provides that a city may elect to levy its commercial industrial tax on land only.
33	Fiscal disparities study	None.	Art. 8, Sec. 77. Requires legislative fiscal

Side-by-side Page(s)	Provision	House Position	Senate Position
			staff to study fiscal disparities program.
33	Study of fees	None.	Art. 8, Sec. 78. Requires DOR to do a study on state agency fees.

Outstanding Issues in the Property Tax Aids and Credits Area

as of May 24, 2005

(H.F. 785 – the 3rd engrossment, Article 3)

(H.F. 785 – the Senate Unofficial engrossment, Articles 4, 8,14, 22)

Summary Page	Topic	Whose provision?
LGA program changes:		
35	Change the IPD used in calculating the LGA city “need”	Senate
35	Allowing the tax effort rate to decrease if the percent of “unmet” need paid under the LGA formula reaches 100%	House
36	Grant extra LGA payments to the cities of Osseo, Hutchinson, and Champlin	Senate
36	Allow the “regional center aid” portion of LGA to change with city population changes	Senate
37	Adjust the LGA measure of “ability to raise revenue” to include what a first class can raise with a one-half percent sales tax	House
37	Remove taconite aids from the LGA measure of “ability to raise revenue”	Senate
37	Do not allow percent of “unmet need” paid by LGA formula to exceed 100 percent	Both
38	Change LGA appropriation (House – down \$17.5 million for one year; Senate – up \$86 million in first year and ongoing inflation increases)	Both
Other aids and credits		
38	Extend the market value credit reductions for cities for two more years (Pay 2005 and 2006) – reduces spending	Both
38	Reduces market value credit amounts to areas with low net tax	Senate

38

rates- **reduces spending**

Reinstates County criminal justice aid for 2 years at a \$15 million annual appropriation. Senate

Income Tax/Federal Update Article – Outstanding items

Summary page	Description	Which bill?
Federal Update		
49, 57, 67-74	Senate does not do HSAs, House does not do standard deduction in 2007, 2008 (coordinate with provisions in both on refundable credits, composite return)	both; different
Revenue raisers		
50	Quarterly withholding on nonresident partners	both; same
51-2, 61	Foreign operating corporations	Senate
53, 55, 61	Disallow deduction for fines, fees, penalties	Senate
55-6	Income tax rate increases	Senate
61	Tax deferred comp (Benda)	Senate
66	Withholding by contractors	Senate
Cost items – subtractions		
49, 54	Convert out-of-state military pay nonresident treatment to subtraction	both; same intent
54	In-state military pay	both; same
54	organ donor expenses	both; similar; staff recc.
Cost items – credits/refunds		
56	Transit pass as refund	Senate
56-57	Dairy investment credit	both; similar
57	Carsharing credit	Senate
57	RAIN credit	Senate
57-8	Marriage penalty relief, dependent care and working family credits	House
58	Long-term care credit, no offset for itemized deduction	House
59	K-12 credit eliminate family cap, allocate money among children, modify phaseout	both; different
59-60, 67	Historic structure credit	Senate
Cost items – other		
55	PRT income tax exemption	Senate

60-1	AMT relief	both; different
61-62, 67	Single sales apportionment	House
66-67	Estate tax QTIP election	House
Other		
49	Priorities for general fund balance	Senate
50	Local use tax info on income tax form	House
52	Definition of nonresident (factors in determining domicile)	House
61	Chapter 308B cross-reference	both; same
49, 62-65	Checkoffs (fiscal note \$\$)	both; different
67	Corporate tax study	Senate

Outstanding Issues in the Sales and Use Tax Area

as of May 24, 2005

(H.F. 785 – the 3rd engrossment, Article 7)

(H.F. 785 – the Senate Unofficial engrossment, Articles 3, 7, 15, and 21)

Summary Page	Topic	Whose provision?
Revenue raisers:		
74	Contracts with foreign vendors	Both
76, 80	Upfront tax on long term motor vehicle leases	Both
77	Exemption for cigarettes (replaced with wholesales tax)	Both
78	Modify the inputs to industrial production and the capital equipment exemptions to reverse the <i>Great Lakes Gas Transmission</i> case	Both
79	Reverses a <i>Qwest</i> case on telecommunications equipment	Senate
84	Re-instate the extra 6.2 percent tax on short term motor vehicle rentals	Both
87, 89, 91, 92	Sales and use tax compliance initiatives	Senate
92, 93	Taxes souvenir clothing	Senate
Reduces revenues:		
75	Exemption for milk sold in vending machines	House
76, 79	Clarification for land clearing exemption	House

Summary Page	Topic	Whose provision?
76, 79, 80	Personal Rapid Transit (PRT) exemptions	Both
77, 93	Exemption for solar energy products	Both
78, 80	Upfront exemption for small business capital equipment purchases	House
79	Exemption for MNSCU tickets and admissions	House
84	Repeal sunset of ready-to-eat meat exemption	Both
87	Exemption for geothermal systems	Senate
88	Exemption for biomass stoves	Senate
88	Commuter rails exemptions	Senate
88	Exemption for inputs to movies and television production	Senate
88	Exemption for public safety radio systems	Senate
88	Donated meals to a nonprofit for fundraising purposes	Senate
88-90, 93	Construction exemptions for: <ul style="list-style-type: none"> • Waste recovery facility • St. Mary's Duluth hospital • Joint powers biomass energy facility • Chatfield wastewater treatment facility • Poultry litter biomass generation facility • Thief River Falls community center • Hydroelectric generating facility 	Senate
89	MVST exemption for state and local government purchases of fuel efficient vehicles for 3 years	Senate
93	Exempts meals served at a nonprofit daycare	Senate
No impact on state revenues:		
79	Clarification of the telecommunications equipment exemption	Both
81	Local sales tax for first class cities	House
82	General local option sales tax for outstate cities for regional projects	House
83	Repeal of the one-year lapse before re-imposing a local tax	House
83	Aid adjustments for refunds after a local tax terminates	House
84	Notification requirements for local use taxes	House

Summary Page	Topic	Whose provision?
84, 86	Modify and extend Rochester local sales tax authority	Both
84	Mankato sales tax extension	Both
84	St. Cloud area sales tax extension and expansion	Both
85	Bemidji sales tax provision	Both
89	Individual authorizations to increase a local sales tax in the following places: <ul style="list-style-type: none"> • Hermantown • Proctor 	Senate
89, 92	Allows Duluth to continue to administer its own local tax and repeals the requirement that all local taxes comply with the local sales tax statute in sec. 297A.99.	Senate
90-94	Authorizes a one-half percent local options sales tax in the following places: <ul style="list-style-type: none"> • Albert Lea • Baxter • Beaver Bay • Cloquet • Clearwater • Medford • Park Rapids (one percent) • Waseca (one percent) • Willmar • Winona (one percent) • Mower County • Worthington 	Senate
93	Clarification of St. Paul sales tax to pay off bonds	Senate

Special Taxes		
Summary Page	Provision Description	Source Bill
Revenue Raisers		
94	Card club fee	House

96	Liquor gross receipts tax	Both
99	Move cigarette sales tax to the wholesale level	Both
100	Reverse BCBS case – stop loss insurance	Both
101	Reverse CUNA decision – insurance premiums tax	Senate
Revenue Losers		
101	Reduce premiums tax on life insurance	Both
Provisions with no general fund cost		
95	MinnesotaCare tax – blood and blood components	Senate
95	MinnesotaCare tax – exemption from use tax on drugs	House
95	MinnesotaCare – exempt Tricare	House
95	MinnesotaCare – exempt FEHBA	Both
95	MinnesotaCare – transfer (passthrough) authority for providers and pharmacy benefits managers	House (Senate HHS has PBMs)
98-99	Out of state tobacco retailers	Senate
102	Sylvan town gravel tax	House
102	Authorizes compacts on retaliatory premiums tax	Senate

List of Outstanding Items: Economic Development

5/25/2005

Provisions with No Cost (FY06-07):

1. Senate - Changes to the business subsidy law (Art. 9, sec. 1 to 5)
2. Senate - Transfer of ownership of I-394 Parking Ramps to Minneapolis (Art. 9, sec. 7)
3. House - JOBZ changes from DEED bill (Art. 9, sec. 1, 4, 5, 6, 10 – 18, 20, 21; Senate has some of these provisions in a separate bill)
4. House JOBZ – prevailing wage rules (Art. 9, sec. 5, 12)
5. Senate – TIF urban renewal (Art. 9, sec. 12, 18)

6. Senate – TIF for job training (Art. 9, sec. 13, 14, 15, 17)
7. Senate – TIF for mixed income developments (Art. 9, sec. 19)
8. Senate – TIF permit pooling exemptions into hazardous substance and affordable housing accounts (Art. 9, sec. 21)
9. House - Prohibition on use of TIF for casinos (Art. 9, sec. 8 and 9)
10. House - Allow carryforward of unused bioscience zone incentives
11. Senate - Anoka county regional rail authority (Art. 9, sec. 26)
12. Senate - Detroit Lakes TIF (Art. 9, sec. 30)
13. Senate – Elgin, Eyota, Byron, and Oronoco qualify as “small cities” under TIF (Art. 9, sec. 31)
14. Senate – Ramsey TIF (Art. 9, sec. 35)
15. Senate – St. Michael TIF (Art. 9, sec. 36)
16. Senate – Winona TIF (Art. 9, sec. 39)
17. Senate – Rosemont TIF (Art. 24, sec. 9)
18. Senate – JOBZ expenditure limits and audits (Art. 9, sec. 40)
19. House – Repeal JOBZ aid (Art. 9, sec. 25)
20. House – Repeal bioscience property tax exemption (Art. 9, sec. 25)

Provisions with Fiscal Cost:

1. House – JOBZ benefits for aerial photography business (Art. 9, sec. 5)
2. Both - Additional allocation for the Border City Zones (both bills, identical)
3. House - Taylors Falls border city development zone authority (Art. 9, sec. 23)

List of Outstanding Items: Tax Shelters

All items are outstanding. Senate and House differ on:

- The length of “lookback” (House is at 6 years, Senate at 8½)
- Whether DOR has authority to identify Minnesota tax shelters that will be subject to the penalties and other rules (Senate grants authority; House does not)
- Penalties to be imposed and relationship to the Voluntary Compliance Initiative
- Differences in money amounts – unclear if this is related to specific provisions in the two bills

Miscellaneous Article – Outstanding items

Summary page	Description	Which bill?
Revenue raisers		
127-8, 131-2	Repeal political contribution refund \$\$	House
Cost items		
129	Petrofund fee exemption extension	Senate
131	Taxpayer assistance grants (VITA)	both; different
131	Duluth environmental cleanup	Senate
131	Aid payment shifts	Senate
131	Deferred maintenance aid	Senate
131	HESO; Rochester higher ed	Senate
Other		
124	Public employers must allow American flag patch/pin	House
124	Delegations of authority	both; different
124, 129	Fee and tax	both; different
124	Taxpayer bill of rights; clarification	Senate
128	Civil fraud penalty extended to “intent to evade”	both
129	Misrepresentation of employee status	Senate
129	Referendum on gambling	House
129-131	Tax reform commission	House
131-2	Transfer from tax relief account and repeal	House

Low-Income Housing Provisions

#4

	Senate (H.F. No. 785 – Unofficial Engrossment, Article 8)	House (H.F. No. 785 – Third Engrossment, Article 2)
Qualifying Properties	Includes categories covered in House proposal, referred to as “deemed” properties <u>plus</u> projects that are subject to rent and income restrictions under terms of financial assistance provided by a federal, state, or local unit of government. These restrictions require the assisted units to be occupied by residents whose income, at the time of initial occupancy, does not exceed 60 percent of the greater of area or state median income, adjusted for family size. Restricts the rent to 30 percent of the 60 percent income requirements.	At least 75 percent of the units must be: (1) subject to a housing assistance payments contract under Section 8 of the U.S. Housing Act of 1937, as amended; (2) rent-restricted and income-restricted units of a qualified low-income housing project receiving tax credits under section 42(g) of the Internal Revenue Code; or (3) financed by the Rural Housing Service of the U.S. Department of Agriculture and receive payments under the rental assistance program under Section 521(a) of the Housing Act of 1949.
Class Rate	0.55%	1%
Duration	Not limited.	Must be recertified as qualifying every five years.
Valuation	Based on restricted use (i.e., income and rent limits) capitalizing net operating income prior to payment of debt service.	Based on normal approach to value using unrestricted rates.
Petition Challenging Assessments	Property tax petitions involving qualified low-income rental housing property may include all qualifying parcels within the same county owned by the petitioner. Under current law, multiple parcels in a petition must all be within the same city or township.	No provision.
Application Date	February 28 or later date determined by MHFA.	March 31 or later date determined by MHFA.
Application Fee	Must be imposed by MHFA to cover costs.	May be imposed by MHFA to cover costs – up to \$10/unit.
Process for Determining Qualification	MHFA allowed to deem units qualified under simplified procedure.	No provision.

MEMO

Date: June 25, 2005

To: JACK MANSUN
Assistant Commissioner

From: JOHN HAGEN, Manager
Information and Education Section

Subject: Low-Income Housing Provisions

This memo is in response to the request from Senator Moua that you passed on to me. The Senator asked for our opinion on which legislation we would prefer between House and Senate property tax proposals. As you requested, this memo will address the categories contained on the "Low-Income Housing Provisions" side by side.

QUALIFYING PROPERTIES**Department of Revenue Preference:**

We strongly prefer including only the deemed units in the new 4d class that receive the favorable property tax treatment. The categories in the house language are the "deemed" units that receive some federal tax benefits. Deemed units are contractually committed to provide low-income housing at a contractually agreed upon rent based on income restrictions.

The Senate language adds a fourth category. This category includes property receiving local and state tax benefits. We need to make sure that if this new category is included in the 4d class that it is tightly defined to include only "deemed" units (and not "pledged" units).

In our discussions with the Minnesota Housing and Finance Agency (MHFA) and industry representatives following the elimination of the 4d class, it was universally agreed that the properties in most need of a property tax benefit were deemed units.

CLASS RATE**Department of Revenue Preference:**

No preference. The Senate language provides for a .55% class rate; the House language provides for a 1% class rate.

Either class rate is equally easy to administer. The decision of what class rate to assign is a policy issue.

VALUATION

Department of Revenue Preference:

We strongly prefer the house position which is no change, e.g. continue to base values on unrestricted rents.

The Senate position provides that the assessor value property based upon restricted rents, assessing the property based upon the leasehold interest instead of the present fee simple ownership interest would be a dangerous departure for Minnesota property tax law. Existing laws require all property to be assessed based upon the assumption of a fee simple ownership interest. This has been challenged in the courts and it has been consistently decided that fee simple ownership interest is the right valuation approach to be used in assessing properties. Establishing a different standard for rental housing would potentially open the door for all manner of requests by other property types for similar treatment.

The Minnesota Association of Assessing Officers (MAAO) strongly opposes legislation that would compromise the ad valorem taxation concept of valuing property based upon its highest and best use. The Commissioner of Revenue is on record endorsing the valuation of property based upon its highest and best use.

The Senate provision requiring the commissioners of the MHFA and Revenue to establish a capitalization rate could easily result in a lot of controversy over what should be included or excluded in the calculation of a cap rate. Furthermore, there would have to be several different cap rates used depending upon the size, location, etc. of these units.

Aside from the policy reasons, changing the existing valuation basis to one based upon restricted rents will likely lead to the unintended result of raising values on low-income housing out-state. Sometimes market rents are lower than restricted "subsidized" rents in rural parts of the state. Basing the valuation on the actual rent instead of market rents could lead to valuation increases on these properties.

None of these alternate methods of valuation should be considered. There is no reason to add any valuation gimmicks or additional complexities to the taxation of low-income housing. If the legislature wants to provide tax relief to low-income housing it should be done through a class rate.

PETITION CHALLENGING ASSESSMENTS

Department of Revenue Preference:

We prefer the house language. Although this proposal seems innocuous and possibly even expedient, upon closer examination, it has the potential to create a lot of problems, especially for larger counties. For example, if this proposal were to become law in a county like Hennepin, a property owner who had an apartment in Minneapolis, another in Edina, a third in Rogers and a fourth in Brooklyn Park could appeal the value of all properties to tax court even though all the properties would have been valued by different assessors employed by different jurisdictions and coming from dramatically different economic areas. This would also create significant problems for the county attorney who would have to work with four different assessors, all likely using slightly different techniques in preparing a defense.

APPLICATION DATE

Department of Revenue Preference:
Either the House or the Senate language is fine.

APPLICATION FEE

Department of Revenue Preference:

We prefer the House language. The Senate language requires an administrative fee to be charged by MHFA; the House language provides for an administrative fee of up to \$10.00 (at the option of MHFA). Since the House provisions are much less complicated and easier to administer it is questionable if a fee would even be imposed.

PROCESS FOR DETERMINING QUALIFICATION

Department of Revenue Preference:

We prefer the house language. The House language is much easier to administer and understand than the Senate language. The House language provides that if the property is low-income and a deemed unit, it qualifies for a reduced class rate. The Senate version provides for an extremely complicated valuation process, a complicated qualification process and a combined valuation and classification issue.

CONCLUSION

We are supportive of providing a property tax benefit to low-income housing. Our preference would be for the benefits to be directed only to those in need of the tax benefit, the "deemed" units. Most importantly, any property tax relief should be given through a class rate reduction. Establishing new standards for valuation will further complicate an already extremely complicated tax system and place additional burden on assessors who in many cases are already having difficulty fulfilling their job responsibilities due to high workloads.

Finally and most importantly, Minnesota is and always has had an assessment based on valuing the fee simple ownership interest, or in other words, valuing the property as if all property rights and interests were in the possession of the property owner. Basing valuations on something other than the fee simple ownership interest would be the first step in unraveling this standard valuation practice and would open the door to demands to use alternate valuation practices for other properties lacking a fee simple ownership interest such as leasehold estates, life estates, etc.

118

Memorandum

TO: House and Senate Tax Working Group Members

FROM: MN-NAHRO, Minnesota Association of Local Housing Finance Agencies (MALFHA), City of Minneapolis, League of Minnesota Cities, Association of Metropolitan Municipalities

DATE: June 15, 2005

RE: Tax Treatment of Rent-Restricted Apartment Property

As you debate the special session tax bill, we want to encourage you to include tax reductions to safeguard existing rent-restricted properties and to encourage the development of additional housing opportunities for low-income individuals. The fact that both the House and Senate adopted provisions on rent-restricted properties indicates the importance of this critical housing issue.

Since the implementation of the tax reforms of 2001, many rent-restricted properties have experienced significant increases in property taxes. Under the 2001 reforms, the classification rates for many types of property, including market rate apartments were reduced. The classification rate for rent-restricted property (4d) was temporarily reduced and then increased to be identical to market-rate apartment properties. At that time, many believed that the overall property tax reductions due to the elimination of the general education property tax levy would reduce tax burdens for all properties.

The Senate tax bill takes a two-pronged approach. Perhaps most significantly, the Senate approach would adopt a valuation process that reflects the lower income-producing potential of rent-restricted properties. We believe that the approach of using actual rent paid by tenants would provide the most efficient and effective property tax relief to rent-restricted property. As a result, those properties that target rental to individuals with the lowest incomes would have the lowest valuations. We understand that the use of this income valuation approach would also mirror the practices used in many other states.

Both the House and Senate bills would reduce the property class rate applied to rent-restricted property. While the House position would reestablish the 1.0 percent class rate, the 0.55 percent Senate class rate would reestablish the approximate class rate ratio between rent-restricted property and market rate apartments that existed prior to the 2001 tax reforms. Although a class rate reduction would certainly provide tax relief, it would treat all rent-restricted properties equally, even though some properties will have a higher concentration of lower rental units.

We understand that all of these property tax reduction techniques would shift property taxes to all other types of property. However, we feel that maintaining and expanding the affordable housing supply is an important public policy goal that would have broad community-wide and even state-wide benefits for all citizens.

Thank you for considering our concerns.

Appendix X: State statutes regarding the valuation of affordable housing and tax credit properties

Alaska

The state of Alaska requires assessors to assess property at its "full and true value." However, there are exceptions to this provision, including one for low-income housing tax credit developments. Alaska Statutes state:

[W]hen the assessor acts to determine the full and true value of property that qualifies for a low-income housing credit under 26 U.S.C. 42, instead of assessing the property under (a) of this section, the assessor shall base assessment value of the property on the actual income derived from the property and may not adjust it based on the amount of any federal income tax credit give for the property; (Section 29.45.110)⁸³

Connecticut

Section 8-216a of the Connecticut Statutes states:

(a) The provisions of any other general statute of special act to the contrary notwithstanding, the present true and actual value of real property classified as property used for housing solely for low or moderate-income persons or families pursuant to section 8-215, on which rents or carrying charges are limited by regulatory agreement with, or otherwise regulated by, the federal or state government or department or agency thereof, shall be based upon and shall not exceed the capitalized value of the net rental income of the housing project. For purposes of 8-215, 8-216, and this section, such net rental income means the gross income of the project as limited by the schedule of rents or carrying charges, less reasonable operating expenses and property taxes.⁸⁴

Florida

In Section 420.5093, Florida Statutes state:⁸⁵

(5) For the purposes of implementing this program and assessing property for ad valorem taxation under s. 193.011, neither the tax credits nor financing generated by tax credits shall be considered as income to the property, and the actual rental income from rentrestricted units a state housing tax credit development shall be recognized by the property appraiser. In considering or using the market or cost approach under s. 193.011, neither the costs paid for by tax credits nor the costs paid for by additional financing proceeds received because the property is in the program shall be included in the valuation.

(6) For the further purpose of implementing this program in Florida and in assessing the property for ad valorem taxation under s. 193.011, any extended low income housing agreement and all amendments and supplements thereto which are recorded and filed in the official public records of the county where the property is located shall be deemed a land use restriction during the term of any such agreement, amendment, or supplement.

Illinois

Section 10-235 of Illinois' Property Tax Code describes the intent of the low-income housing project valuation:⁸⁶

It is the policy of this State that low-income housing projects developed under Section 515 of the federal Housing Act or that qualify for the low-income housing tax credit under Section 42 of the Internal Revenue Code shall be valued at 33 and one-third percent of

⁸³ Alaska Statutes (2004), www.legis.state.ak.us, accessed January 23, 2005.

⁸⁴ Connecticut Statutes (2003), www.cga.ct.gov, accessed January 23, 2005.

⁸⁵ Florida Statutes (2004), www.flsenate.gov/statutes, accessed January 22, 2005.

⁸⁶ Illinois Statutes (2004), www.ilga.gov/legislation, accessed January 22, 2005.

the fair market value of their economic productivity to the owners of the projects to help insure that their valuation for property taxation does not result in taxes so high that rent levels must be raised to cover this project expense, which can cause excess vacancies, project loan defaults, and eventual loss of rental housing facilities for those most in need of them, low-income families and the elderly. It is the intent of this State that the valuation required by this Division is the closest representation of cash value required by law and is the method established as proper and fair.

Section 10-245 explains the valuation method to be used in valuing low-income housing projects: *Notwithstanding Section 1-55 and except in counties with a population of more than 200,000 that classify property for the purposes of taxation, to determine 33 and one-third percent of the fair cash value of any low-income housing project developed under the Section 515 program or that qualifies for the low-income housing tax credit under Section 42 of the Internal Revenue Code, in assessing the project, local assessment officers must consider the actual or probable net operating income attributable to the project, using a vacancy rate of not more than 5%, capitalized at normal market rates. The interest rate to be used in developing the normal market value capitalization rate shall be one that reflects the prevailing cost of cash for other types of commercial real estate in the geographic market in which the low-income housing project is located.*

Iowa

Section 441.21 of the Iowa code states:⁸⁷

2. ... However, in assessing property that is rented or leased to low-income individuals and families as authorized by section 42 of the Internal Revenue Code, as amended, and which section limits the amount that the individual or family pays for the rental or lease of units in the property, the assessor shall use the productive and earning capacity from the actual rents received as a method of appraisal and shall take into account the extent to which that use and limitation reduces the market value of the property. The assessor shall not consider any tax credit equity or other subsidized financing as income provided to the property in determining the assessed value...

Texas

Section 23.21 of the Texas Property Tax Code states:⁸⁸

- (a) In appraising real property that is rented or leased to a low-income individual or family meeting income-eligibility standards established by the owner of the property under regulations or restrictions limiting to a percentage of the individual's or the family's income the amount that the individual or family may be required to pay for the rental or lease of the property, the chief appraiser shall take into account the extent to which that use and limitation reduce the market value of the property.*
- (b) In appraising real property that is rented or leased to a low-income individual or family meeting income-eligibility standards established under a governmental contract for affordable housing limiting the amount that the individual or the family may be required to pay for the rental or lease of the property, the chief appraiser shall take into account the extent to which that use and limitation reduce the market value of the property.*

⁸⁷ Iowa Code (2003), www.legis.state.ia.us, accessed January 22, 2005.

⁸⁸ Texas Property Tax Codes (2004), www.capitol.state.tx.us, accessed January 22, 2005.