

S.F. No. 3706 – 2022 Property Tax Subcommittee Report (SCS3706A-1 Delete-Everything Amendment)

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Article 1: Property Taxes

Section 1. Exempt property used by a private entity for profit. Provides a 50 percent net tax capacity reduction for certain airport property owned or operated by a city with a population over 50,000 but less than 150,000. This reduction does not apply to property owned or operated by the Metropolitan Airports Commission. Effective beginning with taxes payable in 2023 through taxes payable in 2034.

Section 2. Certain property owned by an Indian tribe. Extends, by ten years, a property tax exemption for property located in Minneapolis and owned by an Indian Tribe. Without an extension, the exemption expires with property taxes payable in 2024. This section also exempts the property from the requirement that the property reapply for the exemption every three years. Effective with taxes payable in 2022.

Section 3. Energy storage systems. Establishes a ten-year property tax exemption for energy storage systems. The land on which the property is located remains taxable and must be classified as commercial-industrial. Effective beginning with assessment year 2024.

Section 4. Market value definitions. Adds the affordable housing market value exclusion established in Section 8 to the statutory list of market value exclusions. Effective beginning with assessment year 2023.

Section 5. First tier valuation limit agricultural homestead property. Sets the first-tier valuation limit for agricultural homestead property at \$2,500,000 for assessment year 2023. Beginning with assessment year 2024, the limit will be annually adjusted by the department of revenue pursuant to current law. Effective beginning with assessment year 2023.

Section 6. Class 4d; approval. Requires a property owner to receive approval by the governing body of the city or town where the property is located before applying to the Housing Finance Agency for initial class 4d designation, for property that was not, in whole or in part, classified as class 4d prior to assessment year 2023. A property owner that received the approval under this section, and the required certification from the Housing Finance Agency, is not required to seek approval prior to applying in each subsequent year. Effective beginning with assessment year 2023.

Section 7. Class 4d; application. Adds the additional approval requirement from Section 6 to the application submitted to the Housing Finance Agency for class 4d designation. Effective beginning with assessment year 2023.

Section 8. Affordable housing market value exclusion program; establishment. Establishes an affordable housing market value exclusion to promote the development of rental properties. Eligible properties receive a 50% market value exclusion. An eligible property is a property that is: (1) classified as class 4a (4+ apartment); (2) the property is not classified in whole or in part as class 4d; (3) construction of the property began on or after January 1, 2022; and (4) at least 20% of the units are available for residents whose household income at time of initial occupancy does not exceed 60% of the greater of area or state median income, and at least 80% of the available units are occupied by residents meeting the income requirement. A city council, town board, or county board acting on behalf of an unorganized territory, must adopt a resolution to participate in the exclusion program, and must further adopt a separate resolution for each property approved to receive the exclusion. The property specific resolution must be approved by the county board for the exclusion to take effect. The governing body determines the duration of the exclusion for each property provided the exclusion shall apply for at least ten but not more than twenty assessment years. The exclusion program expires on December 31, 2030, and any property not approved by that date will not receive the exclusion. Effective beginning with assessment year 2023.

Section 9. Class 1c. Modifies the classification tier rates for class 1c homestead resort property by providing that the first \$850,000 of market value is Tier 1, the market value from \$850,001 to \$3,100,000 is Tier II, and any value over \$3,100,000 is Tier III, and remains subject to the state general levy. Effective for taxes payable in 2023 and thereafter.

Section 10. Class 4d; class rate. Sets the class rate for class 4d low-income rental properties at 0.25%. Under current law, class 4d properties are subject to two valuation tiers per rental unit: a class rate of 0.75% on the first-tier amount and a class rate of 0.25% on the value exceeding the first-tier amount. Effective beginning with assessment year 2023.

Section 11. Homestead of veteran with a disability or family caregiver. Allows a surviving spouse of a member of the United States armed forces who dies during active service to submit a first-time application: (1) within two years of the service member's death; (2) within two years of the United States Department of Veteran Affairs Dependency and Indemnity Compensation determination; or (3) by December 31, 2023, whichever is later. This section also allows a surviving spouse to reapply for the exclusion if the exclusion expired prior to assessment year 2019 when the eligibility time period for surviving spouses was changed to a potential lifetime benefit. Effective for assessment year 2022 and thereafter.

Section 12. Homestead market value exclusion. Increases, by approximately twenty five percent, the minimum and maximum market value thresholds for the homestead market value exclusion. Under the proposal, the exclusion equals 40% of the first \$95,000 of market value. For homesteads valued between \$95,000 and \$517,200, the exclusion equals \$38,000 minus 9% of the value over

\$95,000. Homesteads valued at \$517,200 or more would not receive the exclusion. Effective for assessment year 2023 and thereafter.

Section 13. Affordable housing market value exclusion. Authorizes eligible properties to receive the affordable housing market value exclusion established in Section 8. The exclusion shall be calculated after all other exclusions or adjustments for which the property may otherwise qualify. Effective beginning with assessment year 2023.

Section 14. Amount of tax; distribution. Modifies the definition of “attachments and appurtenances” of cooperative utility distribution lines. Under current law, distribution lines, including attachments and appurtenances, located in a rural area, and owned by a cooperative association, are exempt from taxation and instead the cooperative pays a tax of \$10 per 100 members. This section specifies that “attachments and appurtenances” includes all cooperative association-owned metering and streetlighting equipment that is physically or electrically connected to the cooperative association’s distribution system. Effective beginning with assessment year 2023.

Section 15. State general levy; levy amount. Reduces the state general levy for both commercial-industrial property and seasonal recreational property by a combined \$23 million for taxes payable in 2023 through 2025. Beginning with taxes payable in 2026, both levies are reduced by ten percent each year until the levy for both commercial-industrial and seasonal recreational property is zero for taxes payable in 2035. Effective for taxes payable in 2023 and thereafter.

Section 16. Contents of tax statements. Adds the affordable housing market value exclusion and the agricultural riparian buffer credit to the property tax statement. Effecting beginning with assessment year 2023.

Sections 17 and 18. Delinquent property taxes, penalties, and costs; interest rate. Eliminates the ten percent minimum on interest rates charged on delinquent property taxes, penalties and costs, and confessions of judgment, and authorizes county boards to establish, by resolution, a lower interest rate than the prime rate charged by banks. Effective for property taxes, penalties, and costs determined to be delinquent on or after January 1, 2023.

Section 19. Additional refund. Reduces, from 12% to 10% percent, the threshold to qualify for the additional or targeting property tax refund, and increases, from \$1,000 to \$2,000, the maximum refund allowed. Effective for refund claims based on taxes payable in 2023 and thereafter.

Sections 20 through 23. Senior citizens’ property tax deferral program. Modifies two qualifications for the senior citizens’ property tax deferral program by: (1) increasing, from \$60,000 to \$75,000, the maximum household income allowed; and (2) reducing, from 15 years to 5 years, the homestead ownership and occupancy requirement. Effective for applications received for deferral of taxes payable in 2023 and thereafter.

Section 24. City of Virginia; Net Debt Limit Exemption. Authorizes the city of Virginia to finance the construction of a public safety building by obtaining a loan from the United States Department of Agriculture secured by its general obligation pledge. Any bonds issued relating to the project or repayment of the loan must not be included in the computation of the city’s limit on net debt. Under current law, a city, other than a city of the first class, may not incur debt in excess of three percent of the estimated market value of all taxable property in the city. Effective the day following final enactment.

Article 2: Property Tax Aids & Credits

Section 1. Agricultural Riparian Buffer Credit.

Subdivision 1. Eligibility. Provides that agricultural and rural vacant land that is required to be maintained as a riparian protection buffer is eligible for a property tax credit, provided that the landowner complies with the requirements of the riparian buffer law. Land enrolled in and generating payments under a state or federal conservation reserve or easement program is not eligible for the credit. Eligible land must be certified by the local soil and water conservation district. Requires local soil and water conservation districts to annually notify the county of any land that no longer meets the eligibility criteria.

Subdivision 2. Credit amount. Sets the amount of the property tax credit equal to 50 percent of the amount of net tax capacity-based property taxes attributable to the portion of the property subject to the buffer requirement.

Subdivision 3. Credit reimbursement. Requires the county auditor to determine the tax reductions allowed under this section and to certify the amounts to the commissioner of revenue.

Subdivision 4. Payment. Requires the commissioners of education and revenue to reimburse school districts and other local taxing jurisdictions for the tax reductions resulting from the credit.

Subdivision 5. Appropriation. Annually appropriates money from the general fund to the commissioners of education and revenue to make the payments to local taxing jurisdictions. Effective beginning with taxes payable in 2024.

Section 2. Payment; school districts. Adds the agricultural riparian buffer property tax credit to the list of school district reimbursable credits. Effective July 1, 2024.

Section 3. Computation of net property taxes. Adds the agricultural riparian buffer property tax credit to the list of credits used in calculating net property taxes. Effective beginning with taxes payable in 2024.

Section 4. Notice of proposed property taxes. Adds the agricultural riparian buffer property tax credit to the proposed property tax statement. Effective beginning with taxes payable in 2024.

Section 5. Electric generation transition aid.

Subdivision 1. Definitions. Provides definitions relevant to the aid program, including “electric generation property,” “electric generating unit,” “eligible taxing jurisdiction,” “unit base year,” and “unit differential.”

Subdivision 2. Required notification. Requires a public utility to give notice to the commissioner of revenue when the utility expects to retire an electric generating unit and remove that unit from the property tax base. The notice must be filed together with the reports required under current law that the commissioner uses to establish valuations for utility property.

Subdivision 3. Unit transition amount. Provides a formula to calculate the aid attributable the retirement of a single electric generating unit. The initial transition amount is a function of the local jurisdiction's tax rate and the reduction in the electric generation property tax base in the first year that the unit is no longer included in the tax base. Provides that the aid attributable to a unit phases out over a period of 20 years.

Subdivision 4. Electric generation transition aid. Provides that the transition aid for an eligible taxing jurisdiction equals the sum of the unit transition amounts calculated for the jurisdiction for that year.

Subdivision 5. Aid elimination. Requires that transition aid be eliminated for a taxing jurisdiction for which the taxable value is at least 90 percent of the taxable value in the year before the jurisdiction first qualified for transition aid, as adjusted for inflation. Exempts the retroactively eligible units under subdivision 7 from the aid elimination criteria.

Subdivision 6. Commissioner's duties; payment schedule. Requires the commissioner to compute the aid amounts and certify the amounts to each jurisdiction by August 1 in the year preceding the aid payable year. Requires that the aid be paid on the same schedule as local government aid (two installments in July and December).

Subdivision 7. Aid for prior unit retirements. Makes certain previous electric generating unit retirements eligible to generate transition aid. Aid is calculated for prior unit retirements first impacting assessed values in assessment years 2017 through 2022.

Subdivision 8. Appropriation. Establishes an open statutory general fund appropriation to pay the transition aid. Effective for aids payable in 2024 and later.

Section 6. Mille Lacs County; county, city, township, school district reimbursement. Reimburses taxing jurisdictions in Mille Lacs County for lost property tax revenue due to placement of property into trust by the United States Department of the Interior Bureau of Indian Affairs. Requires the county to certify by July 1, 2022, to the commissioner of revenue the amount of tax revenue lost for property placed into trust between January 1, 2009 and December 31, 2020. By July 1 each year thereafter, requires the county to certify the amount of tax revenue lost due to property being placed into trust during the preceding calendar year for properties that were the subject of an application for placement into trust between January 1, 2009 and June 30, 2021. For the first five years following certification, reimburses taxing jurisdictions the total amount certified. Beginning in the sixth year, reimburses taxing jurisdictions an amount equal to the previous year's amount less 20 percent of the amount distributed in the first year. Appropriates money from the general fund to pay the reimbursements. Effective the day following final enactment.

Section 7. Class 4d low-income rental property 2024 and 2025 transition aid; appropriation. Provides transition aid in 2024 and 2025 only for cities in which the net tax capacity of 4d property exceeds two percent of the total net tax capacity in assessment year 2022. Provides that the transition aid is calculated as a function of the city's pay 2023 tax rate and an approximation of the reduction in 4d net tax capacity attributable to the classification rate and first tier limit changes effective beginning in assessment year 2023. Directs the commissioner to pay transition aid concurrent with local government aid payments in 2024 and 2025. Appropriates money to pay the transition aid. Effective for aids payable in 2024 and 2025 only.

Section 8. 2019 aid penalty forgiveness; City of Roosevelt. The City of Roosevelt did not timely complete the required Office of the State Auditor annual financial reporting form for 2018 and the city’s 2019 local government aid payments were withheld. This section proposes to pay the City of Morton its withheld aid amount, totaling \$25,410, provided that the state auditor certifies to the commissioner of revenue that it received the annual financial reporting forms for 2018 and 2019 from the city no later than June 1, 2022. (The Office of the State Auditor reported in July 2020 that the city had submitted its required 2018 and 2019 forms.) Effective the day following final enactment.

Section 9. 2021 aid penalty forgiveness; City of Bena. The City of Bena did not timely complete the required Office of the State Auditor annual financial reporting form for 2020 and the city’s 2021 local government aid and small cities assistance aid payments were withheld. This section proposes to pay the city its withheld aid amounts, totaling \$43,774, provided that the state auditor certifies to the commissioner of revenue that it received the annual financial reporting form for 2020 from the city no later than June 1, 2022. Effective the day following final enactment.

Section 10. 2021 aid penalty forgiveness; City of Boy River. The City of Boy River did not timely complete the required Office of the State Auditor annual financial reporting form for 2020 and the city’s 2021 local government aid and small cities assistance aid payments were withheld. This section proposes to pay the city its withheld aid amounts, totaling \$19,578, provided that the state auditor certifies to the commissioner of revenue that it received the annual financial reporting form for 2020 from the city no later than June 1, 2022. Effective the day following final enactment.

Section 11. 2021 aid penalty forgiveness; City of Echo. The City of Echo did not timely complete the required Office of the State Auditor annual financial reporting form for 2020 and the city’s December 2021 local government aid and small cities assistance aid payments were withheld. This section proposes to pay the city its withheld aid amounts, totaling \$46,060, provided that the state auditor certifies to the commissioner of revenue that it received the annual financial reporting form for 2020 from the city no later than June 1, 2022. (The Office of the State Auditor reports that the city submitted its required 2020 forms on December 14, 2021.) Effective the day following final enactment.

Section 12. 2021 aid penalty forgiveness; City of Morton. The City of Morton did not timely complete the required Office of the State Auditor annual financial reporting form for 2020 and the city’s December 2021 local government aid and small cities assistance aid payments were withheld. This section proposes to pay the city its withheld aid amounts, totaling \$79,476, provided that the state auditor certifies to the commissioner of revenue that it received the annual financial reporting form for 2020 from the city no later than June 1, 2022. (The Office of the State Auditor reports that the city submitted its required 2020 forms on February 9, 2022.) Effective the day following final enactment.

Article 3: Tax Increment Financing

Section 1. Administrative expenses. Expands the definition of administrative expenses to identify a non-exhaustive list of items that are included as administrative expenses, while continuing to identify items that are not administrative expenses. Effective the day following final enactment and applies to all districts, regardless of when the request for certification was made.

Section 2. Pay-as-you-go contract and note. Defines “pay-as-you-go contract and note” as a written note or contractual obligation under with the following apply: (1) the note or obligation evidences an authority’s commitment to reimburse a developer, property owner, or note holder for the payment of

costs of activities, including any interest on unreimbursed costs; (2) the reimbursement is made from tax increment revenues identified in the note or contractual obligation; and (3) the risk that available tax increments may be insufficient to fully reimburse the costs is borne by the developer, property owner, or note holder. Effective the day following final enactment.

Section 3. Limitation on administrative expenses. Adds clarifying language that addresses how the administrative expense limit should be calculated when some of the total increment received subsequently has been returned to the county. This section also provides a partial exemption from the administrative expense limit when lease proceeds are used for the customary maintenance and operation of properties purchased with TIF. Effective the day following final enactment and applies to all districts, regardless of when the request for certification was made.

Section 4. Limitation on use of tax increment; general rule. Clarifies that expenditures for administrative expenses are authorized uses of tax increment under the general rule concerning the use of tax increment. Effective the day following final enactment and applies to all districts, regardless of when the request for certification was made.

Section 5. Economic development districts. Allows increment generated from an economic development district to be spent on a multilevel commercial facility in a small city provided that the square feet of the first floor of the facility does not exceed 15,000 square feet. “First floor” is defined as the floor at street level. A “small city” is defined as any city with a population of 5,000 or less and located ten miles or more from a Minnesota city with a population of at least 10,000. Effective for districts for which the request for certification was made after December 31, 2021.

Section 6. Expenditures outside district. Clarifies how the tax increment financing pooling limit should be calculated when tax increments have been returned to the county. Effective for districts decertifying after December 31, 2022.

Section 7, Five-year rule. Deletes obsolete language and a reference to permitted pooling under the “2(d)” affordable housing authorization which is further addressed in Section 8. Effective the day following final enactment and applies to all districts with a request for certification date after April 30, 1990.

Section 8. Use of revenues for decertification. Makes a number of changes to the six-year rule by removing the annual pooling restriction, clarifying at which point a district must be decertified when sufficient increment is collected, allows districts to defer decertification when pay-as-you-go contracts and notes are involved, prevents changes from impeding an authority’s ability to use extra “2(d)” pooling for affordable housing, and allows districts to remove parcels when increment is not pledged for outstanding obligations. Effective the day following final enactment and applies to all district with a request for certification after April 30, 1990.

Section 9. Pooling permitted for deficits. Makes a technical correction to a provision that allows pooling to address deficits caused by previously enacted tax reforms. Effective the day following final enactment and applies to districts for which the request for certification was made before August 1, 2001, and without regard to whether the request for certification was made prior to August 1, 1979.

Section 10. Collection of increment. Removes obsolete language that addresses the improper receipt of increment relating to tax increment financing duration limits. Effective the day following final enactment.

Section 11. Suspension of distribution of tax increment. Removes obsolete language concerning the county auditor’s authority to without distribution of tax increment. Effective the day following final enactment.

Section 12. Expenditure of increment. Amends statute addressing expenditures in violation of tax increment financing law to properly cover all potential violations. Effective the day following final enactment.

Section 13. City of Savage. Authorizes the city of Savage to extend, by three additional years, both the five-year rule, and the five-year period relating to the enlargement area of a district, for districts created pursuant to special legislation enacted in 2014. Under current law, the geographic area of a TIF district can be reduced, but not enlarged, after five years following the date of certification of the district. Effective upon city approval and filing requirements.

Section 14. City of Shakopee. Authorizes the city of Shakopee to create tax increment financing districts (until December 31, 2026) under special rules in a defined area of the city. Before establishing districts, the city must find that 70 percent of the defined area has peat or other geotechnical difficulties, landfills, dumps, quarries, gravel pits, floodway, or substantial fill is required for commercial development. The authority can create any TIF district in the defined area, other than an economic development or housing district, and if established, the five-year rule is extended to eight years, and the permitted polling percentage is increased from 20 to 80 percent. In addition, a new “soils deficiency district” can be established if 70 percent of the area has unusual terrain or soil deficiencies that require substantial filling and the estimated correction costs exceed the fair market value of the property, excluding costs of roads and other public improvements for which landowners would be assessed. Effective upon city approval and filing requirements.

Section 15. City of Woodbury. Authorizes the city of Woodbury to extend, by five years, the duration of TIF District No. 13, and allows increment generated from the district to be spent on the maintenance and facility and infrastructure upgrades to Central Park, and all such expenditures are deemed expended on activities within the district. Effective upon city approval, except that the duration extension is effective upon approval by the city, county, and school district.