Overview of Property Taxes

A Presentation to the
Property and Local Tax Division

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by

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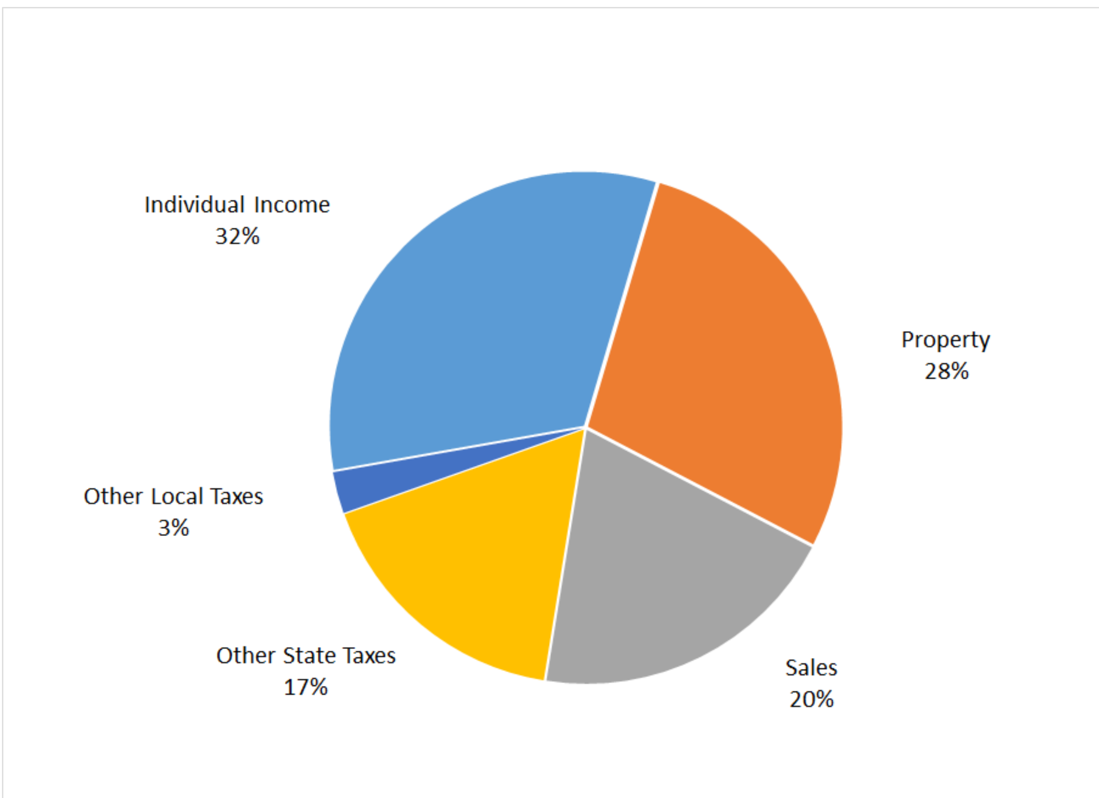
State and Local Taxes

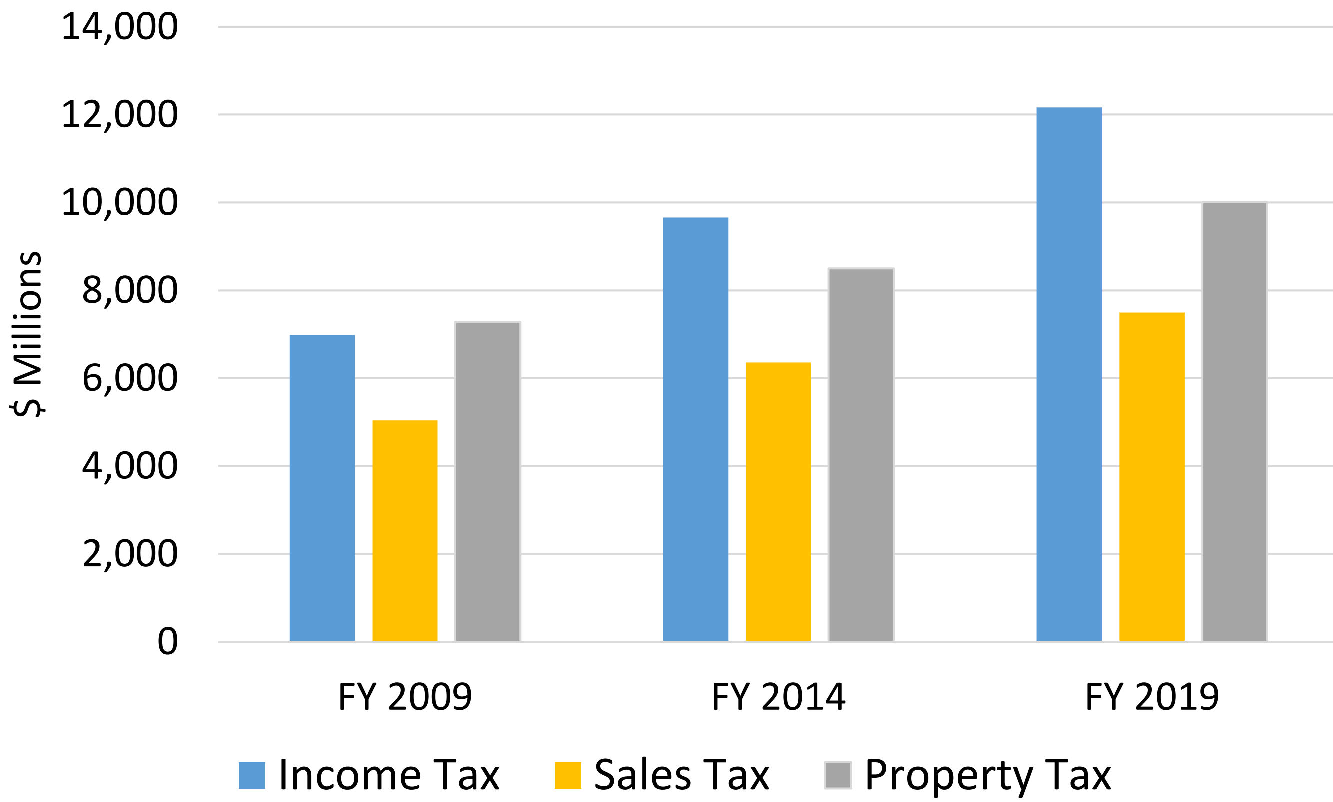
Minnesota State and Local Tax Collections
($37.4 billion in FY 2020)
$ millions

Individual Income	$12,094
Property	$10,508
Local Property Tax	$9,755
State Property Tax	$811
Sales (state only)	$7,430
Other State Taxes	$6,375
Other Local Taxes	$988
Total	**$37,395**

Of the $37.4 billion in state and local tax collections for FY 2020, $26.7 billion are state tax revenues and $10.7 billion are local tax revenues.



Income, Sales, and Property Taxes



House Research Graphics

Ten Years of the Big Three
FY 2019 ($ millions)

	FY 2009	FY 2014	FY 2019
Sales	$5,043	$6,355	$7,494
Individual Income	$6,988	$9,660	$12,166
Property	$7,281	$8,500	$10,005

Of the $36.5 billion in state and local tax collections for FY 2019, the big three taxes—sales, individual income, and property—accounted for 81% of the total.

Property Tax Administration

Who does what

Counties are responsible for property tax administration; the Department of Revenue provides assistance and oversight. The list below shows each county office's responsibilities for property tax administration. In some counties these offices are merged and one or two offices may perform the functions.

Assessor

- Values property
- Determines proper classification
- Sends valuation notices to taxpayers
- Directs and instructs local assessors, where applicable
- Accepts abatement requests
- Advises and assists local boards of review and county board of equalization

Auditor

- Determines each taxing jurisdiction's total tax capacity (i.e., its tax base)
- Calculates proposed and final tax rates
- Prepares truth-in-taxation notices (based on proposed levies)
- Maintains records on all parcels
- Collects delinquent property tax payments
- Collects special assessments for cities and townships
- Administers special programs (i.e., TIF and fiscal disparities)
- Conducts process for tax forfeited land and conducts land sales

Treasurer

- Prepares and mails property tax statements to taxpayers
- Collects non-delinquent property tax payments
- Distributes property tax receipts to each taxing jurisdiction
- Collects deed and mortgage registration taxes
- Prepares settlement for payment after each tax deadline

State (Department of Revenue)

- Assesses certain real and personal property (i.e., flight property, railroads, utilities, and pipelines)
- Assesses solar and wind energy production taxes
- Certifies assessment to counties
- Trains local officials
- Conducts sales ratio study
- Provides general oversight to property tax administration

Property tax timeline

The process of calculating, imposing, and collecting Minnesota property taxes for a year actually spans two full calendar years. As shown on the table below, the two-year cycle begins with the January 2 statutory assessment date and extends all the way through the next calendar year until the property taxes have been paid. For example, for taxes payable in 2019, the cycle begins on January 2, 2018, and doesn't end until the final payments are made in October/November 2019.

Appeal process

If a property owner disagrees with the assessor's valuation (shown on the valuation notice), the taxpayer can seek relief directly from the assessor. This may resolve the matter, so that no further action is necessary. If it does not, there are two separate avenues of appeal:

1. A three-step appeal process, consisting of an appeal to:
   - the local board of review; if not satisfied, appeal to,
   - the county board of equalization; if not satisfied, appeal to,
   - the Minnesota Tax Court.
2. A single-step appeal to the Minnesota Tax Court. There are two divisions:
   - The regular division, which can be used for any property. Proceedings are formal (an attorney is recommended), and the decision may be appealed to the Minnesota Supreme Court; or
   - The small claims division, which can be used only for homesteads (regardless of value) and other property where the market value is under $300,000. Proceedings are less formal, and decisions are final.

Property Tax System Timeline			
		Assessment Year 2020 Taxes Payable 2021	**Assessment Year 2021 Taxes Payable 2022**
2020	January	Assessment date (2nd)	
	March	Valuation notices mailed	
	April	Local boards of appeal and equalization	
	June	County board of appeal and equalization; state board of equalization	
	July	Certification of state aid amounts	
	September	Truth-in-taxation levy certifications (15th, 30th)	
	November	Truth-in-taxation notices mailed	
	December	Final budget hearings; final levy certifications (27th)	
2021	January	County auditors compute tax rates	Assessment date (2nd)
	March	Property tax statements mailed	Valuation notices mailed
	April		Local boards of appeal and equalization
	May	1st half tax payments due (15th)	
	June		County board of appeal and equalization; state board of equalization
	July	1st half state aid payments made (20th)	Certification of state aid amounts
	September		Truth-in-taxation levy certifications (15th, 30th)
	October	2nd half tax payments due – except on agricultural property (15th)	
	November	2nd half tax payments due – on agricultural property (15th)	Truth-in-taxation notices mailed
	December	2nd half state aid payments made (26th)	Final budget hearings; final levy certifications (27th)
2022	January		County auditors compute tax rates
	March		Property tax statements mailed
	May		1st half tax payments due (15th)
	July		1st half state aid payments made (20th)
	October		2nd half tax payments due – except on agricultural property (15th)
	November		2nd half tax payments due – on agricultural property (15th)
	December		2nd half state aid payments made (26th)

Tax Notices

Valuation Notice

Each year the county assessor mails valuation notices to all property owners that depicts the market value and classification of their property. Notices must be mailed at least ten days before the meeting of the Local Boards of Appeal and Equalization, which typically meet between April 1 and May 31. Counties often mail these notices along with the property tax statement for the current year.

The information contained in the valuation notice shows the property's assessment as of January 2 of the year the notice is received. The taxpayer will pay the tax owed based on this notice's information in the following year (taxes payable year).

Relevant to the property, the county assessor is required provide in the notice:

- The property's classification for both the current year and the prior year's assessment.
- The property's value for both the current year and the prior year's assessment, broken down into specific values of the property's estimated market value, the value of any new improvements, the value of any exclusions applied to the property, and values attributable to special programs such as Green Acres.

The assessor is also required to include the meeting information of the Local Board of Appeal and Equalization at which time taxpayers may dispute the information contained on the notice.

Truth in Taxation Notice

The "Truth in taxation" (TNT) notice is a result of each local taxing jurisdiction with levy authority (e.g., counties, cities, school districts, etc.) formally adopting its proposed levy for the upcoming year. Proposed levies are formally adopted each September. The TNT process is explained in further detail below.

The TNT notice is a parcel-specific notice that is sent to property owners depicting their proposed tax amount specific to each taxing jurisdiction. These tax amounts show the taxpayer's share of each taxing jurisdiction's proposed levy. Some items not included on the TNT notice include special assessments and referenda approved by voters after the date proposed levies are certified, such as school district or bond referenda. The addition of these items may cause a taxpayer's proposed tax shown on this notice to increase when the taxpayer receives his or her final property tax bill (property tax statement) in the spring.

The TNT notice must also contain information regarding the public meetings held by local taxing jurisdictions during which time they discuss their budgets and proposed levies. Members of the public are able to speak on these items at that time.

Notices must be mailed between November 11 and November 24 each year.

Property Tax Statement

The property tax statement is a property owner's "tax bill." It contains a list of the amount of tax due to each taxing jurisdiction. Taxes may be paid in two one-half payments, the first due May 15 and the second due October 15 (November 15 for agricultural real property).

The property tax statement is the final notice sent to property owners in a given tax year cycle. County treasurers are required to send this notice by March 31 each year. At this point, it is too late for a taxpayer to appeal the tax due at the local level.

Truth in Taxation Process

The Truth in taxation is a process first enacted by the legislature in 1988 to enhance public participation in Minnesota's property tax system.

The TNT process consists of these three components:

- Each local government is required to formally adopt a "proposed levy" in September for the upcoming year; the final levy, when ultimately adopted, may not exceed the proposed levy.[1]
- County auditors generate parcel-specific notices of proposed taxes for all parcels of property based on the proposed levies.
- Each local government is required to hold a public meeting after the notices come out where budget and tax issues are discussed, and where public testimony must be allowed, prior to adopting its final levy.

Rationale for the Program

Prior to TNT, the only involvement most taxpayers had with the property tax system was on the valuation side of the equation. Taxpayers received a market value notice in the spring of the year prior to the tax year, but nothing about how that valuation would actually relate to property taxes. Taxpayers could choose to become involved in tax and budgeting decisions by attending meetings of county commissioners, city councils, and school boards, but few did.

TNT was enacted with a goal of improving accountability by focusing taxpayers on the relationship between budget decisions and property taxes, and providing taxpayers with a greater opportunity to become involved in the local government budgeting process.

Recent Changes

In 2009, the legislature made some significant changes to the TNT process, generally aimed at removing some of the requirements that local governments found most onerous. They repealed:

- a requirement that each local government publish a newspaper ad showing proposed levy and spending amounts; and
- a number of regulations related to scheduling of the public meetings, which had required an extensive administrative process that insured that no two hearings affecting the same taxpayer would ever be held simultaneously. The pre-2009 law also required that the final levy would be adopted at the TNT hearing.

[1] Final levies may exceed proposed levies in the case of levies approved by voters in referendum elections.

Basic Terms and Concepts

Estimated market value	The assessor determines each property's **estimated market value** based on sales of comparable properties, cost of construction minus depreciation, income generated by the property (if applicable), and other relevant available information.
Market value exclusions, taxable market value	For some properties, a portion of the market value is excluded from taxation. All homesteads with an estimated market value below $413,800 have a portion of the market value excluded under the homestead market value exclusion. Other market value exclusions are provided through the "Green Acres" program and the disabled veteran's exclusion. A property's **taxable market value** is its **estimated market value** less any applicable **market value exclusions**.
Net tax capacity, class rate	A property's **net tax capacity** is determined by multiplying the property's **taxable market value** by the relevant **class rate** or rates. Class rates are set by statute, vary by property type, and are uniform statewide.
Local taxing jurisdiction	A **local taxing jurisdiction** is any local unit of government that has the authority to levy property taxes. Examples are counties, school districts, cities, towns, and "special taxing districts" such as watershed districts, housing and redevelopment authorities, and regional development commissions.
Taxable net tax capacity	A taxing jurisdiction's **taxable net tax capacity** is the total **net tax capacity** of all properties within the jurisdiction, excluding property located in a tax increment financing district.
Levy, levy limit	Each local taxing jurisdiction certifies a **levy** equal to the amount it intends to raise from property taxes in the upcoming year.
Local tax rate, total local tax rate	The **local tax rate** of a taxing jurisdiction is determined by dividing the jurisdiction's **levy** by the jurisdiction's **taxable net tax capacity**. The **total local tax rate** for an individual property is the sum of the local tax rates of all taxing jurisdictions in which the property is located.
Market value levy and tax rate	Most voter-approved levies apply to the property's market value rather than its net tax capacity. The **market value tax rate** is determined by dividing the jurisdiction's **market value levy** by the total market value of all properties within the jurisdiction (excluding properties classified as agricultural or seasonal-recreational, since those property types are exempt from market value levies).
Gross tax, property tax credits, net tax	**Property tax credits** reduce the **gross tax** that would otherwise be due upon a property. The most common property tax credits are the agricultural market value credit, the taconite homestead credit, and the disparity reduction credit. The remaining amount after subtraction of property tax credits is the **net tax**.

Computation of Property Tax for a Hypothetical Property (Residential Homestead)

1. Determine the property's ***estimated market value***	$200,000
2. Determine the property's ***homestead market value exclusion***	$19,200
3. Determine the property's ***taxable market value***	$200,000 - $19,200 = $180,800
4. Determine the ***class rate*** based on property type	Residential homestead: 1.0%
5. Multiply taxable market value by class rate to obtain the ***net tax capacity***	$180,800 x 1.0% = $1,808
6. Determine the ***total local tax rate*** by summing the tax rates of all jurisdictions authorized to levy property taxes upon the property (i.e., jurisdictions whose boundaries include the property)	County 45% City/town 35 School district 25 Special districts 5 Total 110%
7. Multiply net tax capacity by total tax rate to determine the ***net tax capacity-based tax***	$1,808 x 110% = $1,989
8. Determine the total ***market value tax rate*** by summing the market value tax rate for all taxing jurisdictions authorized to levy property taxes upon the property	County 0.00% City/town 0.00 School district 0.15 Special districts 0.00 Total 0.15%
9. Multiply estimated market value by total market value tax rate to determine the ***market value-based tax***	$200,000 x 0.15% = $300
10. Add the net tax capacity-based tax to the market value-based tax to obtain the total ***net tax***	$1,989 + $300 = $2,289

Property Tax Variation by Property Type

What causes property taxes to vary by type of property?

The primary cause of variation in property tax burdens is Minnesota's classified property tax system. In a classified system, each class of property is assigned one or more class rates. The property's taxable market value is multiplied by the class rate(s) to determine the property's tax base, technically called its net tax capacity.

Besides the class rates, variations in tax by type of property also occur because the state general tax and school district operating referendum levies apply to some types of property but not to others. (All voter-approved levies are levied on referendum market value, except school district levies for bonded debt and other units' debt levies approved by voters after 6/30/08; those levies are levied on the net tax capacity of all types of property.)

Class Rate Schedule for Taxes Payable in 2021

Class	Property Type (major property types only)	Class Rate	Subject to State Tax?	Subject to Referendum Levies?
1	**Homestead**			
1a	Residential homestead:			
	Up to $500,000	1.00%	No	Yes
	Over $500,000	1.25	No	Yes
2	**Agricultural**			
2a	Agricultural homestead:			
	House, garage & 1 acre – **same as residential homestead**			
	Agricultural land & buildings:			
	Up to $1,900,000	0.50	No	No
	Over $1,900,000	1.00	No	No
2a	Agricultural nonhomestead	1.00	No	No
2b	Nonhomestead rural vacant land	1.00	No	No
3	**Commercial/Industrial/Public Utility**			
3a	Commercial/Industrial/Public Utility:			
	Up to $150,000	1.50	Yes*	Yes
	Over $150,000	2.00	Yes*	Yes
	Electric generation attached machinery	2.00	No	Yes
4	**Other residential**			
4a	Market-rate apartments (4 or more units)	1.25	No	Yes
4bb	Residential nonhomestead single unit:			
	Up to $500,000	1.00	No	Yes
	Over $500,000	1.25	No	Yes
4b	Residential nonhomestead 2-3 unit and undeveloped land	1.25	No	Yes
4c	Seasonal recreational residential (noncommercial):			
	Up to $500,000	1.00	Yes**	No
	Over $500,000	1.25	Yes**	No
4d	Low-income apartments:			
	Up to $162,000 per unit	0.75	No	Yes
	Over $162,000 per unit	0.25	No	Yes

* Subject to state general tax at commercial-industrial rate. The first $100,000 of value is excluded from the state general tax.
** Subject to state general tax at seasonal recreational rate.

What other factors cause property taxes to vary by type of property?

Variations also occur because of various property tax exclusions and credits. Homesteads benefit from the homestead market value exclusion, which provides for up to $30,000 of a homestead's market value to be deducted before determining the taxes payable. Other exclusions are the disabled veterans' exclusion and the agricultural "Green Acres" program. Certain types of property also qualify for property tax credits that reduce the net tax on the property. The biggest property tax credit programs are the agricultural market value credit and the taconite homestead credit.

Local variation also occurs because tax rates are determined separately for each taxing jurisdiction in the state, based on each jurisdiction's levy and tax base.

What is effective tax rate?

Effective tax rate is a measure of tax burden useful in making property tax comparisons. It is defined as net tax divided by market value (i.e., tax as a percent of market value). It allows comparison of tax burdens between properties of different values, different types, and different locations.

Comparison of Property Taxes on Various Types of Property, Within the Same Taxing Jurisdiction, Each with an Estimated Market Value of $200,000 (Property taxes payable in 2020)

Property Type	Class Rate(s)	Net Tax Capacity	Property Tax*		Effective Tax Rate
			Gross	Net	
Agricultural homestead**	0.5/1.0%	$1,040	$1,365	$922	0.46%
Agricultural nonhomestead	1.0	2,000	2,135	2,135	1.07
Residential homestead	1.0	1,808	2,350	2,350	1.18
Seasonal recreational residential (i.e., cabin)	1.0	2,000	2,413	2,413	1.21
Residential nonhomestead (1 unit)	1.0	2,000	2,555	2,555	1.28
Residential nonhomestead (2-3 units)	1.25	2,500	2,921	2,921	1.46
Apartment	1.25	2,500	2,921	2,921	1.46
Low-income apartment	0.75	1,500	2,022	2,022	1.01
Commercial/Industrial	1.5/2.0	3,250	4,537	4,537	2.27
Commercial/Industrial @ $2,000,000***	1.5/2.0	39,250	60,068	60,068	3.00

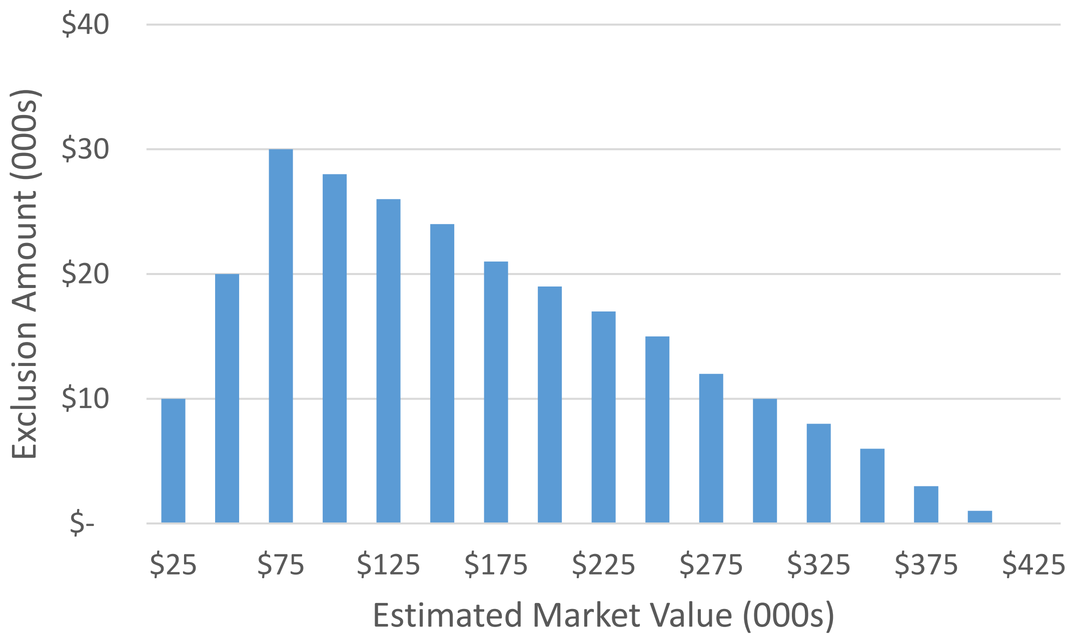
* These examples assume a total local net tax capacity tax rate of 106.74 percent, a total market value tax rate of 0.21025 percent, a state commercial-industrial tax rate of 37 percent, and a state seasonal recreational tax rate of 18 percent.

** The agricultural homestead is assumed to consist of a house valued at $40,000 and agricultural land and buildings valued at $160,000.

*** This property has a market value of $2,000,000 to show a typical effective tax rate on a larger commercial/industrial property.

Homestead Market Value Exclusion

- In 2011, the homestead market value exclusion was created as a new feature of the property tax system
- The exclusion was instituted to provide relief similar to the homestead market value credit, which was eliminated
- Each home's exclusion amount is subtracted from its market value prior to computing the tax on the homestead
- For agricultural homesteads, the exclusion applies to the value of the house, garage and one acre of land only
- The exclusion amount is based solely on the property's estimated market value
- For homes with an estimated market value of $76,000 or less, the exclusion is 40 percent of the estimated market value
- For homes with an estimated market value over $76,000, the exclusion amount gets smaller as the estimated market value becomes larger – the exclusion amount is $30,400 for a home valued at $76,000, and then decreases at the rate of $90 for each $1,000 in estimated market value above $76,000
- The homestead market value exclusion does not apply to homes valued over $414,000

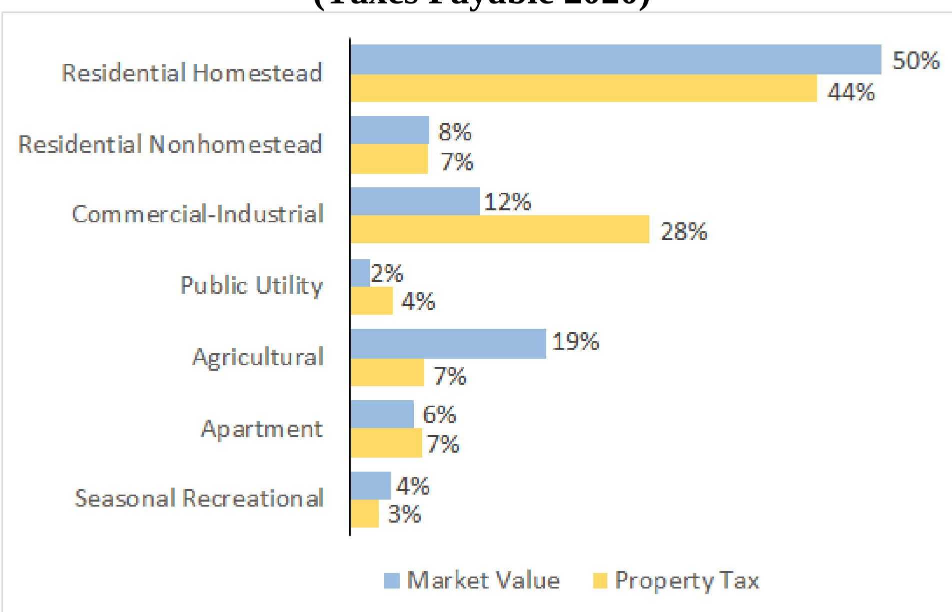


Who Pays Property Taxes and Who Receives Them

Where property taxes come from

Total property taxes statewide were $11,034 million for calendar year 2020. The total amount of property value (excluding the value of exempt property) was $766,941 million. The graphs below show the breakdown of the state's total market value and total property taxes paid by property type. The differences between the shares of property value and the shares of tax paid result mainly from the state's classified property tax structure, but also from various property tax credit programs, the application of the state general levy and certain voter-approved levies to some property types but not others, and variations in local rates.

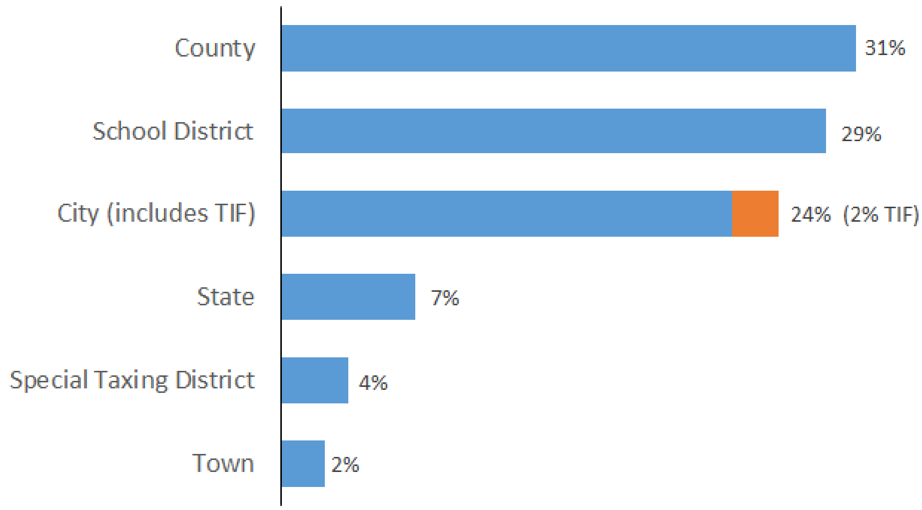
Statewide Shares of Market Value and Property Tax by Property Type (Taxes Payable 2020)



Where property taxes go

The total property tax burden in Minnesota was $9,993 million for calendar year 2020. The pie chart below shows the distribution of the tax among the various types of taxing jurisdictions.

Statewide Property Tax by Type of Government,*
Taxes Payable 2020
(Total: $11,034 million)



How do property taxes in Minnesota compare to other states?

The Minnesota Center for Fiscal Excellence, in collaboration with the Lincoln Land Institute based in Cambridge, Massachusetts, issued a report comparing property taxes in all 50 states in June, 2020. The report covers property taxes payable in 2019.

Tax burdens are considered for four classifications of property – residential homestead, commercial, industrial, and apartments. For each type of property, tax burdens are compared for the most populous city in each state, and for a representative rural city in each state. (For Minnesota, the rural city used in the comparison is Glencoe.)

Minnesota ranking among urban cities

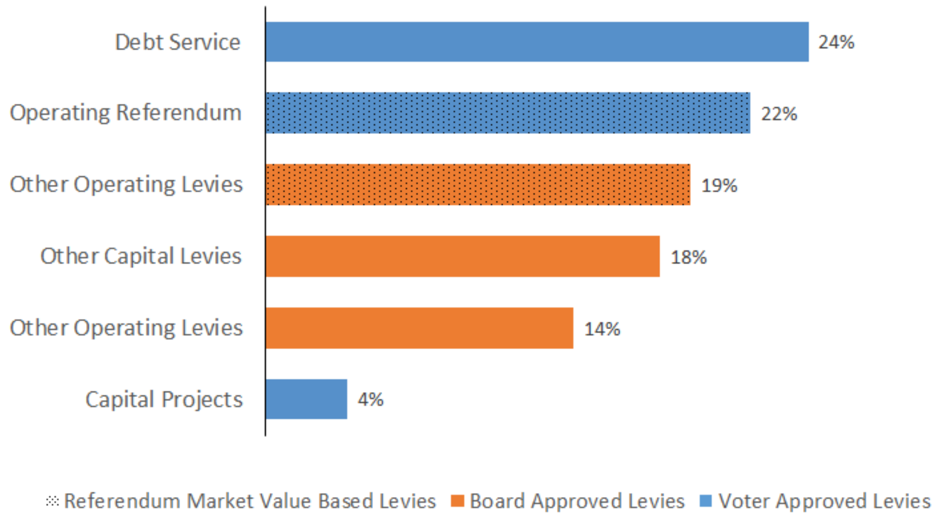
Type of property	National ranking (out of 53)
$ 150,000 home	24th
$ 300,000 home	21st
$ 1 million commercial property	10th
$ 1 million industrial property*	24th
$ 600,000 apartment	21st

Minnesota ranking among rural cities

Type of property	National ranking (out of 50)
$ 150,000 home	21st
$ 300,000 home	21st
$ 1 million commercial property	6th
$ 1 million industrial property*	14th
$ 600,000 apartment	28th

* Based on assumption of 60 percent personal property.

School District Levies
$3.305 Billion for Pay 2020



State General Tax

- For taxes payable in 2020 and thereafter, the commercial-industrial portion of the levy is $737,090,000 and the seasonal-recreational portion of the levy is $41,690,000.

- The state general tax was instituted in 2001 as part of a major overhaul of the property tax system. The levy was initially set at $592 million for taxes payable in 2002. For a time, the law provided for the levy to increase each year by the percentage increase in the implicit price deflator for government consumption expenditures and gross investment for state and local governments, as prepared by the U.S. Dept. of Commerce. In 2017, this annual increase was removed.

- Beginning with taxes payable in 2006, the state levy was apportioned into separate pools so that 95% is borne by commercial-industrial property (including public utility), and 5% is borne by seasonal recreational property (both commercial and noncommercial). Separate tax rates are determined for each pool. Each property's tax is determined by multiplying its net tax capacity by the applicable state tax rate, except that for noncommercial seasonal-recreational property up to $76,000 in value, the state tax is levied at only forty percent of the full rate. Additionally, the first $100,000 of market value of commercial-industrial property and the portion of public utility property consisting of attached machinery used in the generation of electricity are not subject to the state general tax.

- Revenues from the state general tax are deposited in the state general fund. The initial 2001 legislation provided that the amount levied each year over and above the FY 2003 amount would be dedicated to education funding, but that dedication was eliminated in 2003.

- The table below lists the state levy and the state tax rate(s) for each year since the state levy was initiated:

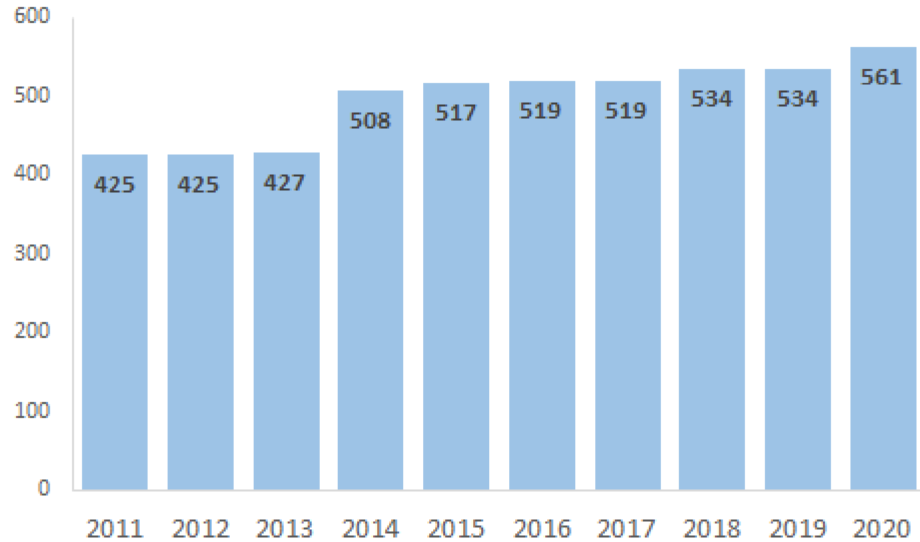
		Tax Rates	
Payable Year	State Levy (millions)	Commercial-industrial rate	Seasonal-recreational rate
2002	$592.0	57.933%	57.933%
2003	594.9	54.447	54.447
2004	615.2	54.109	54.109
2005	625.9	51.121	51.121
2006	654.9	50.827	28.385
2007	693.1	48.032	24.225
2008	729.2	45.949	20.385
2009	773.7	45.535	18.214
2010	779.0	45.881	17.755
2011	795.1	49.043	19.145
2012	817.4	51.100	20.750
2013	840.6	52.523	22.327
2014	844.4	52.160	22.836
2015	854.4	50.840	21.703

2016	856.8	48.641	21.167
2017	862.6	45.802	20.845
2018	828.8	43.865	20.779
2019	828.8	42.416	19.962
2020	778.8	38.846	17.997

Major Property Tax Relief Programs

CY '20/FY '21 (millions)	Program	Recipients
	Aids or Credits	
$561	Local government aid	Cities
260	County program aid	Counties
138	Operating capital aid	School districts
119	Local optional revenue aid	School districts
37	Agricultural market value credit	All taxing jurisdictions
45	Referendum equalization aid	School districts
36	Payments in lieu of taxes (PILT)	Counties and towns
25	Debt service equalization aid	School districts
	Direct Payments	
489	Homestead credit refund–homeowners	Individuals
225	Property tax refund–renters	Individuals
88	COVID Small Business Aid – 1 year	Businesses
	CARES Act (Federal)	
838	Payments to Local Governments	Counties, cities, towns

City LGA
(in millions $)



*In 2011 and 2012, the amount of aids paid were less than the amount originally certified

The City LGA Program

The current formula was enacted in 2013

The city local government aid (LGA) program has existed since 1972; however, the formula for aid distribution has changed over time. The current formula for the program was enacted in 2013. The new formula addresses a number of criticisms of the previous formula, such as complexity, volatility, and amount of aid distributed "off-formula." The formula calculates increases and decreases in each city's aid based on the gap between its "unmet need" and its current aid level. Cities with large gaps will get larger aid increases, and cities whose aid is more than their current "unmet need" will gradually lose aid over time. The only major change to the formula since 2013 was the addition of a sparsity adjustment in 2017 to the small and medium city need measures.

Virtually all of the LGA appropriation is distributed via the formula

The city LGA appropriation was $534.4 million for aids payable in 2018. It was increased to $560.4 million for aids payable in 2020 and $564.4 for aids payable in 2021 and thereafter. Only $160,000 is distributed as nonformula aid. Prior to the new formula, $24 million was distributed to various cities outside of the formula.

There are three need formulas for cities—based on a city's size

The measure of a city's "need" depends on its population:

- **For small cities (population less than 2,500):** need per capita is based on the city's population including a sparsity adjustment
- **For medium-size cities (population between 2,500 and 10,000):** need per capita is based on (1) percent of housing built before 1940, (2) household size, (3) population decline from a city's peak population in the last 40 years, and (4) a sparsity adjustment
- **For large cities (population over 10,000):** need per capita is determined by (1) jobs per capita, (2) age of housing stock (both housing built before 1940 and housing built between 1940 and 1970), and (3) a sparsity adjustment for cities with a population less than 150 per square mile

A city's aid changes based on differences between its unmet need and its previous aid

Each city's unmet need is equal to the difference between (1) its need per capita multiplied by its population, and (2) its equalized net tax capacity multiplied by the average tax rate for all cities in the previous year. If the city's "unmet need" is greater than the amount of aid it received in the previous year, its aid will increase. The increase equals a percentage of the gap between the city's unmet need and its previous aid amount. The percentage is the same for all cities. For aid payable in 2021, this percentage is 5.0.

If a city's aid in the previous year is greater than its unmet need, its aid will decrease; either to the unmet need amount or by the maximum allowed annual decrease (see next page).

Annual aid fluctuations will be minimized

A city whose current aid is far below its "unmet need" measure will see larger dollar increases than a city whose aid is close to its "unmet need." Over time all cities will gradually move toward receiving aid equal to their unmet need amount.

Because aid is based on each city's need rather than on changes in need for all cities, payments to individual cities will be more stable.

Characteristics of the Current LGA Program

Funding level	$564.4 million in Payable 2021 and thereafter
Nonformula aid	• Mahnomen - $160,000/year permanently
"Formula need"[1]	For cities with a population of less than 2,500: Need per capita = $410 + .0367 x (city population – 100) up to a maximum of $630 + (200 if the city population density is less than 30 persons/sq. mile) For cities with a population of at least 2,500 but less than 10,000: Need per capita = 1.15 x {$572.62 + (5.026 x percent of housing built before 1940) – (53.768 x average household size) + (14.022 x population decline from the city's peak census population) + (200 if the city population density is less than 30 persons/sq. mile)} For cities with a population of 10,000 or more: Need per capita = 1.15 x {307.664 + (4.59 x percent of housing built before 1940) (0.622 x percent of housing built between 1940 and 1970) + + (169.415 x jobs per capita in city) + (100 if the city population density is less than 150 person/sq. mile)}
"Unmet need"	= ("Formula need" x population) – (city net tax capacity x average city tax rate)
Formula aid	For cities whose unmet need is *less* than its previous year aid: Formula aid = "Unmet Need" For cities whose unmet need is *greater* than its previous year aid: Formula aid = last year's formula aid + X% of the difference between its "unmet need" and its aid in the previous year
Final aid	= Formula aid + nonformula aid; subject to the maximum annual decrease
Limits on annual decreases	No city's aid can decrease from the previous year's amount by more than an amount equal to the *lesser* of: • $10 multiplied by the city population; or • 5% of the city's levy in the previous year
[1] To avoid sudden changes in city formula need measures, a city with a population between 2,500 and 3,000 or between 10,000 and 10,500, has a formula need based partially on the formula for its current size and partially on the formula for the cities of the next smaller size.	

Township LGA

Township LGA was reenacted in 2013

The current local government aid (LGA) program for townships was enacted in the 2013 session, and the first payments were made in 2014. The original LGA program enacted in 1971 provided aid to all local governments but over the years, the program became a city aid program only. The last LGA payment made to townships under the old program was in 2001.

Aid payment is based on geographic size, population, and percent of agricultural property

The amount received by each township is based on three factors:

- Town area factor: the most recent estimate of the acreage in the township, up to 50,000 acres. The estimate may come from the U.S. Bureau of the Census, the State Land Management Information Center, or the secretary of state
- Population factor: the square root of the most recent population estimate for the township
- Agricultural property factor: the ratio of the adjusted net tax capacity of all agricultural property in the township to the adjusted net tax capacity of all other property located in the township, up to a maximum factor of eight. "Agricultural property" includes homestead and nonhomestead agricultural land, rural vacant land, and noncommercial seasonal recreational property (i.e., cabins), but it does not include managed forest land or tax-exempt natural resource land.

Total aid is limited to $10 million annually

The formula distributes $10 million annually to organized townships in the state. The actual formula for each towns aid is:

$$\text{Aid} = X\% \text{ of } \left(\begin{array}{c}\text{agricultural}\\ \text{property}\\ \text{factor}\end{array} \times \begin{array}{c}\text{town area}\\ \text{factor}\end{array} \times \begin{array}{c}\text{population}\\ \text{factor}\end{array} \times .0045 \right)$$

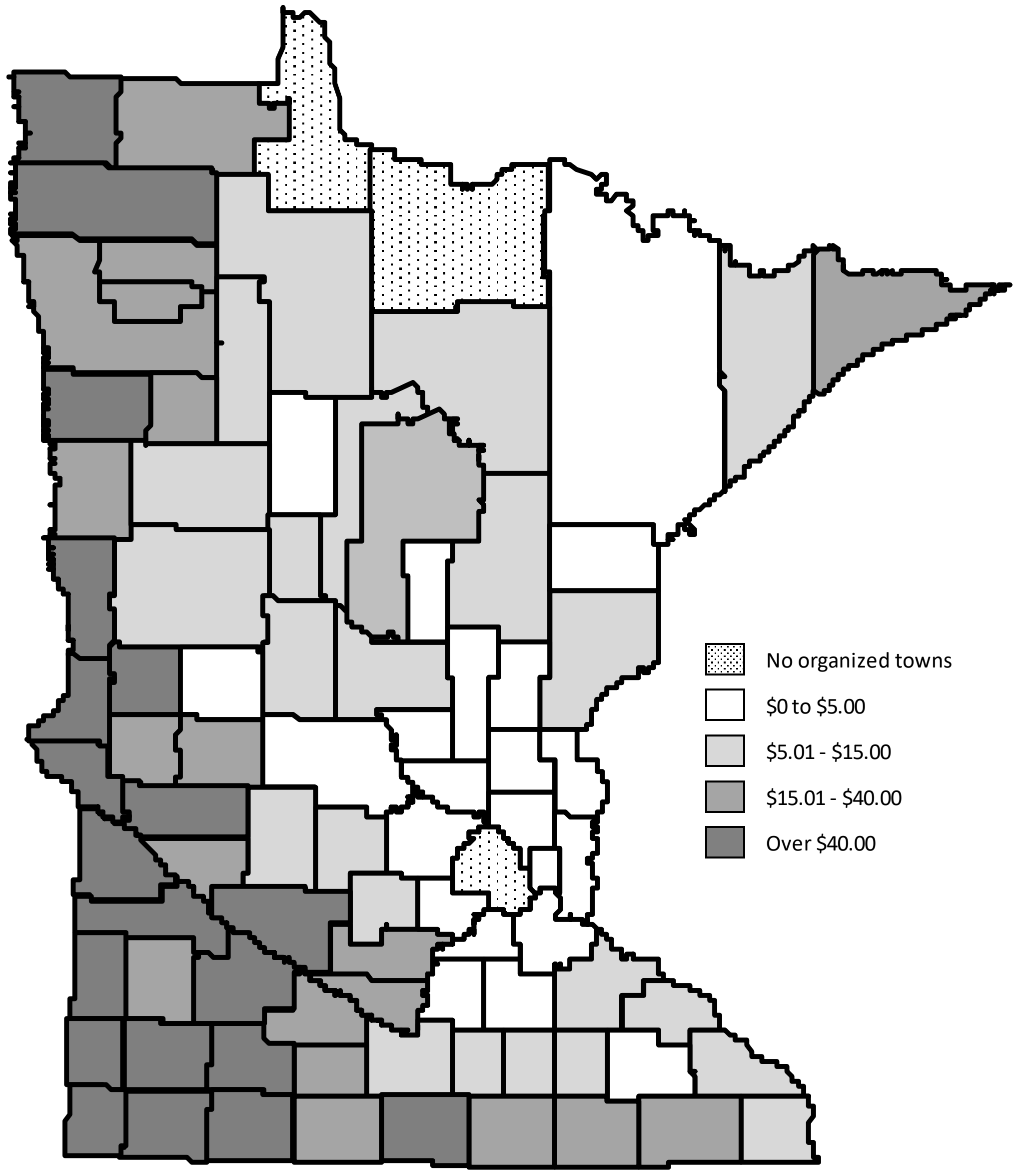
where *X%* is the percentage needed so the total paid to all townships does not exceed $10 million. For payments made in 2014, the percentage paid was 91.4 percent.

Formula favors organized, agriculture-based townships

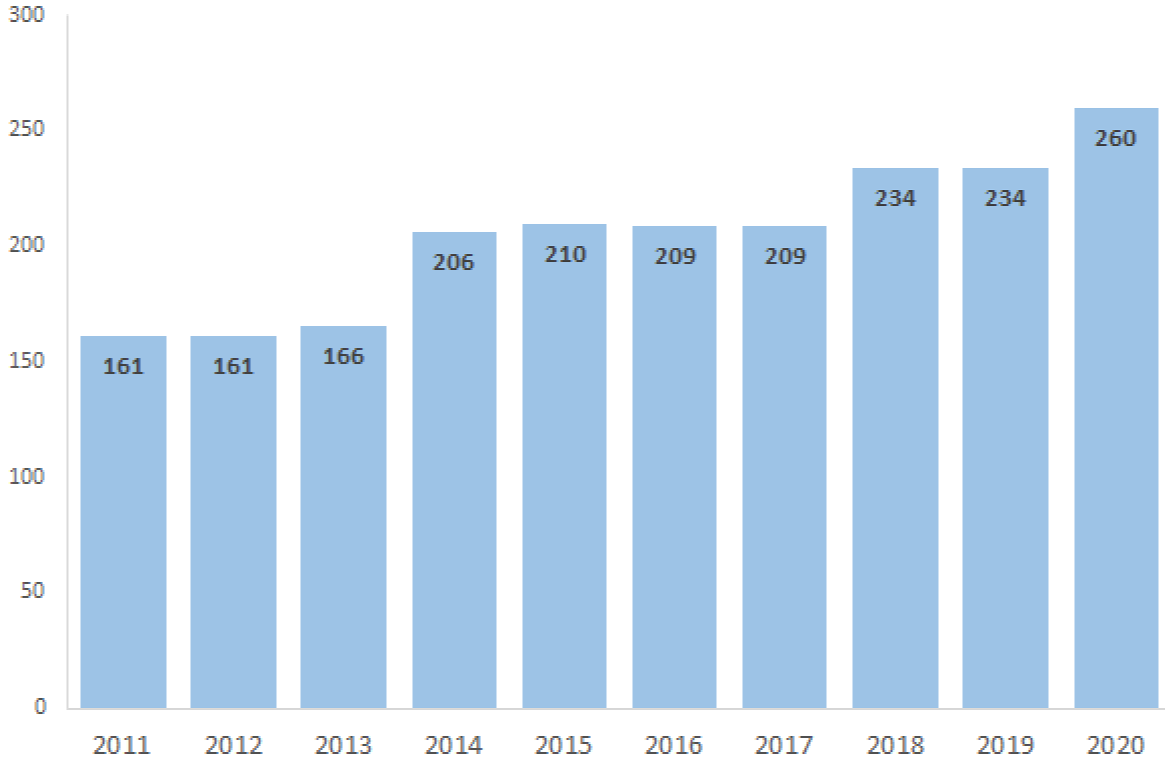
The formula tends to provide more aid per capita to townships that have a large amount of land meeting the definition of "agricultural property" used here. Townships with large amounts of other property such as residential, commercial, or forest property will get less aid per capita. The town aid is limited to organized townships; no aid is paid to counties for providing township services to unorganized townships in the state. Because of this, payments tend to be highest in the western and southwestern counties in the state.

No town aid is paid in three counties

No township aid is paid in Hennepin, Koochiching, or Lake of the Woods counties. This is because either the entire county is incorporated into cities (Hennepin County) or the county only has *unorganized* townships (Koochiching and Lake of the Woods counties).



County Program Aid (CPA) (in $ millions)*



*In 2011, the amount of aid paid was less than the amount originally certified

County Program Aid

County program aid consists of "need aid" and "tax-base equalization aid"

Prior to calendar year 2004, counties received property tax aid under a number of different programs. Beginning in 2004, the aid programs were consolidated into one general aid program, called county program aid (CPA).

From calendar year 2005 on, CPA has been allocated by two formulas, need aid and tax-base equalization aid. From 2005 through 2017, the amounts distributed under the two different formulas were roughly equal; however, beginning in 2018 the amount distributed through tax-base equalization aid is approximately 25 percent greater than the amount distributed through need aid. The table on the next page shows how a county's aid is calculated under each formula.

Counties receiving less aid under the post-2004 formula received transition aid

Seven counties whose relative share of the total CPA formula allocation in calendar year 2005 was significantly less than their share of 2004 program aid qualified for "transition aid." Each county's transition aid amount was permanently fixed at one-third of the amount it received in 2005. This provision has been repealed and the last transition aid payments were made in 2017.

County program aid amounts have changed over time

For 2008 to 2011, county program aid payments were reduced due to state budgetary conditions. The total appropriation was permanently reduced by approximately $34 million in 2010, and reduced by another $32 million in 2011. By 2014, increases in the appropriation returned county program aid payments to where they were prior to these reductions. In 2019, the total aid amount was increased by $26 million for aids paid in 2020 and by an additional $4 million for aids paid in 2021.

Program change enacted in 2017

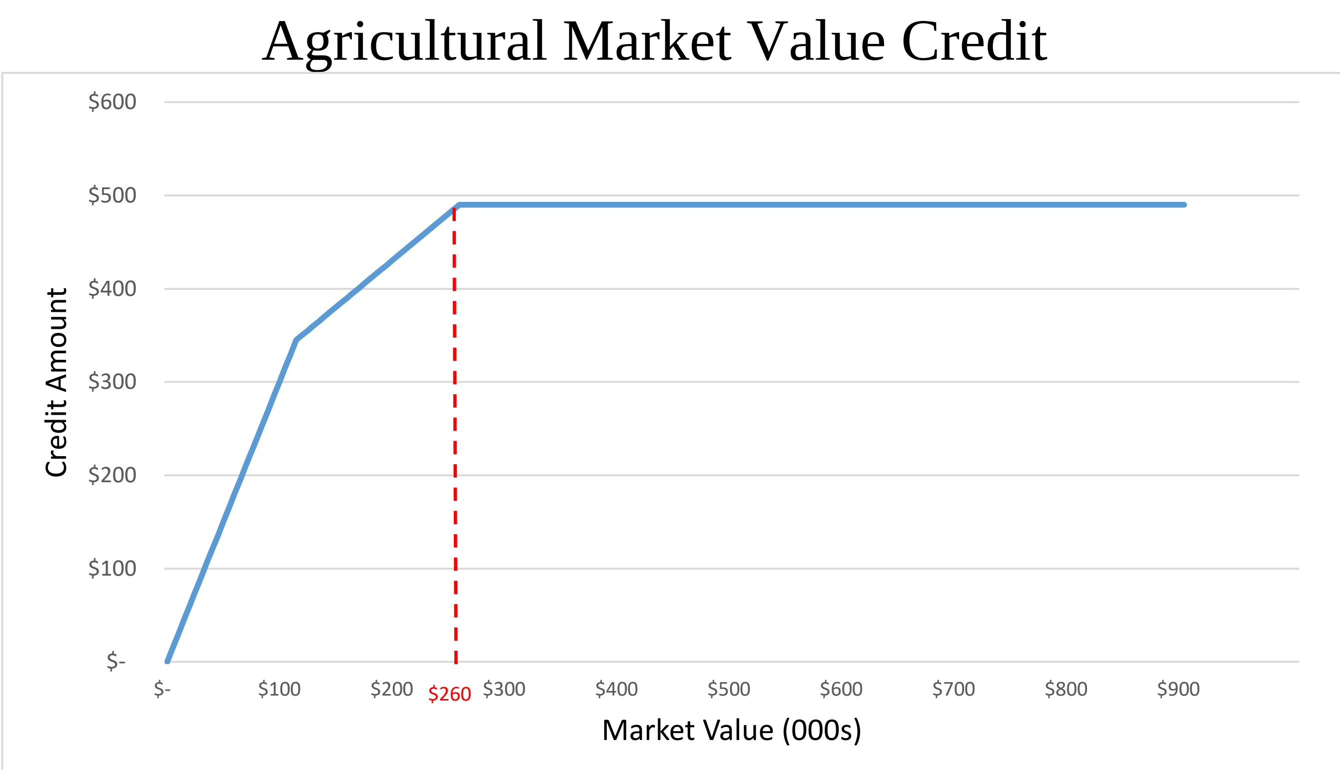
In 2017, the legislature instituted a guarantee that a county's tax-base equalization aid could not be less than 95 percent of its tax-base equalization aid in the previous year, or 0.27 percent of the total statewide appropriation for tax-base equalization aid, whichever is greater. This was in response to recent significant reductions in tax-base equalization aid in many rural counties due to rapid growth in agricultural property values.

Calculation of County Program Aid

Need Aid	Tax-base Equalization Aid
Share of Appropriation: $104.8 million (CY 2015) $103.4 million (CY 2016) $103.2 million (CY 2017) $103.4 million (CY 2018) $103.3 million (CY 2019) $116.3 million (CY 2020) $118.3 million (CY 2021)	**Share of Appropriation:** $105.2 million (CY 2015) $105.2 million (CY 2016) $105.2 million (CY 2017) $130.7 million (CY 2018) $130.7 million (CY 2019) $143.7 million (CY 2020) $145.7 million (CY 2021)
Reductions from the appropriation: $500,000 annually for court-ordered counsel and public defense costs	**Reduction from the appropriation:** up to $214,000 annually to pay for the preparation of local impact notes
Factors used in the formula: ▪ **age-adjusted population,** which ranges from 80% to 180% of the county's actual population based on the percentage of the county's population over 65 years, compared to the statewide average ▪ **average monthly number of households receiving food stamps** in the county over the last three years ▪ **average number of Part I crimes** reported in the county over the last three years (These are the most serious crimes)	**Tax-base equalization factor used in the formula:** **Factor = N** times ($190* x population - 9.45% of the county adjusted net tax capacity) **where N equals:** ▪ 3 if the county population is less than 10,000 ▪ 2 if the county's population is at least 10,000 but less than 12,500 ▪ 1 if the county's population is at least 12,500 but less than 500,000 ▪ 0.25 if the county's population is 500,000 or more *Each year, this number is increased by the ratio of the statewide ANTC per capita to the statewide ANTC per capita in the 2016 assessment year
The formula: ▪ 40% of the appropriation is distributed to each county based on its relative share of the total age-adjusted population in the state ▪ 40% of the appropriation is distributed to each county based on its relative share of the total average monthly number of households receiving food stamps in the state ▪ 20% of the appropriation is distributed to each county based on its relative share of the average number of Part I crimes reported in the state	**The formula:** ▪ 100% of the appropriation is distributed based on each county's relative share of the sum of the tax-base equalization factors for all the counties in the state, provided that no county's aid may be less than the greater of (a) 95 percent of its aid in the previous year, or (b) 0.27 percent of the statewide appropriation

Agricultural Market Value Credit

- The credit applies to agricultural homesteads only
- The credit amount is based on the taxable value of the agricultural portion of the property, *excluding the value of the house, garage and surrounding one acre of land*
- The credit amount is shown on the tax statement as a subtraction after the gross tax has been computed
- The credit is deducted from each local government's tax on the homestead in proportion to its share of the gross tax (excluding school referendums)
- The maximum credit amount is $490; all farms valued over $260,000 receive the maximum credit amount
- The credit is 0.3% of the market value up to $115,000, plus 0.1% of the market value over $115,000, until the maximum credit of $490 is reached at a market value of $260,000
- The state cost of the credit for taxes payable in 2020 (FY 2021) is $36.9 million



Homestead Credit Refund Program

What is the homestead credit refund program?

The homestead credit refund is a state-paid refund that provides tax relief to homeowners whose property taxes are high relative to their incomes. The program was previously known as the homeowner's property tax refund program, or PTR, and sometimes popularly called the "circuit breaker." If the property tax exceeds a threshold percentage of income, the refund equals a percentage of the property tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay (the "copay percentage") increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled. The refund is based on taxes payable after subtracting any targeting refund claimed by the homeowner.

What are the maximums?

For refund claims filed in 2021, based on property taxes payable in 2021 and 2020 household income, the maximum refund is $2,840. Homeowners whose income exceeds $116,180 are not eligible for a refund.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, which is filed separately from the individual income tax form. Claims based on taxes payable in 2021 that are filed before August 15, 2021, will be paid beginning in late September 2021; claims filed electronically may be paid a month earlier. The deadline for filing claims based on taxes payable in 2021 is August 15, 2022; taxpayers filing claims after that date will not receive a refund.

How many homeowners receive refunds, and what is the total amount paid?

Based on payable 2019 property taxes and 2018 incomes, 501,591 homeowners received refunds. The average refund was $1,000, and the total dollar amount of refunds paid statewide was $501.8 million. The average refund for senior and disabled claimants ($1,052) was slightly higher than the average for those under age 65 and not disabled ($961).

What are the most recent changes to the program?

The 2011 and 2013 tax laws both expanded the refund program. The 2011 changes increased the maximum refund for homeowners with incomes under about $37,000, and decreased the copayment percentage for most homeowners. The 2013 changes, effective for refunds based on taxes payable in 2014, lowered the threshold percentage for determining eligibility from 3.5 percent of income to 2.0 percent of income for homeowners with household incomes from $19,530 to $65,049, and to 2.5 percent for those at higher income levels.

How do refunds vary depending upon the filer's income and property tax?

The following table shows the refund calculations for four example families with different incomes—two families in the metro area and two in Greater Minnesota. Although the program parameters are the same statewide, the average residential homestead property tax in the metro area is higher than in Greater

Minnesota. The example metro area families have homes valued at $265,000 and payable 2020 property taxes of $3,600, typical amounts for the metro area. The example families in Greater Minnesota have homes valued at $165,000 and payable 2020 property taxes of $1,900, typical amounts for Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, two dependents
Example refunds for claims to be filed in 2021,
based on taxes payable in 2021 and 2020 income

		Metro Area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Property tax	$3,600	$3,600	$1,700	$1,700
2	Gross income	$35,000	$75,000	$35,000	$75,000
3	Deduction for dependents	$11,610	$11,610	$11,610	$11,610
4	Household income (2 – 3 = 4)	$23,390	$63,390	$23,390	$63,390
5	Threshold income percentage	2.0%	2.0%	2.0%	2.0%
6	Threshold % x income (4 x 5 = 6)	$468	$1,268	$468	$1,268
7	Property tax over threshold (1 – 6 = 7)	$3,132	$2,332	$1,432	$632
8	Statutory copay percentage	25%	40%	25%	40%
9	Taxpayer copay amount (7 x 8 = 9)	$783	$933	$358	$253
10	Remaining tax over threshold (7 – 9 = 10)	$2,349	$1,399	$1,074	$379
11	Maximum refund allowed	$2,840	$2,010	$2,840	$2,010
12	Net property tax refund	$2,349	$1,399	$1,074	$379
13	Net property tax paid after refund (1 – 12)	$1,251	$2,201	$826	$1,521

Claimants can check the status of their refund by calling DOR at 651-296-4444 or online at www.revenue.state.mn.us.

Renter's Property Tax Refund Program

What is the renter's property tax refund program?

The renter's property tax refund program (sometimes called the "renters' credit") is a state-paid refund that provides tax relief to renters whose rent and "implicit property taxes" are high relative to their incomes. "Rent constituting property taxes" is assumed to equal 17 percent of rent paid. If rent constituting property taxes exceeds a threshold percentage of income, the refund equals a percentage of the tax over the threshold, up to a maximum amount. As income increases:

- the threshold percentage increases,
- the share of tax over the threshold that the taxpayer must pay increases, and
- the maximum refund decreases.

The program uses household income, a broad measure that includes most types of income, including income that is not subject to income tax. Deductions are allowed for dependents and for claimants who are over age 65 or disabled.

What are the maximums?

For refund claims filed in 2021, based on rent paid in 2020 and 2020 household income, the maximum refund is $2,210. Renters whose income exceeds $62,960 are not eligible for refunds.

How are claims filed?

Refund claims are filed using Minnesota Department of Revenue (DOR) Schedule M1PR. Schedule M1PR is filed separately from the individual income tax form. Claims filed before August 15, 2021, will be paid beginning in August 2021. The deadline for filing claims based on rent paid in 2020 is August 15, 2022; taxpayers filing claims after that date will not receive a refund.

How many renters receive refunds, and what is the total amount paid?

Based on rent paid in 2018 and 2018 incomes, 314,351 renters received refunds. The average refund was $690, and the total dollar amount of refunds paid statewide was $217.1 million. The average refund for senior and disabled claimants ($761) was higher than the average for those under age 65 and not disabled ($661).

When was the program last changed?

The 2013 tax law expanded the program, by lowering the threshold percentage for determining eligibility from 3.5 percent of income to 2.0 percent of income, in conjunction with reductions to the homeowner thresholds. It also increased the maximum refund to $2,000 for refunds based on rent paid in 2013.

For refunds based on rent paid from 1998 to 2008, the percentage of rent constituting property taxes was 19 percent. It was reduced to 15 percent for refunds based on rent paid in 2009 only under Gov. Tim Pawlenty's June 2009 unallotment, subsequently enacted into law. For refunds based on rent paid in 2010, the percentage returned to 19 percent. The 2011 tax law reduced the rate to 17 percent beginning for refunds based on rent paid in 2011 and following years.

How do refunds vary depending on income and property taxes?

The following table shows the refund amount for four example families (married couples without dependents). Although the threshold percentage, copayment rates, and maximum refund amounts are the same statewide, the average rent is higher in the metro area than in Greater Minnesota. Taxpayers who are over age 65, disabled, or have dependents are allowed a subtraction from income in determining the refund.

Married couple, both under age 65, no dependents
Example refunds for claims to be filed in 2019,
based on rent paid in 2018 and 2018 household income

		Metro Area		Greater Minnesota	
		Taxpayer #1	Taxpayer #2	Taxpayer #3	Taxpayer #4
1	Monthly rent, one bedroom apartment	$1,132	$1,132	$788	$788
2	Annual rent (1 x 12 = 2)	$13,584	$13,584	$9,456	$9,456
3	Rent constituting property tax (2 x 17% = 3)	$2,309	$2,309	$1,608	$1,608
4	Gross income	$15,000	$30,000	$15,000	$30,000
5	Deduction for dependents	0	0	0	0
6	Household income (4 - 5 = 6)	$15,000	$30,000	$15,000	$30,000
7	Statutory threshold percentage	1.3%	1.8%	1.3%	1.8%
8	Threshold % x income (7 x 6 = 6)	$195	$540	$195	$540
9	Property tax over threshold (3 – 8 = 9)	$2,114	$1,769	$1,412	$1,067
10	Copay percentage	15%	25%	15%	25%
11	Taxpayer copay amount (9 x 10 = 11)	$317	$442	$211	$267
12	Remaining tax over threshold (9 – 11 = 12)	$1,797	$1,326	$1,200	$801
13	Maximum refund allowed	$2,030	$1,820	$2,030	$1,820
14	Net property tax refund	$1,797	$1,326	$1,201	$801

Targeting Property Tax Refund

What is targeting?

The "additional" or "special" property tax refund, generally referred to as "targeting," directs property tax relief to homeowners who have large property tax increases from one year to the next.

Who qualifies?

A homeowner qualifies if the property tax on the home has increased by more than 12 percent over the previous year's tax and if the increase is over $100. In determining eligibility, the previous year's tax amount is the net amount paid by the homeowner after deduction of any targeting refund received in that year.

The homeowner must have owned and lived in the same home for both years. If any improvements were made to the home, that portion of the tax increase resulting from the improvements must be subtracted when determining the refund.

How does targeting work?

Generally, the refund equals 60 percent of the increase over the greater of (1) 12 percent of the previous year's tax after deduction of targeting, or (2) $100. The refund is not allowed if the increase was attributable to improvements made to the home. The maximum refund is $1,000. The targeting refund is calculated prior to calculation of the homestead credit refund. The following example shows how the refund is calculated.

Payable 2020 Property Tax after Targeting Payable 2021 Property Tax	$1,600 $2,000
2021 tax increase (over 2020) Taxpayer pays first 12% of increase compared to previous year's tax, which must be at least $100 (12% x $1,600)	$400 $192
Remaining increase eligible for relief ($400 - $192 = $208)	$208
State pays 60% of excess over 12% increase up to a $1,000 maximum (60% x $208 = $125)	$125
Amount of 2021 increase paid by taxpayer ($400 - $125)	$275

The taxpayer's $400 increase (i.e., 25 percent) is reduced to an out-of-pocket property tax increase of $275 (i.e., 17.2 percent) as a result of the $125 refund.

The taxpayer pays the full $2,000 amount of the 2021 property tax to the county, the first half in May and the second half in October. The taxpayer applies to the state for a targeting refund on form M1PR. The targeting refund is paid at the same time the regular homestead credit refund ("circuit breaker") is paid in late September.

Does targeting have any other restrictions?

No, unlike the homestead credit refund, the targeting refund is not tied to the taxpayer's household income. Under the homestead credit refund, the taxpayer's household income may not exceed a specified maximum and the amount of household income affects the amount of the refund.

However, the targeting refund does not use income as a factor, nor is there any limitation on the taxpayer's household income. Therefore, higher income taxpayers who do not qualify for the homestead credit refund due to income restrictions are eligible for the targeting refund.

What are the dollar amounts of refunds paid for the state, metro, and nonmetro areas?

The table below shows the statewide amount, with a breakdown for the metro and the 80 nonmetro counties, for the past four years.

Homeowners claimed $9.6 million on targeting refund claims filed in 2019. Changes in targeting refunds from one year to the next are volatile but generally track changes in property taxes on homesteads.

Targeting Refunds, Filed 2016 – 2019 (dollars in thousands)

	Filed 2016	Filed 2017	Filed 2018	Filed 2019
Total Metro	$3,838	$1,405	$5,414	$5,461
Total Nonmetro	$2,694	$1,705	$1,928	$4,129
State	$6,533	$3,110	$7,357	$9,611

Some taxpayers (e.g., those who typically don't qualify for the homestead credit refund) may not be aware of the targeting program, resulting in lower total refunds statewide than if all eligible taxpayers had filed.

How many homeowners claim the refund?

In 2019, over 100,200 homeowners claimed refunds based on their property tax increase from payable 2018 to 2019. The average refund amount was $96.

How are claims filed?

Refund claims are filed using the Minnesota Department of Revenue (DOR) Schedule M1PR, the homestead credit refund form. There is a separate schedule on the back of the M1PR ("Schedule 1 – Special Refund") for the targeting program. The taxpayer files for this refund after receiving his or her property tax statement in February or March. Claims filed before August 15, 2021, will be paid beginning in late September 2021. The deadline for filing claims based on taxes payable in 2021 is August 15, 2022; taxpayers filing claims after that date will not receive a refund. Forms are available online at DOR's website, under "Forms and Instructions" (www.revenue.state.mn.us).

Claimants can check the status of their refund by calling DOR at 651-296-4444 or online at www.revenue.state.mn.us.

Senior Citizens Property Tax Deferral Program

What is the Senior Citizens Property Tax Deferral Program?

The Senior Citizens Property Tax Deferral Program allows property taxpayers who are 65 years or older, and whose total household income is $60,000 or less, to defer a portion of their homestead property taxes until some later time. It allows senior citizens whose property taxes are high relative to their incomes, but who wish to stay in their homes, an option for paying their property taxes.

How does it work?

Regardless of how high the tax is on the homestead, the taxpayer initially pays an amount equal to 3 percent of the total preceding year's household income. The state pays any amount over 3 percent, called the "deferred tax," to the county in which the home is located. A lien attaches to the property. The deferred tax is a loan. Interest on the loan is calculated at the same rate as unpaid state taxes; a floating rate that cannot exceed 5 percent. Before the owner can transfer the title of the property, the deferred tax plus interest must be repaid.

For example, John and Mary Jones own a home; its total property tax is $1,400. They have a total household income of $30,000. Under this program, they must pay $900 in tax (3 percent of $30,000); the remaining $500 ($1,400 minus $900) is deferred.

Who qualifies?

In order to qualify for the program, **all** of the following criteria must be met:

- The property must be owned and occupied as a homestead by a person at least 65 years old (If married, one spouse must be at least 65 years old and the other must be at least 62 years old)
- Total household income must be $60,000 or less for the calendar year preceding the year of the initial application
- The home must have been owned and occupied as the homestead of at least one of the homeowners for at least 15 years before the initial application
- There must be no state or federal tax liens or judgment liens on the property
- The total unpaid balances of debts secured by mortgages and other liens on the property, including deferred tax and interest amounts under the program, unpaid and delinquent special assessments and property taxes, penalties and interest (but excluding the current year's property taxes and Property Assessed Clean Energy liens), do not exceed 75 percent of the assessor's estimated market value for the current year

What information is the applicant required to provide?

An applicant must provide, at her or his own expense, a report detailing any mortgages, liens, judgments, or unpaid property taxes on the property. For "Abstract" properties, these reports must be prepared by a licensed abstracter. For "Torrens" properties, the information is part of the "Condition of Register" available from the county recorder. If owners are unsure which type of property they have, they may find out from the county recorder.

Does the taxpayer need to annually reapply?

No, once a taxpayer is enrolled in the program, annual applications are not required. However, if household income exceeds $60,000 in any calendar year, the owner must notify the Department of Revenue, and no further property taxes may be deferred. However, the owners will remain enrolled in the program, and once their income falls below the $60,000 threshold again, they may notify the state and request that the deferral be resumed.

Can the taxpayer still file for refunds?

Yes, a taxpayer is still allowed to file for the property tax refund and any other property rebates that the state offers. However, no direct cash payments will be made to the taxpayer. Rather, the amount of the refund will be applied to the total amount of the deferred property tax on the taxpayer's home. The property tax refund is calculated on the full tax amount.

When does it terminate?

The deferral terminates when **any one** of the following events occurs:

- the property is sold or transferred
- all qualifying homeowners die
- the homeowner notifies the Commissioner of Revenue, in writing, of intent to withdraw from the program the property no longer qualifies as a homestead

How many people participate in the program?

For property taxes payable in 2017, 336 people participated in the program across the state. The total amount of property taxes deferred for fiscal year 2018 was $1.3 million.

Payment in Lieu of Taxes (PILT)

PILT payments reimburse counties and towns for lost revenues attributable to the removal of tax-generating properties from their property tax rolls to support preservation of natural resources lands. The commissioner of revenue provides payment in lieu of tax (PILT) payments to local governments for this land. In 2015, 8.5 million acres of land in all 87 counties were enrolled in the PILT program. The 2013 Legislature modified the per acre payment rates for certain land types to simplify the overall PILT rate structure, and made other changes by recommendation of the PILT Advisory Group in its 2012 Report to the Legislature. DOR advises that the projected increase in PILT payments beginning in FY 2018 is due to the reassessment of PILT property values, which is done every six years.

The 2017 Tax Act made two changes in the PILT payment law. First, beginning in FY 2019, it increased the per acre payment rate from $1.50 to $2.00 for lands administered by counties or by the Department of Natural Resources. Of the 8.5 million acres in the PILT program (see Table 8a), counties administer over 2.8 million acres (or 33%) and the Department of Natural Resources more than 4.1 million acres (or 48%). The 50-cent per acre payment increase totals $3.45 million per year, reflecting an overall program increase of 10.2 percent. Note that while just two counties have no PILT lands, six counties have more than 4.7 million acres and will receive about $2.37 million (69%) of the increase (Table 8b). Second, the calculation for the PILT payment for the Lake Vermillion-Soudan Underground Mine State Park is modified to create a base-level of funding not to go below 1.5 percent of the 2010 appraised value of the land. Beginning in FY 2018, this provision will increase payments to St Louis County by $150,000 per year.

Table 8a – PILT Payment Increase

Short History of PILT Payment Rates FYs 2015-2017

(SS1 - Ch 1 Changes highlighted)

	CY 2016/FY 2017 rates		2017 Session SS1 -Ch 1 CY 2018/FY 2019 rates		FY 2015	% of Total	FY 2018 Estimated Increase	FY 2019 Estimated Increase
Land Type	$ per acre	3/4 of 1% MV	$ per acre		Acres	Acres		Acre*$.50
Acquired lands	5.133	Yes			1,011,766	12%		
Transportation wetland (DOT-POLK)	5.133	Yes			1,825	0%		
Land Utilization Project (LUP)	5.133	-			86,065	1%		
County administered	***1.500***	-	***2.000***	-	2,804,594	33%		**$1,402,297**
DNR administered	***1.500***	-	***2.000***	-	4,102,389	48%		**$2,051,195**
Wildlife management land	NA	Yes			453,854	5%		
Military refuge land	2.567	-			50,626	1%		
Lake Vermillion/Soudan State Park		1.5% appraised value		1.5% appraised value, not to go below 2010 appraised value	4,080	0%	**$150,000**	**$150,000**
ESTIMATED TOTAL SS1-Ch 1 PILT CHANGES (FY 2019 and beyond)					8,515,199	100%	**$150,000**	**$3,603,492**

Source: Dept of Natural Resources and H.F. 1246.

Table 8b – PILT Rate Increase for Selected Counties

		A Increase by $0.50 DNR admin	B Increase by $0.50 County admin	A + B = C TOTAL INCREASE PILT PAYMENT
1	TOTAL PILT INCREASE	$2,051,195	$1,402,297	$3,453,492
	COUNTY			
2	Aitkin	$174,839	$110,600	$285,439
3	Beltrami	$103,813	$73,311	$177,124
4	Cass	$91,142	$126,377	$217,519
5	Itasca	$150,684	$148,671	$299,355
6	Koochiching	$538,740	$143,439	$682,179
7	St Louis	$260,001	$446,524	$706,525
8	**Total Selected Counties**	**$1,319,220**	**$1,048,922**	**$2,368,142**
	% of Total Increase (line 8/line 1) *- Selected Counties*	*64.3%*	*74.8%*	*68.6%*

Sustainable Forest Investment Act (SFIA)

Sustainable Forest Investment Act (SFIA) payments provide reimbursements to private landowners who practice long-term (8-year minimum) forest management investment in accordance with the Sustainable Forest Incentive Act (2001). From payable year 2011 through 2017, the per-acre payment was $7.00. In 2014, the $100,000 payment limit per taxpayer per year was eliminated and land over 60,000 acres subject to a single conservation easement was excluded from the program. Also in 2014, an evaluation by the Office of the Legislative Auditor (OLA) found several deficiencies in the SFIA program including that "payment amounts are not tied to property taxes or program goals."

In 2015, 2,400 forest land owners participated, with an average payment of $2,205.

The 2017 Tax Act made changes to funding to 1) align SFIA payments with current land use practices required by the act, and 2) reinstate the eligibility of lands with a single, conservation easement (approximately 186,000 acres) into the program, effective retroactively to payment year 2014. The following two tables provide additional detail on changes to the payment rate per acre beginning in 2018 and changes to total expenditures for the program.

Table 3a: SFIA Payment Rate Changes

For SFIA Applications due in 2018/ Payment in FY 2019

Covenant length	Pay 2018 SFIA Rate/Acre	Pay 2019 SFIA Rate/Acre	SFIA pymt % avg statewide tax
50 years	$7.00	$15.54	115%
20 years	$7.00	$12.16	90%
8 years - no easement	$7.00	$8.78	65%
8 years - with easement of ≥ 60,000 acres	$7.00	$3.38	25%

Table 3b: Sustainable Forest Incentive Act (SFIA) Expenditures

Fiscal Year	Nov 2020 Forecast ($ millions)
FY 2020	**$11.88**
FY 2021	**12.36**
FY 2022	**12.88**
FY 2023	**13.40**
FY 2024	**13.94**
FY 2025	**14.50**

Note: Positive numbers reflect expenditure increases, negative numbers are cost savings.

	General Fund - Dollars in 000s	FY '18	FY '19	FY 18-19 Biennium	FY '20	FY '21	FY 20-21 Biennium
1	*Sustainable Forest (SFIA) - February 2017 forecast*	*$5,690*	*$5,860*	***$11,550***	*$6,030*	*$6,210*	***$12,240***
2							
3	**Sustainable Forest (SFIA) changes**	**$5,200**	**$5,300**	**$10,500**	**$5,500**	**$5,800**	**$11,300**
4	Payment Rate Changes - Response to OLA report	0	4,000	4,000	4,200	4,500	8,700
5	Payments to Lands with a Single, Large Forest Easement	5,200	1,300	6,500	1,300	1,300	2,600
6	Retroactive payments (3 yrs) to eligible, reinstated lands	3,900	0	3,900	0	0	0
7	Prospective payments to eligible, reinstated lands	1,300	1,300	2,600	1,300	1,300	2,600
8	Administration (DNR)of SFIA changes	215	312	527	312	312	624
9	**Total SFIA changes + DNR administration (lines 3 + 6)**	**$5,415**	**$5,612**	**$11,027**	**$5,812**	**$6,112**	**$11,924**
10	**Total Modified SFIA Expenditures (lines 1 + 3)** **February 2017 forecast + SFIA changes**	**$10,890**	**$11,160**	**$22,050**	**$11,530**	**$12,010**	**$23,540**
	Percent change to February 2017 forecast levels	**91.4%**	**90.4%**	**90.9%**	**91.2%**	**93.4%**	**92.3%**

Distribution of the Property Tax Burden

The *Minnesota Tax Incidence Study* estimates how the property tax burden is distributed across Minnesota households. (See https://www.revenue.state.mn.us/tax-incidence-studies) It shows both the direct incidence of the gross tax on homestead and cabins, and the indirect incidence of business and residential rental property taxes. It also shows the effect of the property tax refund program on the incidence of the tax.

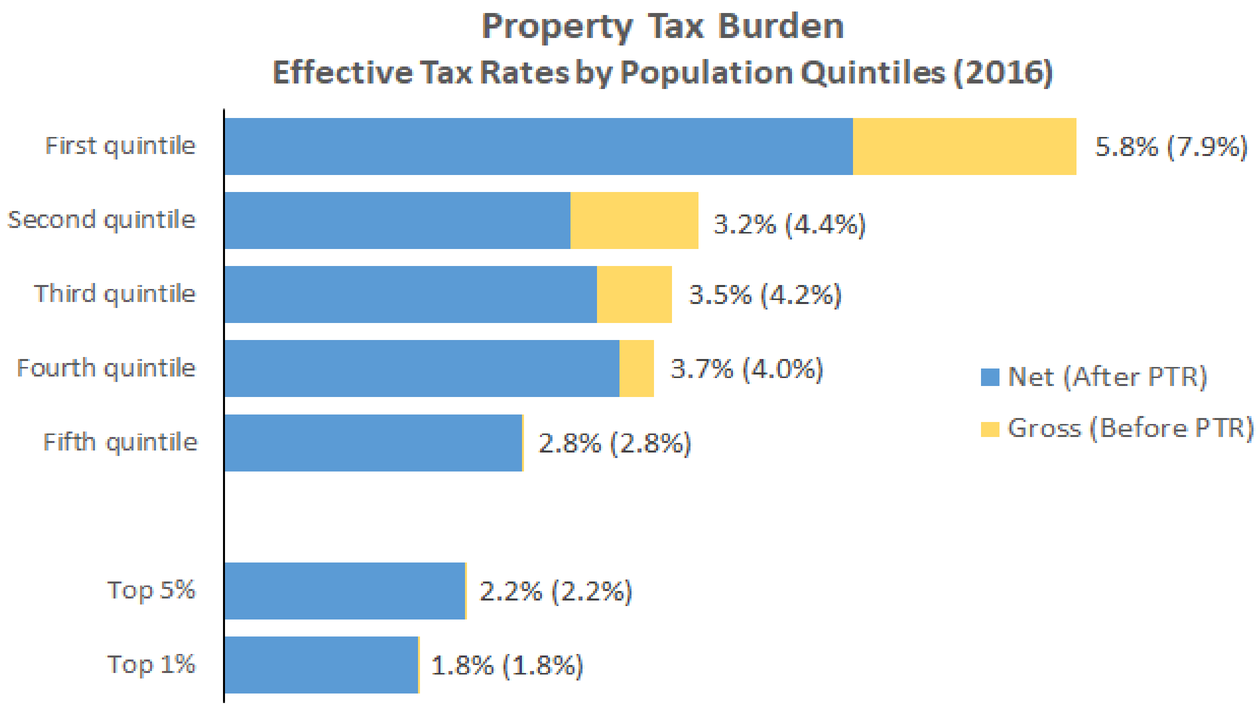
Net property tax as a percent of income declines from 5.8% of total income for the poorest fifth of Minnesota households to 2.8% of income for the richest fifth of Minnesota households, making the overall effect somewhat regressive.

The richest fifth of Minnesota households (with 58.2% of total income) are estimated to pay 51.1% of the total property tax.

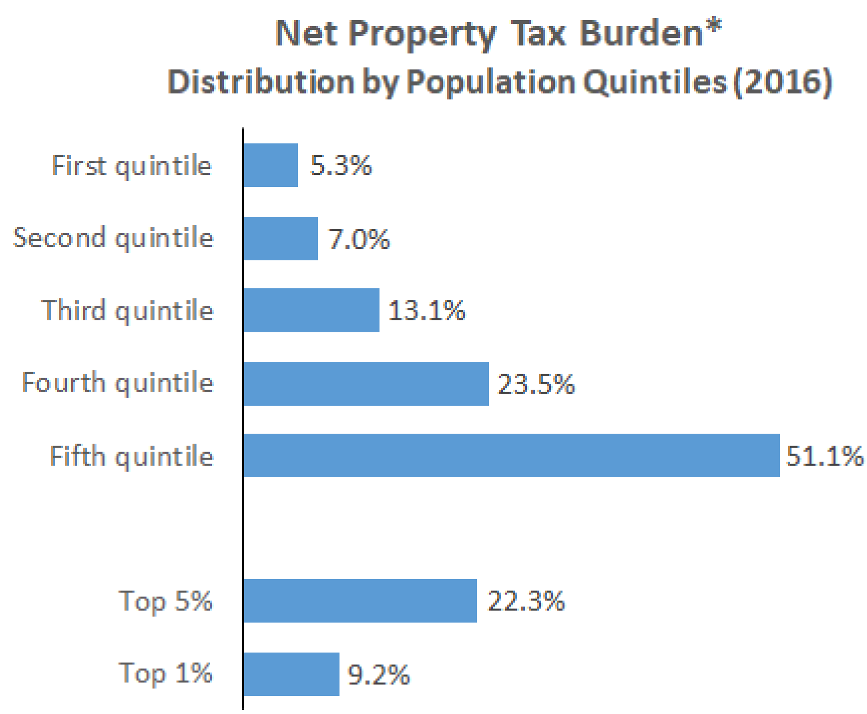
Distribution of Property Tax Burden
by Population Quintiles
(2016)

Quintile	Income Range	Percent of Total Income	Gross Property Tax (000s)	Property Tax Refunds (000s)	Percent of Total Net Property Tax (000s)	Effective Tax Rate
First	$19,759 or less	2.9%	$499,814	$130,673	5.3%	5.8%
Second	$19,760 – 37,128	6.9%	670,676	181,598	7.0%	3.2%
Third	$37,129 – 61,806	11.9%	1,093,202	184,126	13.1%	3.5%
Fourth	$61,807 – 106,851	20.1%	1,771,140	140,222	23.5%	3.7%
Fifth	Over $106,851	58.2%	3,577,113	21,460	51.1%	2.8%
Total	All incomes	100%	$7,611,945	$658,079	100%	3.1%
Top 5%	Over $219,355	31.3%	1,552,530	2,262	22.3%	2.2%
Top 1%	Over $533,924	16.0%	638,300	460	9.2%	1.8%

Source: MN Dept. of Revenue, 2019 Tax Incidence Study



Source: Department of Revenue, 2019 *Tax Incidence Study*



*After property tax refund.
Source: Department of Revenue, 2019 *Tax Incidence Study*

Mining Taxes

Mines and facilities used in the production of taconite are exempt from the property tax. In lieu of the property tax, the iron mining industry pays a production tax based on the tons of taconite produced. The industry is also exempt from the corporate income tax, and pays an occupation tax in lieu of it. The structure of the occupation tax is quite similar to that of the corporate income tax.

The mining industry paid about $141 million in taxes in 2019. The taconite production tax constitutes about 82 percent ($115 million) of the total taxes. The remaining 18 percent ($26 million) includes the occupation tax, the sales tax, and some miscellaneous taxes. This overview focuses on the production tax, since it is primarily used to fund local governments, and is therefore similar to a property tax.

Because it is in lieu of the property tax, the taconite production tax is paid to local governments and is a major revenue source for qualifying taxing jurisdictions—counties, cities, towns, and school districts, located in the taconite assistance area. The "taconite assistance area" includes all or a portion of Cook, Lake, St. Louis, Itasca, Koochiching, Aitkin and Crow Wing Counties.

The production tax collected and distributed in 2020:

- was based on the production of the mining companies in calendar year 2019;
- was based on a tax rate of $2.811 per taxable ton (the tax rate is established by the legislature);
- was based on the three-year average tonnage produced in 2017, 2018, and 2019, which was 38.0 million taxable tons. (A three-year average is used to keep the tax base more stable.);
- was required to be paid in two equal installments on or before February 24th, and on or before August 24th; and
- was paid to the respective counties in the taconite assistance area and to the Iron Range Resources and Rehabilitation Agency (often referred to simply as IRRR). The counties then make payments to the cities, towns, and school districts.

The formula for distributing production tax revenues is a complex one that has evolved over many years. It is specified in statute and is generally defined on a cents per taxable ton (CPT) distribution. The 2019 tax was distributed as follows:

Distribution	**Amount (000s)**	**Cents per taxable ton (CPT)***
Cities and townships	$14,060	37.0
School districts	19,968	52.6
Counties	12,217	32.2
Property tax relief and misc.	13,966	36.8
Iron Range Resources & Rehabilitation (IRRR) includes distribution to the Taconite Environmental. Protection Fund and the Douglas Johnson Economic Protection Trust Fund	44,514	117.2
Other	10,360	27.3
Total	**$115,086**	**$2.811**

* This includes a state general fund appropriation equal to 22.0 CPT.

Levy Limits

General levy limits are currently not imposed

The general levy limits under Minnesota Statutes, sections 275.70 to 275.74, restrict the amount of property taxes cities with a population of 2,500 or more and all counties may impose for general fund expenditures. Levy limits are currently not in force; they were last effective for taxes payable in 2014.

Levy limits are intended to ensure that state aid reduces property taxes and limits the growth rate of property taxes

Levy limits are adopted to keep the growth in property taxes low and to help ensure that cities and counties use increased state aid payments to reduce property taxes and not for higher local spending. Because of this, general purpose state aids are included in calculating the limit. When a local government's state aid increases, its maximum allowed levy decreases. Conversely, if a local government's aid decreases, its allowed levy increases. If a local government receives no state aid, the limit applies only to its property tax levy.

Although the purpose of levy limits is to limit growth in property taxes, some opponents argue that they may actually increase taxes by encouraging cities and counties to levy up to the maximum allowed.

Levy limits have expired several times and been reenacted

In recent years, the legislature has generally imposed levy limits as part of property tax reforms, or when state aid reductions may have led to higher property taxes. They were re-imposed for Pay 2009–2011 to limit rising property taxes that might have been attributed to aid decreases and freezes and reimposed for 2014 when the aid appropriations were increased significantly. The table shows the years in which levy limits were imposed.

Chronology of Levy Limits

Taxes payable years	Limits Apply?	Instigating Event
1972–1992	Yes	Enactment of 1971 property tax reform
1993–1997	No	Enactment of Truth-in-Taxation notices as a replacement
1998–2000	Yes	"Compression" of class rates
2001	No	Allowed to expire
2002–2003	Yes	2001 property tax reform
2004	Yes	2003 and 2004 aid reductions
2005–2008	No	Allowed to expire
2009–2011	Yes	Previous county and city levy increases
2012–2013	No	Allowed to expire
2014	Yes	Large aid increases
2015–future	No	Allowed to expire

State aids are used to calculate limits

As noted above, state general-purpose aids are used to calculate levy limits. The aids included in the levy limit base are (1) taconite aid; (2) county program aid, for counties only; and (3) local government aid (LGA), for cities only. The combination of levy plus aid is known as the levy limit base.

The allowed growth in the levy limit base for Pay 2009–2011 was less than usual

In recent history, the levy limit base has usually been adjusted for inflation, new households, and new commercial and industrial property. For Pay 2009–2011, stricter limits were imposed. A local government's levy limit base (levy plus aids) was increased for growth for the three factors but limited as follows:

- The rate of inflation, as measured by the implicit price deflator (IPD) for state and local government purchases, *but only to a maximum of 3.9 percent*
- *Only one-half* of the percent growth number of households in the local jurisdiction, as estimated by the state demographer or the Metropolitan Council, rather than the usual 100 percent of the growth rate
- One-half of the increase in the total market value in the jurisdiction due to new commercial/industrial development

The 2014 levy limit allowed a flat 3 percent growth rate.

Local governments may levy "outside of limits" for certain purposes

The levy limits do not apply to "special levies." Special levies can be imposed for whatever amount the city or county needs outside of levy limits for specified purposes. For taxes payable in 2009 these purposes included:

- debt for capital purchases and projects;
- state and federal required matching grants;
- preparation for and recovery from natural disasters;
- certain abatements;
- increases in public employee pension plans;
- required jail operation costs;
- operation of lake improvement districts;
- repayment of a state or federal loan related to highway or capital projects;
- for an animal humane society;
- increased costs related to reductions in federal health and human service program grants;
- inspections and other related city costs in cities with high foreclosure rates;
- for Minneapolis to cover unreimbursed costs related to the I-35W bridge collapse;
- increases in police, fire, and sheriff personnel salaries and benefits; and
- to recoup any LGA, county program aid, or market value credit reductions that occur after levies have been set for the year.

The 2014 levy limits allowed special levies for debt and natural disasters.

Local governments may go to voters for authority to exceed limits

When levy limits are in effect, a local government may certify a levy higher than its levy limit *if* approved by the voters at a referendum. A vote to exceed the limit may be for any amount, and the tax is spread on tax capacity. Unless approved by a referendum, the final levy may not exceed the limited amount plus the amounts levied for authorized special levies.

The Fiscal Disparities Program

What is the fiscal disparities program?

The fiscal disparities program is a system for the partial sharing of commercial-industrial (C/I) property tax base among all jurisdictions within a geographic area. In Minnesota, the program operates in two areas: the first one was enacted in 1971 and operates in the seven counties of the Twin Cities metropolitan area; a second version was enacted in 1995 operating within the Iron Range in northeastern Minnesota.

Why share commercial-industrial tax base?

The main purposes and goals of the program are to:

- *Support a regional approach to development*. Tax-base sharing spreads the fiscal benefit of business development spawned by regional facilities, such as shopping centers, airports, freeway interchanges, and sports stadiums. It also may make communities more willing to accept low-tax-yield regional facilities, such as parks.

- *Equalize the distribution of fiscal resources*. Communities with low tax bases must impose higher tax rates to deliver the same services as communities with higher tax bases. These high tax rates make poor communities less attractive places for businesses to locate or expand in, exacerbating the problem. Sharing C/I tax base can reduce this effect.

- *Reduce competition for commercial-industrial development*. Communities generally believe that some kinds of C/I properties pay more in taxes than it costs to provide services to them. This encourages communities to compete for these properties by providing tax concessions or extra services, which can weaken their fiscal condition. Tax-base sharing reduces the incentive for this competition, thereby discouraging urban sprawl and reducing the cost of providing regional services such as sewage and transportation.

How does the fiscal disparities program work?

Contributions to the areawide tax base. Each taxing jurisdiction annually contributes 40 percent of the growth in its C/I tax base since the year of enactment to an abstract entity called the "areawide tax base." This contribution value is not available for taxation by the jurisdictions where the property is located.

Distributions from the areawide tax base. Each municipality receives a share of the areawide tax base through a formula based on its share of the area's population and its relative property tax wealth (tax base per capita). The municipality is allowed to tax this distribution value at the same rate as the tax rate paid by its residents. All taxing jurisdictions whose boundaries encompass the municipality are also allowed to tax the municipality's distribution value (i.e., counties, school districts, and special taxing districts).

Calculating the property tax for each commercial-industrial property. The property tax statement for each C/I property has a local portion and an areawide portion, based on the relative amount of the tax base that is contributed and the amount that is retained by the municipality where the property is located.

How much tax base is redistributed through the programs?

In 2020, 37.4 percent of all local commercial-industrial property taxes are paid through fiscal disparities, and the areawide tax base accounts for 10 percent of the total tax base in the metropolitan area. In the Iron Range program, 28.6 percent of all local commercial-industrial property taxes are paid through fiscal disparities, and the areawide tax base constitutes 6 percent of the total tax base on the Iron Range.

How much does the fiscal disparities program affect taxes in the metro area?

A House Research Department study based on taxes payable in 2018 found that the average homestead tax in Columbia Heights, which is one of the largest net beneficiaries of the program, was 18.0 percent lower because of fiscal disparities. The study found that the average homestead tax in Rogers, which is one of the largest net contributors, was 4.6 percent higher. Homestead effects throughout the area generally varied between these extremes.

For commercial-industrial properties, average taxes were 13.3 percent lower in Columbia Heights due to fiscal disparities and 12.4 percent higher in Eden Prairie, another suburban city that is a large net contributor. Commercial-industrial property tax impacts elsewhere in the metro area generally fall between these extremes.

The study looked only at the direct effect of fiscal disparities, i.e., the redistribution of tax base, and made no attempt to factor in alternative development patterns that might have occurred without fiscal disparities.

What are the effects of the Iron Range program?

The same study found that the average homestead tax in McKinley (St. Louis County) was 45.6 percent lower because of fiscal disparities, while homestead taxes in Nashwauk (Itasca County) were 6.9 percent higher, with other municipalities generally falling between those extremes.

For commercial-industrial properties, average taxes were 31.3 percent lower in Kinney (St. Louis County) due to fiscal disparities and 19.9 percent higher in Emily (Crow Wing County). Commercial-industrial property tax impacts elsewhere on the Iron Range generally fall between these extremes.

Local Sales Taxes

Authority to impose:

- Local Option Sales Taxes (Minn. Stat. § 297A.99)
  - In 1971, the legislature prohibited local governments from imposing or increasing a local sales or income tax. This means that all new local sales taxes or changes in existing local sales taxes require enacting a special law or statute that supersedes the prohibition.
  - Local sales taxes use the same base as the state sales tax and are administered by the Department of Revenue.
  - In 2019, the legislature set the requirements that before a local sales tax may be imposed, the city must receive legislative approval before the voters may approve the tax via a referendum.
- Special Local Sales Taxes
  - Lodging Tax – Cities have a general authority to impose up to a three percent lodging tax for tourism purposes.
  - Food and Beverage Tax – Cities have general authority to impose a tax on the sale of food and beverages, by a restaurant or place of refreshment, located within the city. These require legislative approval.
  - County Transit Tax – Counties may impose up to 0.5 percent transportation tax for transit and transportation projects. These may be imposed without legislative approval.
  - Admissions and Entertainment Tax – Cities may impose a sales tax on sales of admissions to entertainment events located within the city. These require legislative approval.

Common characteristics of general local sales taxes:

- Usually authorized to fund a specific “bricks and mortar” project.
- Usually imposed at a 0.5 percent rate.
- The tax does not usually extend to motor vehicles although many have an alternative flat $20 tax on motor vehicles sold by local dealers.
- Normally has an expiration provision – the tax either expires when a certain amount has been raised or on a certain date.
- In recent years all have required a local referendum at the previous or next general election.

Statutorily authorized county transit and transportation taxes:

- In 2008, the legislature enacted two new statutes to allow counties to impose local sales taxes to help fund transportation. The Metropolitan Transportation Area sales tax provision allowed any county in the Twin Cities seven-county metropolitan area to join the Metropolitan Transportation Area, which imposed a tax in the area to fund transit projects. This provision is currently not used. The greater Minnesota transportation sales and use tax provision allowed the remaining 80 counties in the state, plus any metropolitan area county not joining the metropolitan transit area, to impose a tax singly or as part of a joint powers agreement to fund a specified transportation or transit project, or transit operations.
- Anoka, Dakota, Hennepin, Ramsey, and Washington counties, by resolution of their county boards, joined the now defunct Metropolitan Transportation Area joint powers agreement. Carver and Scott counties, although eligible, did not join the agreement. Scott County chose to impose its own separate tax under the greater Minnesota transportation sales and use tax authority. The five counties making up the joint powers agreement which imposed this tax voluntarily terminated the agreement

on September 30, 2017. All of these counties now impose a local transportation tax under the greater Minnesota transportation sales and use tax authority instead.

General steps for imposing a local sales tax after July 1, 2019:
To impose a local sales tax, a political subdivision must obtain enactment of a special law authorizing it to do so by taking the following steps (in the order listed):

1. The governing body of a political subdivision must pass a resolution proposing the tax and stating the: (a) proposed tax rate; (b) a detailed description of no more than five capital projects to be funded by the tax; (c) documentation of the regional significance of each project including the benefits to nonlocal persons and businesses; (d) the amount of revenue to be raised for each project and the estimated time to raise that amount; and (e) the total to be raised for all projects and the anticipated expiration date for the tax.
2. The political subdivision must submit the resolution and documentation on regional significance of each project to the chairs and ranking minority members of the House and Senate Tax Committees by January 31 of the year that it's seeking the special law.
3. Working with a legislator, the political subdivision must request and get enacted a special law authorizing imposition of the tax.
4. The political subdivision must file local approval with the secretary of state before the start of the next regular legislative session after the session in which the enabling law is enacted.
5. The political subdivision must receive voter approval at a general election within two years of receiving the local sales tax authority before it can impose the tax. A separate question must be held for each project and only the ones approved by voters may be funded by the sales tax. The authorized revenue to be raised and length the tax is imposed is reduced for any project that is not approved by the voters.
6. The political subdivision must pass an ordinance imposing the tax and notify the commissioner of revenue at least 90 days before the first day of the calendar quarter on which the tax is to be imposed.

Note: The political subdivision may not spend money to promote passage of a local sales tax. It may only spend money to (1) disseminate information from the required resolution, (2) hold public forums on the issue, provided that proponents and opponents are given equal time to express their opinions, (3) provide facts on the proposed projects and the impact of the proposed tax on consumers, and (4) conduct the required referendum.

More information:
The Department of Revenue maintains a list of current local sales taxes and special local sales taxes on its website.

Tax Increment Financing

What is TIF?

Tax increment financing (TIF) uses the increased property taxes that a new real estate development generates to finance costs of the development. In Minnesota, TIF is used for two basic purposes:

- To induce or cause a development or redevelopment that otherwise would not occur—e.g., to convince a developer to build an office building, retail, industrial, or housing development that otherwise would not be constructed. To do so, the increased property taxes are used to pay for costs (e.g., land acquisition or site preparation) that the developer would normally pay.
- To finance public infrastructure (streets, sewer, water, or parking facilities) that are related to the development. In some cases, the developer would be required to pay for this infrastructure through special assessments or other charges. In other cases, all taxpayers would pay through general city taxes.

How does TIF work?

When a new TIF district is created, the county auditor certifies (1) the current net tax capacity (i.e., property tax base) of the TIF district and (2) the local property tax rates. As the net tax capacity of the district increases, the property taxes (i.e., the "tax increment") paid by this increase in value is dedicated and paid to the development authority. The tax increment is limited to the tax derived from the certified tax rate. Increases in value that generate increment may be caused by construction of the development or by general inflation in property values. The authority uses the increment to pay qualifying costs (e.g., land acquisition, site preparation, and public infrastructure) that it has incurred for the TIF project.

How is TIF used to pay "upfront" development costs?

There is a mismatch between when most TIF costs must be paid—at the beginning of a development—and when increments are received—after the development is built and begins paying higher property taxes. Three basic financing techniques are used to finance these upfront costs:

- **Bonds.** The authority or municipality (city or county) may issue its bonds to pay these upfront costs and use increment to pay the bonds back. Often, extra bonds are issued to pay interest on the bonds ("capitalizing" interest) until increments begin to be received.
- **Interfund loans.** In some cases, the authority or city may advance money from its own funds (e.g., a development fund or sewer and water fund) and use the increments to reimburse the fund.
- **Pay-as-you-go financing.** The developer may pay the costs with its own funds. The increments, then, are used to reimburse the developer for these costs. This type of developer financing is often called "pay-as-you-go" or "pay-go" financing.

What governmental units can use TIF?

Minnesota authorizes development authorities to use TIF. These authorities are primarily housing and redevelopment authorities (HRAs), economic development authorities (EDAs), port authorities, and cities. In addition, the "municipality" (usually the city) in which the district is located must approve the

TIF plan and some key TIF decisions. TIF uses the property taxes imposed by all types of local governments. But the school district and county, the two other major entities imposing property taxes, are generally limited to providing comments to the development authority and city on proposed uses of TIF. The state-imposed tax on commercial-industrial and seasonal-recreational properties is not captured by TIF.

What is the but-for test?

Before an authority may create a TIF district, it and the city must make "but-for" findings that (1) the development would not occur without TIF assistance and (2) that the market value of the TIF development will be higher (after subtracting the value of the TIF assistance) than what would occur on the site, if TIF were not used.

What types of TIF districts may be created?

Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	**Use of Increment**	**Maximum duration**
Redevelopment	Redevelop blighted areas	25 years
Renewal and renovation	Redevelop areas with obsolete uses, not meeting blight test	15 years
Economic development	Encourage manufacturing and other footloose industries	8 years
Housing	Assist low- and moderate-income housing	25 years
Soils	Clean up contaminated sites	20 years
Compact development	Redevelop commercial areas with more dense developments	25 years

How many TIF districts exist?

According to the 2018 report of the Office of State Auditor (OSA), there were 1,651 active TIF districts in 2018, the majority of which are redevelopment districts.

Recent law changes

Beginning with districts certified after June 30, 2017, an approved use of economic development districts will include workforce housing projects.