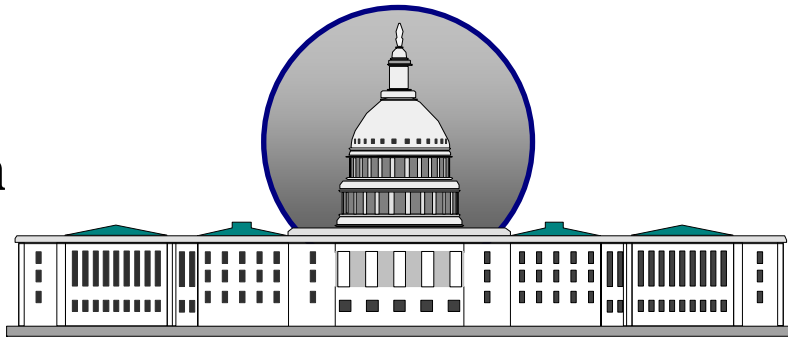


Minnesota Taxpayers Association



Legislative Spotlight

No. 05-08 *An Independent Voice for Good Government and Sound Tax Policy Since 1926* Through 04/22/05

This publication is for MTA members only. Please respect the privileges of MTA membership by sharing this only with colleagues in your company (for business members) and immediate family (for individual members).

The major budget showdown is about to begin. The House fired its shot first, with spending targets about \$75 million higher than the Governor. They have committed more money to education than the Governor and more to health care, while trimming elsewhere. The Senate, in the meantime, gives new meaning to the term “more money” by committing to spending from \$1 to \$3 billion more than the Governor, depending on who is estimating. No hard numbers are yet available as of this writing.

Another wrinkle in the Senate plan is that no source of new revenue has been formally presented. Various proposals abound, however. Look for a surcharge on the income tax along the lines of HF 2458 (Greiling)/SF 2256 (Hottinger) below to raise the lion’s share of revenue required by the Senate’s spending plans. Also possible are additional taxes on alcoholic beverages, proposed by Senator Ranum, additional cigarette taxes, a higher statewide property tax pushed by Senator Pogemiller, plus tightening of the foreign operating corporation definition he has stated in committee will hopefully raise \$200 million.

The target date for getting both tax bills through the chambers is May 5 or 6. The Senate plans on rolling out its tax plan Friday April 29. Barring weekend meetings, this would point to conference committee to begin Monday May 9, only two weeks before mandatory adjournment.

Can they do it? They can, but whether they will or not isn’t clear. The biggest consumer of time is not the technical details of an agreement, but rather the considering of political advantage for the fall of 2006. The more legislators are able to subdue their competitive juices and work toward agreement, the likelier it will all be over by the end of May 23.

BUDGET PLANS (MOSTLY) ON THE TABLE

Here is a quick summary of number for the four primary plans in play at this point (Governor, House Republicans A and B, and Senate DFL). The House Republican numbers are only targets, the Senate plan is incomplete and gleaned from press reports, and all plans are fluid.

Preliminary Estimates of Various Budget Proposals
(millions of dollars)

Spending Category	2-05 Forecast	Gov. Net	House Rep. A	House Rep. B	Senate DFL
E-12 Education	\$12,013	\$12,405	\$12,423	\$12,557	\$13,207
Higher Education	2,753	2,774	2,750	2,776	2,814
Tax, Aids, Credits	2,961	2,688	2,809	2,599	“modest cuts”
Health	7,623	7,258	7,308	7,328	7,318
Jobs & Ec. Dev.	1,329	1,144	1,072	1,087	?
Agriculture	80	86	86	86	?
Environment	336	289	274	286	?
Transportation	163	147	147	147	“modest cuts”
Public Safety	1,587	1,655	1,655	1,660	1,757
State Government	561	490	476	476	“modest cuts”
Debt Service	717	771	781	781	?
Other	54	54	54	54	?
Total	\$30,177	\$29,760	\$29,835	\$29,835	\$31,200*

Note: “Gov. Net” means absent the \$200 mil. gaming revenue in the tax bill, but which is folded into spending plans. House Plan “A” assumes that there will be no revenues from gambling, while Plan “B” realizes such revenues. Senate numbers taken from press reports. *the \$31.2 bil. was reported as the total estimate by the Department of Finance, not the Senate DFL.

FROM THE COMMITTEE ROOMS

MTA Presents “Hidden Funds” Study to Senate Tax Committee

MTA staff were called upon again to provide information to legislators—this time before for Senate Tax Committee members. On Thursday, April 14th Lynn Reed and Aaron Twait provided the Committee with an overview of MTA’s Center for Public Finance Research “Hidden Funds” study.

The presentation included an overview of trends in the use of special or dedicated funds back to 1935 to the present, a look at current revenues for all 36 special funds in use through Fiscal Year 2004, and the reserved and unreserved balances in those funds as of

June 30, 2004 (at the close of FY2005). For a free copy of the full report go to www.mntax.org/cpfr/hiddenfunds.php.

As our report says, the 36 funds were too big for us to tackle in the time we had, so we focused on one special fund, named interestingly the Special Revenue Fund. That one fund alone had over 1,100 separate accounts, including the 21st Century Minerals Fund whose balance was used to help solve the 2003 budget problem.

Interest seemed to focus on the matrix MTA developed as part of evaluating the nearly doubling of funds flowing through the Special Revenue Fund from 1999 to 2004. Aaron Twait of our staff developed the matrix categories in our attempt to see patterns in types of accounts used in the Special Revenue Fund. Here is a snapshot of that matrix:

Cash Flow Increase (Decrease) by Revenue and Expenditure Categories as Percent of Total Change in Special Revenue Fund Cash Flow, FY1999 – FY2004

Revenue Source	Spending Purpose						Revenue Source Sum
	A Cost Recovery	B Pgm. Support	C Indirect Costs	D Intergovernmental Contracts	E Intergovernmental Transfers	F Unknown	
1. Fees	6.88	7.29	(0.01)	--	18.38	(0.38)	32.16
2. Investment Income	--	2.63	--	--	0.00	--	2.62
3. Borrowing	(0.04)	(0.36)	--	--	--	--	(0.39)
4. Local government	3.11	0.21	--	2.63	--	--	5.94
5. State government	9.20	8.98	5.39	1.07	--	--	24.64
6. Federal government	4.85	4.63	0.05	0.01	21.19	0.81	31.53
7. Non-profit or U of M	0.41	0.28	--	1.54	--	0.29	2.52
8. Gov't. not specified	0.54	(0.77)	0.00	0.70	--	--	0.47
9. Legislative approp.	--	(0.67)	--	0.00	--	0.48	(0.18)
10. Other source	0.05	1.31	--	--	1.15	--	2.51
11. Unknown	(0.06)	1.34	0.01	(0.22)	0.00	(2.90)	(1.82)
Spending Purpose Sum	24.94	24.88	5.43	5.72	40.71	(1.69)	100.00

The categories on the left of the table are MTA-developed for the sources of revenue coming into the accounts in the Special Revenue Fund. The categories across the top are MTA-developed for how the revenues are spent.

For the \$700 million of increased cash flow through the Special Revenue Fund from 1999 to 2004, the matrix shows that over 32% of the increase is attributable to fees. Nearly 25% of the increase was attributable to that revenue being used for “Cost Recovery” of expenses (column A in the matrix).

This is not necessarily a cause for alarm. Public finance theorists generally believe that when considering sources of revenues for government, it is best to start with fees, because fees are visible and more accurately reflect the cost of service. When it is not possible to charge a user fee, general taxes should be used. Minnesota historically has relied less on fees than other states, so the increase in fees shown in the Special Revenue Fund over the last five years is not necessarily a trend to be worried about.

Senate Tax Committee Begins Discussion of Foreign Operating Corporations

The Senate Tax Committee began hearings on foreign operating corporation (FOC) provisions on Thursday, April 21. Committee chairman Sen. Larry Pogemiller (DFL, Minneapolis) indicated his intention that the committee make changes this year to address the “challenges” posed by current law. Former Department of Revenue assistant commissioner Debra Anderson, working as a consultant for the Minnesota Senate, provided some history behind the FOC provisions, and an overview of its technical workings. Following her was another presentation by Barb Renner of Deloitte & Touche and Rob Ozmun of

PricewaterhouseCoopers, representing the Minnesota CPA Society FOC Task Force. They provided more information regarding the technical workings of Minnesota’s FOC laws, comparisons between Minnesota and other states with similar provisions, and examples of how corporations utilize these provisions. The committee then took testimony from Linden Gawboy of the Welfare Rights Coalition and Wayne Cox of the Minnesota Center for Tax Justice.

The committee has three proposals under consideration. SF 1080 (Pogemiller, DFL, Minneapolis, 7809), redefines an FOC to require a threshold of \$2 million property and \$1 million payroll outside the U.S., and requires 80% or more of its property and payroll be located outside the U.S. SF 1082, also sponsored by Sen. Pogemiller, includes the provisions of SF 1080 but additionally disallows the dividend received deduction if the dividend results from income other than that from ongoing operations, and further disallows the foreign royalty subtraction. Finally, the committee is considering the tax portions of SF 0254 (Berglin, DFL, Minneapolis, 4261), which includes all the provisions of SF 1082, and eliminates the exemption from the individual income tax for wage income earned while the taxpayer was a Minnesota resident but received in a year when the taxpayer was a nonresident for the full year. Following is a summary of the fiscal impact for each bill:

Tax Increase for Various Corporate Income Tax Provisions

Bill	Fund Impact (000's)			
	FY 2006	FY 2007	FY 2008	FY 2009
SF 1080	\$1,800	\$1,300	\$900	\$500
SF 1082	132,100	98,500	98,700	100,800
SF 0254	134,000	100,500	100,800	103,100

Senator Pogemiller suggested that the target revenue amount to be obtained from tightening up the FOC language is about \$200 million for the biennium. He also said that what ends up in the Senate Tax bill is not necessarily where the final provision will end up for the session, suggesting that it could be more aggressive than even he thinks is appropriate for purposes of negotiation in conference committee.

House Property and Local Tax Division Considers Limited Market Value Proposals

On Wednesday, April 13, the House Property and Local Tax Division considered four limited market value (LMV) proposals. HF0180 (Paymar, DFL, St. Paul, 4199) would make the limited market value law permanent. St. Paul City Councilman Pat Harris testified in favor of the bill, stating that some St. Paul homeowners are see double-digit property tax increases from rising home valuations, and that this is especially hard on those with low to moderate incomes. Gary Carlson of the League of Minnesota Cities also testified in favor of this bill (and indicated the League’s support of all four bills). Mr. Carlson noted that the League has changed its position on LMV, stating that an orderly transition needs to be provided for the \$35 billion of property value currently excluded from property taxation.

HF1584 (Mullery, DFL, Minneapolis, 4262) would extend LMV for five years on homes, cabins and “ma and pa” resorts, with the valuation increases capped as follows: 11% for properties valued under \$325,000, 25% for properties valued between \$325,000 and \$750,000, and no cap for properties valued at over \$750,000. Mayor Steve Larson of New Brighton, representing the

North Metro Mayor's Association, testified in favor of the bill. Mayor Larson indicated his belief that the bill targets those homes most affected by the LMV phase-out and by the 2001 tax reforms.

Representative Lanning (R, Moorhead) spoke in favor of his bill, HF1900, which would extend limited market value for two additional years. Division chair Ray Vandever (R, Forest Lake) presented his proposal, HF0890, which would extend limited market value provisions to all classes of property, make limited market value permanent, limit the increase to 12% or to 20% if the property is sold or transferred (unless the sale or transfer is to a surviving spouse).

Testifying in favor of all four bills was Marlowe Hammerstein, representing the Minnesota Senior Federation. Mr. Hammerstein indicated that while the Federation supports these bills, they are merely band-aids, and urged members to shift the property tax base from property value to household income. He also urged division members to limit LMV increases to cost-of-living adjustments. Testifying in opposition to the bills was Jack Horner of the Minnesota Multi-Housing Association. Mr. Horner argued that while his organization understands the appeal of LMV, it skews the property tax system against apartments, leading to some 8% higher apartment property taxes statewide. He further stated that since these increases make their way into higher rents, LMV disadvantages renters. The committee laid over all four bills for possible inclusion in the division's report to the full Tax Committee.

The Department of Revenue's excellent report on Limited Market Value, available on their web site here:

http://www.taxes.state.mn.us/taxes/legal_policy/research_reports/content/lmv_studies.shtml convincingly demonstrates that limited market value actually causes greater property tax increases on a majority of homes than if there were no LMV law. This is due to the shifting of property taxes from properties that increase more than the cap, to those that do not increase as much or are below the cap.

With some \$35 billion of untaxed value to phase out in only two years, some accommodation may need to be made for a more orderly end to LMV. It is perhaps instructive to note that the 2001 reforms afforded a prime opportunity for ending LMV once and for all by "front-loading" the phase-out for the early years when levies would be significantly lower due to reform. That opportunity was deliberately wasted, but there is no empirical reason to drag out its demise any longer—it is time for LMV to expire.

BILL INTRODUCTIONS

House bills (HF--for "House File") are listed first, then Senate bills (SF--for "Senate File"), by topic. The bills are in numerical order within each chamber. Tax bills are listed first by tax type in alphabetical order, then additional topics in alphabetical order. Phone numbers of chief authors are shown last usually as four digits (with the 651 area code and 296-exchange assumed unless shown otherwise.)

TAXES

HF 2425 (Finstad, R, New Ulm, 9303)

Exempts any real or personal property acquired, owned, leased, controlled, used, or occupied with regard to a new Minnesota Twins baseball stadium from ad valorem property taxation by the

state and its political subdivisions. Subjects such property to special assessments levied by a political subdivision for a local improvement in amounts proportionate to and not exceeding the special benefit received by the properties from the improvement. Creates a Minnesota Sports Authority to oversee such a stadium, and authorizes the Metropolitan Council to bond for such a stadium in conjunction with the Authority. Companion bill to SF 2013 (Kelley, DFL, Hopkins, 7-8065) in Spotlight 05-07, where there is a comment.

SF 2230 (Pogemiller, DFL, Minneapolis, 7809)

Eliminates the JOBZ program.

As many MTA members know, John James, former Commissioner of Revenue, has filed a law suit on behalf of a client challenging the constitutionality of the JOBZ program. One of the complaints is that it violates the Minnesota Constitution by contracting away the right of the legislature to tax by exempting companies from taxes for 12 years.

Combinations of Taxes (Corporate and Individual Income)

SF 2182 (Skoe, DFL, Clearbrook, 4196)

Provides 3% yearly inflation adjustments during the next biennium for long-term care providers, using several income tax provisions as a source of funds. Those sources are:

- ◇ Eliminates the individual income tax exemption given to wage income earned while a taxpayer was a Minnesota resident but received in a year when that taxpayer was a nonresident for the full year.
- ◇ Changes the requirement for foreign operating corporations (FOCs) from less than 20% domestic to more than 80% foreign.
- ◇ Adds \$2 million property and \$1 million payroll thresholds as a minimum requirement for FOCs.
- ◇ Eliminates that 80% deduction for foreign royalties for FOCs.
- ◇ Eliminates the dividend received deduction for qualifying FOCs for any income from intangibles.

Companion bill to HF 2305 (Eken, DFL, Twin Valley, 9918) in Spotlight 05-07. These provisions were also contained in SF 0254 (Berglin, DFL, Minneapolis, 4261) in Spotlight 05-01, where there is a comment.

SF 2208 (Cohen, DFL, St. Paul, 5931)

Creates a refundable income tax credit equal to 15% of film production expenditures made in Minnesota that are directly attributable to film production in Minnesota. Provides that qualifying expenditures include: payment of wages, fringe benefits, or fees for talent, management, or labor to a Minnesota resident; payment to personal services corporations for the services of a performing artist who pays Minnesota income tax; and any of the following provided by a vendor: the story and scenario to be used for a film; set construction and operations, wardrobe, accessories, and related services; photography, sound synchronization, lighting, and related services; editing and related services; rental of facilities and equipment; leasing of vehicles; and food and lodging.

Corporate Income Taxes

SF 2185 (Limmer, R, Maple Grove, 2159)

Provides a non-refundable credit to corporations that contribute to scholarship granting organizations (SGO) equal to the lesser of 50% of the amount contributed or \$100,000. Provides criteria for charitable organizations to qualify as an SGO. Provides that credits may only be claimed for contributions whose proceeds are granted to K-12 nonpublic students from families with incomes at or below

200% of the federal poverty guidelines (about \$36,400 for a family of four in 2004). Requires corporations to add back to federal taxable income any amounts deducted representing contributions to an SGO for which this credit is claimed. Provides for a statewide maximum credit amount of \$0 in fiscal year (FY) 2006 and \$3.5 million in FY 2007. Companion bill to HF 2366 (Sykora, R, Excelsior, 4315) in Spotlight 05-07, and similar to HF 1905 (Thissen, DFL, Minneapolis, 5375) and SF 1826 (Kierlin, R, Winona, 5649) in Spotlight 05-06.

Individual Income Taxes

HF 2429 (Simpson, R, New York Mills, 4293); and SF 2227 (Bakk, DFL, Cook, 8881)

Provides a credit against the individual income tax equal to 100% of a taxpayer’s total contributions to the Explore Minnesota Tourism additional source fund. Limits the credit to the first \$10 million contributed in a fiscal year. Allows for a three-year carry-forward, with the stipulation that the credit be applied at the earliest possible time. Creates an Explore Minnesota Tourism additional source fund and provides an open appropriation of its resources to the director of Explore Minnesota Tourism to further its mission of promoting and facilitating increased travel to and within the state of Minnesota.

HF 2435 (Lenczewski, DFL, Bloomington, 4218)

De-couples the state calculation of the dependent care credit from the federal calculation by providing that the credit may be taken against up to \$3,000 of qualified employment-related expenses for each qualifying individual (instead of the \$2,400 provided by federal law). Eliminates the \$1,440 total family credit cap. Increases the income up to which the maximum credit of \$720 may be claimed from \$18,040 to \$20,420. Provides for inflationary adjustments to the maximum expenses related to the dependent care credit and the maximum total dependent care credit. Provides a family size adjustment to the working family credit so that, for third and subsequent qualifying children, the credit is increased by the same amount as the increase between a first and second qualifying child, for a person with the same income.

HF 2458 (Greiling, DFL, Roseville, 5387); and SF 2256 (Hottinger, DFL, Saint Peter, 6153)

Imposes the following surcharges on the individual income taxes paid for tax years 2005 and 2006 as follows:

All Filing Classes		
Brackets	Surcharge	
	2005	2006
First	0.03%	0.05%
Second	0.33%	0.65%
Third	0.43%	0.85%

Appropriates money for increased funding for child care assistance, early childhood family education programs, general community education, adult basic education, special education, and the general education formula allowance.

The temporary surcharge was used in 1981 as a means of raising revenue during a very difficult economic downturn and subsequent budget problem. In 1981 and 1982, first a 7%, then a 10% surcharge was applied across the board.

MTA has repeatedly stated that when revenues do need to be raised, an across-the-board surcharge is a good, visible way to raise revenues that doesn’t change the distribution of tax

burdens. Twenty-four years later, no surcharge proposal seems able to avoid the temptation of making the surcharge higher for higher incomes. This proposal succumbs to the same temptation.

The Department of Revenue’s latest Tax Incidence Study for Tax Year 2002, released in March of 2005 (and available here: http://www.taxes.state.mn.us/taxes/legal_policy/other_supporting_content/05_incidence_report.pdf) makes it clear that the top 10% of households in Minnesota pay more than half of all income taxes now. That is for households with more than about \$102,000 of total income, about where the top income tax bracket begins for taxable income. Those same households pay nearly 37% of all state and local taxes in the state, but still comprise only 10% of the households.

Continued “stacking on” the highest incomes merely decreases the accountability of Minnesota’s tax system by increasing the share of all taxes this small minority of taxpayers pays.

SF 2224 (Berglin, DFL, Minneapolis, 4261)

Provides a refundable credit equal to 25% of an individual’s contributions to a health savings account. Directs that the maximum credit allowed for claimants with income at or below \$33,500 be \$500, and that the maximum credit be reduced by \$1 for every \$4 of household income over \$33,500, with no credit being allowed for individuals with income greater than \$41,500.

SF 2228 (Limmer, R, Maple Grove, 2159)

Provides an income tax checkoff to fund benefits for survivors of law enforcement officers and firefighters and for the maintenance of peace officer and firefighter memorials. Companion bill to HF 1749 (Zellers, R, Maple Grove, 5502) in Spotlight 05-06; and identical to SF 1236 (Bachmann, R, Stillwater, 4351) in Spotlight 05-04 and HF 0887 (Vandever, R, Forest Lake, 4124) in Spotlight 05-03, where there is more information and a comment.

Insurance Taxes

SF 2210 (Rest, DFL, New Hope, 2889)

Abolishes the fire insurance tax. Imposes a surcharge of \$5 per residential property fire insurance coverage policy and of \$86 per commercial fire insurance coverage policy issued or renewed in Minnesota. Provides an exemption for Minnesota farmers’ mutual fire insurance companies or township fire insurance companies. Directs that insurers and reinsurers domiciled in Minnesota and doing business only in Minnesota may elect to pay either the surcharge described above or a tax of 1/2% on the gross fire premiums and assessments, less return premiums of on its direct business. Dedicates the revenues from the surcharge as follows: the first \$4,950,000 annually to the general fund to offset the cost of abolishing the fire insurance and the cost of collecting and transferring the funds; \$1.9 million to the Division of Homeland Security Emergency Management in the Department of Public Safety; 70% of the revenue over \$6,850,000 to the Division of Fire Marshal in the Department of Public Safety for various purposes; and 30% of the revenue over \$250,000 to the commissioner of public safety for fire training and education programs.

Property Tax

HF 2385 and 2386 (Davnice, DFL, Minneapolis, 0173); and HF 2395 (Mullery, DFL, Minneapolis, 4262); and SF 2197 and 2198 (Belanger, R, Bloomington, 5975)

Creates a class 4d with regard to property taxes. Classifies a low-income rental property unit as class 4d if the unit meets any of the following criteria: it is subject to a Section 8 housing assistance

payments contract; it is a rent-restricted and income-restricted unit of a qualified low-income housing project receiving federal qualified low-income housing project tax credits; it is financed by the USDA's Rural Housing Service and receive payments under the rental assistance program; or it is subject to rent and income restrictions under the terms of financial assistance provided to the property by any governmental unit. Requires assisted units to be occupied by persons whose household income, at the time of initial occupancy, does not exceed 60% of the greater of area or state median income, adjusted for family size; and that the rents for assisted units must not exceed 30% of 60% of the greater of area or state median income, adjusted for family size. Provides that market value be determined by the actual or probable net operating income from the actual rents received as the method of appraisal, capitalized at the market rate capitalization rate as applied to low-income rental housing property and then multiplied by a factor of 60% to determine the property's taxable market value (HF 2385/SF 2197); or by the productive and earning capacity from the actual rents received as the method of appraisal using a vacancy rate of not more than 5% capitalized at normal market rate for multifamily housing (HF 2386/SF2198); or by capitalizing the net operating income prior to the payment of debt service (HF 2395). Provides that the Housing Finance Authority may charge an application fee for certification as class 4d property to recover the costs of processing and reviewing applications, up to \$10 per unit. Directs that properties or portions of properties certified as class 4d property have a rate of 1.0% of market value (HF 2386/SF 2198); or 1.25% (HF 2385/SF2197); or 0.55% (HF 2395).

The low-income housing class of property was eliminated as part of the 2001 property tax reform. Class rates for this type property in these bills are not dramatically different than under current law (1.25% for apartments), but the valuation method proposed takes into account the reduced rents received because it is low-income housing.

HF 2387 (Abeler, R, Anoka, 1729)

Provides that the city of Ramsey may create a 4.1 acre housing tax increment financing district to provide housing for low and moderate income elderly and disabled persons.

HF 2413 (Ellison, DFL, Minneapolis, 8659)

Modifies an existing personal property exemption for an electric generation facility utilizing two turbine generators at a dam site existing on March 31, 1994; located within 1,500 feet of a 13.8 kilovolt distribution substation; and eligible to receive a renewable energy production incentive payment to eliminate that requirement that it be located on publicly owned land and to change the dates for commencement of facility construction from between January 1, 2002 and January 1, 2007 to January 1, 2005 and January 1, 2007. Provides that purchase of materials and supplies between January 1, 2005 and December 31, 2007 that are used or consumed in the construction of such a facility are exempt from the sales and use taxes. Companion bill to SF 2163 (Pogemiller, DFL, Minneapolis, 7809) in Spotlight 05-07.

SF 2179 (Foley, DFL, Coon Rapids, 4154)

Expands the North Suburban Hospital District and authorizes it to levy taxes and issue bonds to provide grants to finance specific construction projects or capital equipment purchases at community hospitals or nursing homes located within the district that are owned by public or non-profit corporations. Prohibits year-to-year tax levy increases from exceeding the corresponding

CPI increase for the metropolitan area. Companion bill to HF 2237 (Abeler, R, Anoka, 1729) in Spotlight 05-07, where there is more information.

HF 2436 (Brod, R, New Prague, 4229)

Directs that agricultural land be valued for property tax purposes at the larger of: its production value under the system developed by the State Board of Agricultural Land Valuation, its acquisition value when last transferred (if transferred since January 1, 2000), or its taxable market value for assessment year 2006, effective assessment year 2007. Prohibits agricultural property from being valued at less than its assessment year 2006 value, unless it was not classified as agricultural land at that time. Creates a State Board of Agricultural Land Valuation consisting of the commissioners of revenue and agriculture and the dean of the University of Minnesota College of Agricultural, Food and Environmental Sciences. Directs the board to develop a system by January 1, 2007 for valuing agricultural land in Minnesota based on its productive capacity, current commodity prices, current costs of production inputs and a reasonable return on investment, and appropriates money for this purpose.

This moves agricultural land valuation for property tax purposes away from arm's length transaction values. - AT

HF 2464 (Dorman, R, Albert Lea, 8216)

Requires that charges not levied on an ad valorem basis that are imposed on at least 2/3 of the taxable parcels in a taxing district must also be included on the property tax statement. Further requires that the truth-in-taxation statements indicate that the final taxes do not include any charges imposed for services that are not levied on an ad valorem basis.

HF 2468 (Atkins, DFL, Inver Grove Heights, 4192)

Directs that the default definitions of "market value", "taxable market value", and "market valuation" with regard to levy and debt limitations refer to the taxable market value for the current, rather than the previous assessment year. Companion bill to SF 2158 (McGinn, R, Eagan, 7-8073) in Spotlight 05-07.

HF 2469 (Vandever, R, Forest Lake, 4124)

Prohibits homeowner "property taxes payable" from exceeding 4% of household income, and provides that the state will refund any such taxes paid over that 4% of income that remain after the homeowner property tax refund ("circuit breaker") has been applied. Eliminates the market value homestead credit. Eliminates that additional "targeting" property tax refund.

This puts all property tax relief except local government aid on a means-tested basis, and provides a cap on the amount of property taxes a person will pay at 4% of income. Many have complained that property taxes drive those on fixed incomes out of their homes. Others have complained that certain credits are poorly targeted. This would make property tax relief more of an explicit expenditure by the state, means tested, with no one paying more than 4% of their income for property taxes.

HF 2477 (Krinkie, R, Shoreview, 2907)

Increases the state general levy base amount and apportions it as follows: \$50 million to seasonal recreational residential (cabin) property, and \$682 million to commercial-industrial property. Dedicates 11% of the revenues from the state levy on commercial-industrial property to a newly-created public transit fund for expenditure as follows: 80% for capital and operating expenses of commuter rail service and light rail transit facilities; and 20% for capital and operating assistance to public transit systems.

Just how business and cabin property taxes are related to public transit is not clear. Perhaps that is the author's intent: to be as outrageous in sources of funding as he believes the system is in practice, according to his publicly stated opinions on the subject. For the statewide property tax is surely an outrageous source of money for public transit.

SF 2196 (Belanger, R, Bloomington, 5975)

Creates a class 4d with regard to property taxes. Classifies low-income rental property as class 4d if at least half of the property's units are: subject to a Section 8 housing assistance payments contract; rent-restricted and income-restricted units of a qualified low-income housing project receiving federal qualified low-income housing project tax credits; financed by the USDA's Rural Housing Service and receive payments under the rental assistance program; or subject to rent and income restrictions under the terms of financial assistance provided to the property by any governmental unit. Requires assisted units to be occupied by persons whose household income, at the time of initial occupancy, does not exceed 60% of the greater of area or state median income, adjusted for family size; and that the rents for assisted units must not exceed 30% of 60% of the greater of area or state median income, adjusted for family size. Provides that the Housing Finance Authority may charge an application fee for certification as class 4d property to recover the costs of processing and reviewing applications, up to \$10 per unit. Directs that properties or portions of properties certified as class 4d property have a rate of 1.0% of market value. Companion bill to HF 1908 (Vandever, R, Forest Lake, 4124) in Spotlight 05-06.

SF 2201 (Hottinger, DFL, Saint Peter, 6153)

Provides for a \$236,067 increase in the levy limit for the Region Nine Development Commission for levy years 2005 through 2009 only.

SF 2214 (Skoe, DFL, Clearbrook, 4196)

Raises the amount of agricultural homestead property eligible for the 0.55% class valuation rate from the first \$600,000 to the first \$750,000 of market value beyond the house, garage and one acre. Companion bill to HF 2320 (Dorman, R, Albert Lea, 8216) in Spotlight 05-07.

SF 2243 (Murphy, DFL, Red Wing, 4264)

Limits the exemption for pollution control equipment of an electric generation system to real or personal property used exclusively and continuously for abatement of air or water pollution.

Sales Tax

HF 2381 (Hackbarth, R, Cedar, 2439)

Proposes to amend the Minnesota Constitution to dedicate sales and use tax revenue equal to a 1/8% rate for a 25-year period beginning July 1, 2007 to protect and restore the state's lakes, rivers, streams, wetlands, and groundwater. Creates a clean water fund in the state treasury for this purpose. Establishes a Clean Water Council and provides for appointments and meetings.

Every legislator would like a dedicated source of funding for his or her favorite program. These kinds of things can multiply. It happened early in the 20th century in Minnesota, to the point where one estimate was that legislators had direct control of only 17% of state revenues when they met in odd-numbered years. All other funds were dedicated by previous legislatures or in the constitution.

Clean water is a multi-generational issue, and one needing long-term commitment and sources of funds. This might point to dedication of funds as a solution, but questions remain. How can we be sure now that 1/8th of one cent is the right amount? Missouri voters dedicated this amount to conservation, which resulted in an embarrassment of riches for that program even when the rest of state government was short. How can we be sure that future voters will think this is the correct amount?

Dedication always limits flexibility, as witnessed most poignantly now with the distribution formula for highway funds enshrined in our current constitution. At least this proposal is time-limited, unlike the highway formula.

HF 2393 (Kohls, R, Victoria, 4282); and SF 2209 (Murphy, DFL, Red Wing, 4264)

Provides an exemption from the sales and use taxes for persons attending one flea market or similar selling event annually, who participate in that event for three or fewer days, and who make less than \$500 in sales at the event.

HF 2406 (Seifert, R, Marshall, 5374)

Exempts the purchase of aircraft used for aerial surveying that are based, maintained and dispatched from a job opportunity building zone (JOB-Z) from the sales and use taxes. Exempts the purchase of any aerial camera package, including any camera, computer, and navigation device contained in the package that is used in such an aircraft, from the sales and use taxes so long as the imagery acquired from the package is returned to the JOB-Z zone for processing. Companion bill to SF 2162 (Frederickson, R, New Ulm, 8138) in Spotlight 05-07.

HF 2444 (Knoblach, R, St. Cloud, 6316); and SF 2249 (Kleis, R, St. Cloud, 6455)

Exempts after June 30, 2005, the purchase of materials and supplies used or consumed in, and equipment incorporated into, the construction of the Rockville Fire Hall from the sales and use taxes.

HF 2451 (Vandever, R, Forest Lake, 4124); and SF 2251 (Bachmann, R, Stillwater, 4351)

Clarifies that tree, bush, shrub, and stump removal are exempt from the sales and use taxes when sold to contractors or subcontractors on or after October 22, 2002 as part of a land clearing contract. Further clarifies that that land clearing contract itself is subject to the sales and use taxes.

HF 2455 (Knoblach, R, St. Cloud, 6316)

Exempts from the sales and use taxes on and after July 1, 2005, the purchase of materials and supplies used or consumed in, and equipment incorporated into, the construction of a new city hall and fire hall for the city of Rockville.

SF 2236 (Rosen, R, Fairmont, 5713)

Authorizes retailers remitting the sales tax in a timely fashion to deduct a collection allowance equal to 0.5% of the taxpayer's liability for the current remittance period, not to exceed \$500 per month for the remittance period. Provides that the allowance does not apply to use tax owned by the retailer on its own purchases. Companion bill to HF 2144 (Simpson, R, New York Mills, 4293) in Spotlight 05-07 where there is a comment.

EDUCATION

HF 2398 (Dittrich, DFL, Champlin, 5513)

Indexes the school funding formula equalizing factors to the greater of one or the ratio of net tax capacity for the most recent assessment year to the net tax capacity for assessment year 2004.

Essentially, this indexes the factors to the growth in tax base. – AT

HF 2471 (Knoblach, R, St. Cloud, 6316)

Exempts elementary school pupils living between one and two miles from school from the student transportation fees. Companion bill to SF 0465 (D.J. Johnson, R, Ham Lake, 3219) in Spotlight 05-02.

FEES

HF 2417 (Garofalo, R, Farmington, 1069)

Prohibits the Minnesota Historical Society from charging fees for tours of the state capitol.

SF 2207 (Kubly, DFL, Granite Falls, 5094)

Creates a state seed reservation office and authorizes it to charge reasonable fees for services to farmers that wish to retain seeds from a genetically modified agricultural crop for planting in the farmer’s own farming operation in a subsequent crop year. Companion bill to HF 2210 (A. Peterson, DFL, Madison, 4228) in Spotlight 05-07.

LOCAL GOVERNMENT

HF 2457 (Krinkie, R, Shoreview, 2907)

Prohibits a political subdivision from imposing a property tax “special levy” that would provide funds to: reimburse for the amount of liquor store revenues used to pay the principal and interest due on municipal liquor store bonds, fund matching requirements needed to qualify for state or federal grants or programs, pay the expenses reasonably and necessarily incurred in preparing for or recovering from the effects of natural disaster, pay amounts required to correct an error in the levy certified to the county auditor by a city or a county in a levy year, pay an abatement of property taxes for economic development purposes, pay post-June 30, 2001 increases in employer contribution rates for the public employees retirement association, pay certain operating or maintenance costs of a county jail, pay for operation of a lake improvement district, repay a state or federal loan used to fund the required spending by the local government due to a state or federal transportation or other capital project, pay for certain court administration costs, or to make certain contributions to a police or firefighters relief association. Limits a political subdivision’s levy base for taxes payable in 2005 to the sum of: its 2004 levy, minus any special levies; plus its scheduled calendar year 2005 local government aid; plus the taconite aids it receives in calendar year 2005 (including any aid which was required to be placed in a special fund for expenditure in the next succeeding year); plus any wind energy production tax for calendar year 2005. Provides that the levy limit base may be adjusted in subsequent years by one plus the percent change in the number of households in the jurisdiction for the most recent 12-month period for which data is available. Similar to HF 2197 (Vandever, R, Forest Lake, 4124) and SF 2069 (Bachmann, R, Stillwater, 4351) in Spotlight 05-07.

This is another version of the property tax “freeze” legislators can’t seem to resist. Local property taxes are primarily just that—local. The reforms of 2001 were designed in part to clarify that fact and release local officials from being so micro-managed by state officials.

The compression of class rates in 2001 has slowed the growth of levies, as predicted. If voters get too upset by increases

in property taxes, they can always elect different local officials. Legislators should resist the temptation to tamper with local levies, much less nearly take them over, as the freeze proposal does.

STATE GOVERNMENT

HF 2415 (Latz, DFL, St. Louis Park, 7026); and SF 2219 (Kelley, DFL, Hopkins, 7-8065)

Requires movants to pay for tax court transcripts.

TRANSPORTATION

HF 2407 (Abrams, R, Minnetonka, 9934)

Authorizes the Metropolitan Council to issue up to \$64 million in bonds for capital expenditures as prescribed in the Council’s regional transit master plan and transit capital improvement program and for related costs. Provides that such revenues may be used for construction of light rail transit in the Hiawatha corridor.

HF 2461 (Holberg, R, Lakeville, 6926)

Increases from \$99 to \$189 the maximum license tax for a car in the third year of life, and provides a \$99 tax for all autos in fourth and subsequent years. Modifies the allocation of revenue from the motor vehicle sales tax (MVST) as follows:

Fund	Current	Proposed Distribution (% as of 7/1)				
	2007	2008	2009	2010	2011	2012
Hwy User Tax Dist.	30.000	44.625	51.625	58.625	65.625	70.000
Metro Area Transit	21.500	17.850	20.650	23.450	26.250	28.000
Greater MN Transit	1.430	1.275	1.475	1.675	1.875	2.000
County State-Aid Hwy	0.650	0.000	0.000	0.000	0.000	0.000
Municipal State-Aid Street	0.170	0.000	0.000	0.000	0.000	0.000
General	46.250	36.250	26.250	16.250	6.250	0.000

Proposes a constitutional amendment to dedicate MVST revenues 70% to highways, 28% to metropolitan transit, and 2% to greater Minnesota transit, with total percentage rising from 63.75% of MVST in FY 2008 to 100% in FY 2012 and after. Proposes a constitutional amendment to set a minimum fuel tax of 25 cents (5 cents above current law) with the state’s share of the additional 5 cents dedicated to major trunk highway projects. Increases other transportation-related fees. A section-by-section summary is available through the non-partisan House Research website at <http://ww3.house.leg.state.mn.us/hrd/bs/84/HF2461.html>, from which much of this summary was taken.

The attempt to raise the gas tax one nickel failed in the House. This is their alternate proposal, to use motor vehicle registration taxes instead, then ask the voters for constitutional dedication and a minimum 5 more cents gas tax.



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