March 26, 2018

PROPERTY TAX
Charter school property exemption expanded

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 3529 (McDonald) as introduced

	Fund Impact			
	FY2018	**FY2019**	**FY2020**	**FY2021**
	(000's)			
General Fund	$0	$0	($90)	($90)

Effective beginning with assessment year 2018.

EXPLANATION OF THE BILL

Under current law, property that is leased or rented to a charter school is exempt from property taxes if the lease is for a period of at least 12 consecutive months, the charter school has the exclusive right to use the property during the lease period (with some exceptions that allow for shared use), and the property is owned by:

i. a nonprofit organization exempt from federal income tax under section 501(c)(2) or (3);
ii. a public school district, college, or university;
iii. a private academy, college, university, or seminary of learning;
iv. a church; or
v. the state or a political subdivision of the state.

Under the proposal, property that is leased by a charter school for at least 12 consecutive months would be exempt from taxation regardless of who owns the property, provided that the charter school has the exclusive right to use the property during the lease period (with some exceptions for shared use).

REVENUE ANALYSIS DETAIL

- According to the Department of Education, there are currently 164 charter schools in the state.
- Based on property tax records for a sample of about 100 charter schools, it is estimated that:
  - Approximately 50% of charter schools lease property that is currently taxable due to ownership that does not meet one of the five categories required for exempt status.
  - The average estimated market value of the leased property is approximately $1.2 million.
- It is unknown how many leases are for at least 12 months.
- It is also unknown how many leases give the charter school the exclusive right to use the leased property.
- It is assumed that 75% of charter school leases are exclusive-use leases for at least a 12-month period.
- For taxes payable in 2019 and thereafter, the proposed exemption would shift an estimated $1.9 million in taxes onto other properties, including homesteads.
  - The additional property tax burden on homesteads caused by the exemption would

increase state-paid homeowner refunds by $90,000 beginning in fiscal year 2020.
    - The exemption from the state property tax levy would have no impact on state revenues in fiscal year 2020 and thereafter because the tax rates would be adjusted to yield the amount of revenue required by statute. The tax reduction for the leased property would be shifted onto the other commercial and industrial properties subject to the state levy.
- Tax year impact is allocated to the following fiscal year.

PROPERTY TAX BENCHMARKS (Minn. Stat. § 270C.991)

Transparency, Understandability, Simplicity & Accountability	Increase	The exemption would be based solely on the use of the property.
Efficiency & Compliance	Neutral	
Equity (Vertical & Horizontal)	Neutral	
Stability & Predictability	Neutral	
Competitiveness for Businesses	Neutral	
Responsiveness to Economic Conditions	Neutral	

The bill is scored on a three point scale (decrease, neutral, increase) for each principle in comparison to current law.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
www.revenue.state.mn.us/research_stats/
pages/revenue-analyses.aspx

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