

PROPERTY TAX

School Tax Fairness Act created; school district property tax bases modified; debt service equalization program modified; and money appropriated

February 12, 2018

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue

Analysis of H.F. 2495 (Drazkowski) as proposed to be amended by H2495DE2

Fund Impact

	FY2018	FY2019	FY2020	FY2021
	(000's)			
General Fund				
Appropriation for deposit into Small Schools and Cooperating Facilities Fund	\$0	\$0	(\$2,000)	(\$2,000)
Debt Service Equalization Aid	\$0	\$0	\$0	\$0
School Building Bond Ag Credit	\$0	\$0	\$0	\$0
Property Tax Refund Interactions	\$0	\$0	negligible	negligible
Income Tax Interactions	\$0	\$0	negligible	negligible
Small Schools and Cooperating Facilities Fund				
Deposit into special revenue fund	\$0	\$0	\$2,000	\$2,000
Grants to Small Schools and Cooperating Facilities	\$0	\$0	(\$2,000)	(\$2,000)
Total All Funds	\$0	\$0	(\$2,000)	(\$2,000)

*The proposal would have additional impacts, but the first year of these impacts would be outside the current forecast period. Refer to the detail section below for more information.

Various effective dates.

EXPLANATION OF THE BILL

The proposal would make a number of changes to related to school finance and property taxes.

Sections 1-5 of the proposal would create a grant for isolated small schools. Qualifying school districts must demonstrate that the small school is isolated and that its tax base characteristics prevent the district from funding the total building costs through the debt service equalization aid program. Grants are awarded by the Commissioner of Education. An annual amount of \$2 million is

appropriated from the general fund for these grants beginning in fiscal year 2020.

Sections 6-14 modify the debt service equalization (DSE) program.

- Levies for current bond debt service and for bonds sold through June 30, 2021 are equalized on adjusted net tax capacity (ANTC) and levied against net tax capacity. Referendum market value debt service revenue would equal the difference between total eligible debt service revenue and net tax capacity eligible debt service revenue.
- Levies for bonds sold after June 30, 2021 would be levied against referendum market value. The definitions for DSE aid calculations are updated to reflect referendum market value, including initial referendum market value debt service equalization (RMVDSE) revenue, equalized initial RMVDSE levy, initial RMVDSE aid and actual RMVDSE aid.

These sections would be effective beginning with taxes payable in 2022, except for sections 10 and 11, which are effective beginning with taxes payable in 2019.

Section 15 modifies the definition of referendum market value. Class 4c(12) seasonal residential recreational non-commercial property (cabins) are added to the definition. The referendum market value for these properties would be 0.25 times taxable market value. The referendum market value of class 3a property is increased from 1.00 times taxable market value to 1.25 times taxable market value. This section would be effective beginning with taxes payable in 2022.

Section 16 specifies that voter-approved debt service levies approved beginning on July 1, 2021 would be levied against referendum market value.

REVENUE ANALYSIS DETAIL

- The Small Schools and Cooperative Facilities Grants program would receive an annual appropriation of \$2 million from the general fund into a special revenue fund beginning in FY 2020. It is assumed that the \$2 million in grants would be awarded each year beginning in FY 2020. The grants are assumed to reduce levies in some school districts, decreasing property taxes on all property. The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2020 by less than \$5,000 statewide.
- Under current law, school debt services levies for taxes payable in 2018 total approximately \$919 million statewide. If no new levies for bond debt service begin before July 1, 2021, all school debt service levies would be levied against referendum market value beginning in taxes payable 2046. The proposed change in tax base would shift taxes primarily onto residential homestead property.
- Due to school debt service levies being levied against referendum market value as opposed to net tax capacity, the school building bond agricultural credit would be \$0 once all debt service levies are levied against referendum market value. Property types eligible to receive the credit (2a, 2b, and 2c property other than the house, garage, and surrounding one-acre of land of an agricultural homestead) do not pay taxes based on referendum market value.
- The proposal would increase state aid to school districts beginning with taxes payable in 2022. The increase in equalization aid would reduce existing school district levies and decrease property taxes on all property. The reduced property tax burden would reduce state-paid homeowner property tax refunds and income tax deductions beginning in FY 2023, resulting in a savings to the state general fund.
- The proposed referendum market value definition would affect all referendum property tax levies, not just school debt service levies. The proposed definition would shift taxes among all property types.

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

<i>Transparency, Understandability, Simplicity & Accountability</i>	Increase	Simplification: effectively eliminates the school building bond credit.
	Decrease	Simplification: creates two tax bases for debt service levies.
<i>Efficiency & Compliance</i>	Neutral	
<i>Equity (Vertical & Horizontal)</i>	Neutral	
<i>Stability & Predictability</i>	Neutral	
<i>Competitiveness for Businesses</i>	Neutral	
<i>Responsiveness to Economic Conditions</i>	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](http://www.revenue.state.mn.us/research_stats/pages/revenue-analyses.aspx)

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