Conference Committee HF 991-2E / HF 991-1UE

Revenue Estimate / Fiscal Note information for May 10, 2021

	House	Senate
1. Homestead deadline moved to December 31	HF 195 (Dettmer)	SF 27 (Howe)
2. Tourism Improvement Districts	HF 1066 (Davnie)	SF 968 (Dziedzic)
3. State taconite aid iron ore bearing material	HF 991 (Marquart)	SF 961 (Nelson)
4. Free file report	HF 376 (Youakim)	No companion
5. Tax expenditure review article	HF 1019 (Marquart)	SF 1102 (Bakk)

DEPARTMENT OF REVENUE

January 19, 2021

PROPERTY TAX
Homestead-related tax deadlines modification

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of S.F. 0027 (Howe) / H.F. 0195 (Dettmer) as introduced

	Fund Impact			
	FY2022	**FY2023**	**FY2024**	**FY2025**
	(000's)			
PTR Interactions - Homestead by Dec. 31	$0	($70)	(negligible)	(negligible)
PTR Interactions - Veterans' Exclusion	$0	$30	negligible	negligible

Effective beginning with assessments in 2021.

EXPLANATION OF THE BILL

Homestead Established - Application Due by December 31:
Under current law, any property used as a homestead by December 1 will receive homestead classification for the current assessment year if an application is submitted by December 15 of the same year.

Under the proposal, any property used as a homestead by December 31 will receive homestead classification for the current assessment year if an application is submitted by December 31 of the same year.

Homestead Exclusion for Veterans with a Disability - Application Due by December 31:
Under current law, the homestead of a veteran with a disability becomes eligible for a valuation exclusion in the current assessment year if the application is received by December 15. For applications received after December 15, the exclusion becomes effective for the following assessment year.

Under the proposal, the due date for applications would be changed to December 31, and all approved applications filed by December 31 would receive the exclusion for the current assessment year.

REVENUE ANALYSIS DETAIL

- Due to property tax refund interactions, the proposal would shift general fund amounts from one fiscal year into the previous fiscal year.
    - Allowing homesteads to be established by December 31 would shift state costs.
    - The later deadline for the veterans' homestead exclusion would shift state savings.
    - The main impact occurs in the initial fiscal year. A portion of the state-paid property tax refund that under current law is saved or spent in one fiscal year would now be shifted into the previous fiscal year.

            - The impact of shifts in subsequent years is the difference between forecasted refund savings or costs under current law and the effect of shifting those amounts into the previous fiscal year.
            - The first year the state general fund would be impacted under the proposal would be for applications filed in 2021 for taxes payable in 2022 (property tax refunds in FY 2023).

<u>Homestead Established - Application Due by December 31:</u>

- For homestead property that is sold between December 2 and December 31, the proposal would have no impact on the local tax base or on state-paid property tax refunds.
- However, if a homestead is established on previously non-homestead property after December 1, the proposal would reduce taxable market value within local taxing jurisdictions and may increase state-paid property tax refunds.
    - It is estimated that approximately 330 homesteads would be established on previously non-homestead property between December 2, 2021 and December 31, 2021.
    - The reduced tax on the newly homesteaded property would shift property taxes (payable in 2022) onto all other property types, including other homesteads. This would increase state-paid homeowner refunds. This cost is included in the overall cost to the state.
- Some homesteads established after December 1 would be eligible for a property tax refund.
- It is assumed that approximately 120 homesteads established between December 2, 2021 and December 31, 2021 would apply for a refund.
    - Under the proposal, an estimated $70,000 of homeowner refunds currently projected to be paid by the state in FY 2024 would shift into FY 2023.
        - For subsequent years (beginning in FY 2024) the net cost to the state general fund is estimated to be less than $5,000.

<u>Homestead Exclusion for Veterans with a Disability - Application Due by December 31</u>:

- The proposal would allow veterans who move after December 15 to reapply for the exclusion in the same assessment year as the move occurred.
- In addition, the later application date would allow newly eligible veterans to apply after December 15 of the current year and receive the exclusion for the current assessment year, rather than the following assessment year (as under current law).
- It is assumed that approximately 50 applications will be received in calendar year 2021 between December 16 and December 31.
- The proposal would shift an estimated $100,000 in property tax (payable in 2022) onto all other property types, including other homesteads. This would increase homeowner property tax refunds. The overall savings to the state is net of these costs.
- The later application deadline would result in a net savings to the state due to a reduction in property tax refunds paid to veteran homesteads.
- Under the proposal, an estimated $30,000 of refund savings currently projected for FY 2024 would shift into FY 2023.
- For subsequent years (beginning in FY 2024) the net savings to the state general fund is estimated to be less than $5,000.

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

Transparency, Understandability, Simplicity & Accountability	Neutral
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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DEPARTMENT OF REVENUE

PUBLIC FINANCE
Tourism improvement districts

February 23, 2021

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of S.F. 0968 (Dziedzic) / H.F. 1066 (Davnie) as introduced

	Fund Impact			
	FY2022	**FY2023**	**FY2024**	**FY2025**
	(000's)			
General Fund	$0	$0	$0	$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

The proposal would allow municipalities to create tourism improvement districts. A district could only be created upon request by impacted business owners.

Municipalities would be allowed to collect service charges from businesses within the tourism improvement districts. Funds would be used to promote or improve businesses within the districts.

REVENUE ANALYSIS DETAIL

- The proposed service charges are assumed to have no impact on the state general fund. Tourism improvement districts would not have property tax levy authority.

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

sf0968(hf1066)_pt_1/css

Article 11: Public Finance				
Miscellaneous Public Finance Changes	$0	$0	$0	$0
Article 13: Miscellaneous Tax Provisions				
Property Tax Refund Maximums Increased for Homeowners	$0	($13,900)	($15,800)	($17,500)
Property Tax Refund Copays Reduced for Renters	$0	($15,700)	($16,000)	($16,200)
Tourism Improvement Districts Established	$0	$0	$0	$0
4d Affordable Housing Report	$0	$0	$0	$0
Melrose Fire Remediation Grant	($644)	$0	$0	$0
Alexandria Fire Remediation Grant	($120)	$0	$0	$0
Articles 15, 18: Department Policy and Technical Provisions				
Policy and Technical Provisions	$0	$0	$0	$0
General Fund Total	**($106,139)**	**($76,105)**	**($78,610)**	**($80,520)**

Various Effective Dates

***Non-General Fund Impacts**

Taconite Environmental Protection Fund				
Iron Ore Bearing Material Definition Modified	$280	$850	$1,150	$1,190
Douglas J. Johnson Economic Protection Fund				
Iron Ore Bearing Material Definition Modified	$150	$450	$620	$630
All Other Taconite Funds				
Iron Ore Bearing Material Definition Modified	$340	$1,050	$1,310	$1,420

Article 5: Miscellaneous Taxes and Tax Provisions

Iron Ore Bearing Material Definition Modified (Sections 5-7)

The effective date is beginning with taxes payable in 2022.
Under current law, taconite mining companies pay the production tax based on the taxable tonnage of taconite pellets produced. Mining operations that result in an end product that does not create taconite pellets would not be subject to the taconite production tax.

The proposal would amend the statutory definition of other iron ore bearing material to ensure the production of lump ore would be subject to the production tax.

- It is projected that a mining company using the new lump ore mining process will produce 1,000,000 tons of lump ore in production year 2021 and thereafter.
- Under the proposal, taxing the production of lump ore is estimated to increase local taconite production tax revenues by approximately $2.9 million in payable year 2022. The changes to the various local distributions of taconite production taxes would have no impact on the state general fund.
- The state general fund annually contributes 22 cents per ton of taconite to the production tax distribution pool, with 50% paid in February and the remaining 50% paid in August.
- For taxes payable in 2022 and thereafter, the annual state contribution on 1,000,000 tons of production would increase state costs by $220,000. The numbers are converted to fiscal years for the purposes of this estimate with 50% of the state contribution paid in February ($110,000) and the remaining 50% paid in August ($110,000).

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

sf0961(hf0991)_pt_1_GovBudget/nrg, wms, css, jtb

INDIVIDUAL INCOME TAX
Free Electronic Filing Report

February 8, 2021

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 376 (Youakim)

	Fund Impact			
	F.Y. 2022	**F.Y. 2023**	**F.Y. 2024**	**F.Y. 2025**
	(000's)			
General Fund	($175)	$0	$0	$0

Effective July 1, 2021.

EXPLANATION OF THE BILL

The bill requires the Commissioner of Revenue to provide a written report to the Legislature by January 15, 2022, on free electronic filing options for individual income tax returns. In preparing the report, the Commissioner must survey tax preparation software vendors on free electronic tax preparation and filing options. The survey must request specific information on system development, projected costs per return, processes for protecting taxpayer information, and other questions. The report must include a review of other states' options used for electronic filing, a taxpayer needs assessment including current filing use, and analyses of free filing alternative options (for example, tax credits), and of Internal Revenue Service Free File Program use.

The bill appropriates $175,000 from the General Fund to the Commissioner of Revenue for fiscal year 2022 to prepare the report. This is a one-time appropriation.

REVENUE ANALYSIS DETAIL

- The bill would result in a loss of $175,000 from the General Fund due to the appropriation in fiscal year 2022.

Minnesota Department of Revenue
Tax Research Division
https://www.revenue.state.mn.us/revenue-analyses

HF1019 - 0 - Tax Expenditures; Requirements, Review Commission

Chief Author:	**Paul Marquart**
Commitee:	**State Government Finance and Policy**
Date Completed:	**2/23/2021 1:50:27 PM**
Lead Agency:	Revenue Dept
Other Agencies:	
Legislature	Minn Management and Budget

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
Reductions shown in the parentheses.

State Cost (Savings)		Biennium		Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
Legislature					
General Fund	-	36	766	745	796
Revenue Dept					
General Fund	-	-	148	148	148
State Total					
General Fund	-	36	914	893	944
Total	**-**	**36**	**914**	**893**	**944**
Biennial Total			**950**		**1,837**

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
Legislature					
General Fund	-	-	6	6	6
Revenue Dept					
General Fund	-	-	1.2	1.2	1.2
Total	**-**	**-**	**7.2**	**7.2**	**7.2**

Lead LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.
The Legislature provided a range of estimates in the narrative and chose the more robust commission option to include in the fiscal note table. Please review the narrative of the fiscal note for an explanation of the range of possible fiscal impacts.

LBO Signature: Joe Harney **Date:** 2/23/2021 1:50:27 PM
Phone: 651-284-6438 **Email:** joe.harney@lbo.leg.mn

State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			**Biennium**		**Biennium**	
Dollars in Thousands		**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
Legislature						
General Fund		-	36	766	745	796
Revenue Dept						
General Fund		-	-	148	148	148
	Total	**-**	**36**	**914**	**893**	**944**
	Biennial Total			**950**		**1,837**
1 - Expenditures, Absorbed Costs*, Transfers Out*						
Legislature						
General Fund						
Expenditures		-	36	957	936	987
Absorbed Costs		-	-	(191)	(191)	(191)
Revenue Dept						
General Fund		-	-	148	148	148
	Total	**-**	**36**	**914**	**893**	**944**
	Biennial Total			**950**		**1,837**
2 - Revenues, Transfers In*						
Legislature						
General Fund		-	-	-	-	-
Revenue Dept						
General Fund		-	-	-	-	-
	Total	**-**	**-**	**-**	**-**	**-**
	Biennial Total			**-**		**-**

HF1019 - 0 - Tax Expenditures; Requirements, Review Commission

Chief Author:	**Paul Marquart**
Commitee:	**State Government Finance and Policy**
Date Completed:	**2/23/2021 1:50:27 PM**
Agency:	Revenue Dept

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
Reductions shown in the parentheses.

State Cost (Savings)		Biennium		Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	148	148	148
Total	**-**	**-**	**148**	**148**	**148**
Biennial Total			**148**		**296**

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	1.2	1.2	1.2
Total	**-**	**-**	**1.2**	**1.2**	**1.2**

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature: Joe Harney **Date:** 2/23/2021 11:52:03 AM
Phone: 651-284-6438 **Email:** joe.harney@lbo.leg.mn

State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2		Biennium		Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	148	148	148
Total	**-**	**-**	**148**	**148**	**148**
Biennial Total			**148**		**296**
1 - Expenditures, Absorbed Costs*, Transfers Out*					
General Fund	-	-	148	148	148
Total	**-**	**-**	**148**	**148**	**148**
Biennial Total			**148**		**296**
2 - Revenues, Transfers In*					
General Fund	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**
Biennial Total			**-**		**-**

Bill Description

The bill creates a Tax Expenditure Review Commission staffed by the Legislative Budget Office (LBO). The Commission will review up to 312 tax expenditures on a 10-year cycle. It expands the tax expenditure budget to include: purpose statements, rate reduction estimates, and in some cases incidence analyses. The membership of the new Tax Expenditure Review Commission includes the commissioner of revenue or commissioner's designee.

Assumptions

We assume the Department of Revenue (DOR) will not provide support to the LBO or the Tax Expenditure Review Commission in conducting their initial review of tax expenditures beyond the additions to the budget & Tax Expenditure Budget listed below.

DOR will (1) Add purpose statements and tax rate reduction estimates to tax expenditure budget (section 5). These additions are relatively straight forward but the tax rate calculations will require .1 FTE of additional staff time in FY23 and thereafter. The support to the tax expenditure review committee will require additional staff to provide the tax data analysis, however this piece begins beyond the current budget forecast window of FY21-FY25 (Section 3, Sub. 6).

(2) Add tax incidence analyses for 'significant tax expenditures' to tax expenditure budget (section 7). These require a lot of staff time. We estimate 70 tax expenditures meet the bill criteria for 'significant tax expenditures.' Some methodological and conceptual work will need to be done the first time (FY23). We estimate 1 FTE in FY23 and fiscal years thereafter for Tax Research staff to prepare the analyses themselves, plus supervisor work in FY23 and fiscal years thereafter.

(3) The proposal to require expiration dates for new or renewed tax expenditures will have long-term staffing costs that will mostly occur outside the current forecast window. Tax expenditure expirations will need to be tracked and factored into revenue forecasts and revenue estimates. As the number of expiration dates grows this will increase the complexity of forecasting and preparing revenue estimates (Section 1).

Expenditure and/or Revenue Formula

This bill will not impact state tax revenues.

Administrative Impact

Administrative Costs (Savings)	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
Employees			147,703	147,703	147,703
Total Administrative Costs			**147,703**	**147,703**	**147,703**

Long-Term Fiscal Considerations

Administrative impact will be ongoing, as noted in the Assumptions section.

The proposal to require expiration dates for new or renewed tax expenditures will have long-term staffing costs that will mostly occur outside the current forecast window. Tax expenditure expirations will need to be tracked and factored into revenue forecasts and revenue estimates. As the number of expiration dates grows this will increase the complexity of forecasting and preparing revenue estimates (Section 1).

Local Fiscal Impact

References/Sources

Agency staff provided information for this fiscal note.

Agency Contact: Lisa Knops 651-556-6754

Agency Fiscal Note Coordinator Signature: Lisa Knops

Date: 2/23/2021 11:44:55 AM

Phone: 651-556-6754

Email: Lisa.Knops@state.mn.us

HF1019 - 0 - Tax Expenditures; Requirements, Review Commission

Chief Author:	**Paul Marquart**
Commitee:	**State Government Finance and Policy**
Date Completed:	**2/23/2021 1:50:27 PM**
Agency:	Legislature

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X

Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions shown in the parentheses.

State Cost (Savings)		Biennium		Biennium	
Dollars in Thousands	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	36	766	745	796
Total	**-**	**36**	**766**	**745**	**796**
Biennial Total			**802**		**1,541**

Full Time Equivalent Positions (FTE)		Biennium		Biennium	
	FY2021	FY2022	FY2023	FY2024	FY2025
General Fund	-	-	6	6	6
Total	**-**	**-**	**6**	**6**	**6**

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

The Legislature provided a range of estimates in the narrative and chose the more robust commission option to include in the fiscal note table. Please review the narrative of the fiscal note for an explanation of the range of possible fiscal impacts.

LBO Signature: Adam Blom **Date:** 2/22/2021 11:24:27 AM
Phone: 651-284-6542 **Email:** adam.blom@lbo.leg.mn

State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
General Fund		-	36	766	745	796
	Total	**-**	**36**	**766**	**745**	**796**
	Biennial Total			**802**		**1,541**
1 - Expenditures, Absorbed Costs*, Transfers Out*						
General Fund						
Expenditures		-	36	957	936	987
Absorbed Costs		-	-	(191)	(191)	(191)
	Total	**-**	**36**	**766**	**745**	**796**
	Biennial Total			**802**		**1,541**
2 - Revenues, Transfers In*						
General Fund		-	-	-	-	-
	Total	**-**	**-**	**-**	**-**	**-**
	Biennial Total			**-**		**-**

Bill Description

The bill requires that any bill that creates a new tax expenditure or continues a tax expenditure must include an expiration date no more than eight years beyond the effective date of the bill. A Tax Expenditure Review Commission (TERC) is created that will be composed of nine members; four representatives, four senators and the commissioner of the Department of Revenue or the commissioner's designee. If the chair of the tax committee with the House and/or Senate is not an appointed member, they will serve as an ex officio nonvoting member of the commission. Legislative members are eligible for reimbursement of expenses associated with their participation with the commission business. Appointments must be made by January 31 of the odd-numbered year. Initial appointments must be made by January 15, 2022.

TERC must complete an initial review of the state's tax expenditures during the first three years of establishment (FY 23, 24 and 25) and then study state tax expenditures and evaluate effectiveness and fiscal impact on a rotation basis thereafter. The commission must hold a public hearing about a tax expenditure before December 1 of the year that the expenditure is included in a commission report due to the legislature by December 15 each year. Department of Revenue must provide the commission with summary data on a tax expenditure when requested by the commission to support TERC's review work. The tax committees of the House and Senate must have one meeting regarding the commission's report during the legislative session following the due date of the report. The first meeting of the commission must be held by July 1, 2022 (FY23) and the first report of the commission is due by December 15, 2022 (FY.23)

The Legislative Budget Office (LBO) must provide professional and technical assistance to the commission.

Assumptions

Background Information Regarding Legislative Budget Office

To aid in understanding some of the considerations of this fairly new office, we are including some baseline background information.

- The current staff of the LBO is one director, one coordinator, and two lead budget analysts and seven budget analysts. One of the analysts has the assignment area of taxes, pensions, and state government. Currently there is one vacancy of the LBO complement which has intentionally not been filled to account for a current law budget reduction anticipated in FY22.
- The current annual operating budget for the LBO of $1,483,000 will be reduced by $290,000 beginning in FY22. The

budget for FY22 and beyond is anticipated to not have sufficient funds to maintain the current staffing level of the office.

- The LBO is governed by the Legislative Budget Office Oversight Commission under M.S. 3.8854. The Oversight Commission is projected to meet a minimum of once a quarter each fiscal year (September, December, March, and June).
- The LBO is anticipated to coordinate and analyze approximately 2,000 individual fiscal notes during a budget year session (odd-numbered year) and approximately 1,000 fiscal notes during a non-budget year session (even-numbered year).
- Between January and mid-May, all current LBO staff are dedicated full-time to fiscal note oversight duties. The dedication of staff resources may be extended in the event of a special session.
- Between October and December of each year, the LBO coordinator and a minimum of one LBO analyst is involved in updating the LBO standards and procedures, user guide and internal operational protocols, and FNTS testing, certification of users, and delivering training.
- During the months of November and December, LBO analysts are engaged in reviewing agency base budgets, the November forecast, and other work necessary to adequately provide oversight to the fiscal note process.
- Although the LBO does not have statutorily required responsibilities during interims, one activity that has been identified by the LBO Oversight Commission is to have the LBO conduct a post review of fiscal notes for accuracy after implementation. This activity could involve the entire complement of LBO staff.

For the purposes of this fiscal note, a range of projected costs is provided depending on the expectations of the work and staff support of the Tax Expenditure Review Commission. At the high end of the cost spectrum is a Tax Expenditure commission that is highly active (scenario A). Under this scenario, the Tax Expenditure commission will be supported by new staff resources (new hires), existing LBO staff, and consultant services that allow it to conduct in-depth tax expenditure analysis.

On the low end cost of the spectrum is a Tax Expenditure commission that is supported only by the existing staff of the LBO with consideration of the office's current duties (scenario B). Under this scenario, the commission would be able to hold meetings and take public testimony. Existing LBO staff would be able to help the commission compile its annual report but could only do minimal, if any, expenditure analysis, with all data being taken from the current Tax Expenditure Budget report developed by the Department of Revenue.

<u>Assumptions Common for Both Scenarios A and B are:</u>

1. During the first three years of establishment, TERC will complete an initial review of approximately 100 tax expenditures per year beginning July 1, 2022 and concluding December 15, 2024.
2. Beginning FY23, the commission will meet a total of six times each fiscal year to conduct its work for the initial three years and report development but reserves the ability to conduct one meeting in June 2022 (FY22) at the commission's discretion. All meetings would occur during the interim.
3. After submission of its third and final initial tax expenditure report on December 15, 2024,TERC will go to a tax expenditure rotation basis with reviewing 30 to 39 tax expenditures each year with 15 to 25 of the expenditures anticipated to be significant tax expenditures for every eight-year cycle. The TERC will spend minimal time with non-significant tax expenditure with the majority of time dedicated to significant tax expenditures as defined by the bill. The commission will elect to not consider federal tax expenditures.
4. TERC would continue to meet six times each fiscal year to conduct its review of tax expenditures on a rotation basis and report development beginning FY26. All meetings would occur during interim.
5. It is assumed that two ex officio members of the TERC will be eligible for reimbursement of expenses for participation with the commission business in addition to the eight legislative voting members. All legislative members are eligible for reimbursement of expenses but not for compensation (per diem). The bill does not provide funds for legislative member meeting participation. New funds will be needed.
6. Legislative member meeting participation costs include the following per member per interim meeting: $85 round trip mileage (152 round trip mile average) and lodging for half of the legislative members ($150/night senators, $150/night representatives).
7. The Department of Revenue commissioner or designate will be reimbursement for meeting participation expenses from the Department of Revenue.
8. All commission meetings will be held within the Capitol complex.
9. The bill creates a second entity (TERC) that would also govern the work of the LBO associated with tax expenditures beyond the LBO Oversight Commission, who will continue to govern the fiscal note oversight work of the LBO.

10. During the periods of November through mid-May, the LBO would either be unable to devote any staff time or only limited staff time to support the TERC with its current complement. Additionally, current staff resources might need to be devoted to fiscal note duties if a special session was to be called.
11. The LBO does not currently have the expertise or available staff resources to gather additional data and perform analysis beyond the data that is currently available through the Department of Revenue.
12. The House Research Department (HRD), the House Fiscal Analysis Department (HFAD) and the Senate Counsel, Research and Fiscal Analysis (SCRFA) would devote staff resources to follow the work of the commission but would not provide technical support to the commission.
13. The Legislative Coordinating Commission will continue to provide the LBO fiscal and administrative oversight support and absorb the associated costs.
14. The Department of Revenue (DOR) will continue to provide to the legislature the Tax Expenditure Budget. Any cost related to the development of the report will be addressed by DOR in their fiscal note.

<u>Assumptions Specific to Active Commission / Higher Cost / Scenario A</u>

1. The LBO is expected to prepare additional data sets, analysis, and information associated with the review of each tax expenditure under the annual review cycle that is beyond that currently available through the DOR reports such as the Tax Expenditure Budget report.
2. It is assumed that this work may require a similar level of effort to that which are performed by the House Research Department in prior years related to tax expenditures. In certain extremely complex cases, the level of effort could be similar to that of the Office of Legislative Auditor staff when conducting program evaluations or audits.
3. The LBO would need to have statutory authority to access DOR data.
4. The timeline to complete this level of data gathering and analysis would need to occur year-round.
5. With consideration of 15 to 25 significant tax expenditures reviewed each year during each eight-year cycle beginning FY26, it is assumed that the commission would select:
6. One third of tax expenditures that require a low level of one month or less of LBO analysis (7-8 tax expenditures).
7. One third of the tax expenditures that require a medium level of two to three months of detailed LBO analysis (7-8 tax expenditures).
8. One third of tax expenditures would require a complex level of three to six months of detailed LBO analysis (7-8 tax expenditures).
9. The LBO will dedicate three existing analyst staff assist with the initial tax expenditure analysis from FY23-25 at a level of .40 FTE per analyst (835 hours for each analyst). That same level of current LBO staff resource dedication will continue beginning FY26 and beyond then to perform the assessment work of the non-significant tax expenditures and low level of tax expenditure analysis for significant tax expenditures Cost will be absorbed by the LBO for the staff support cost associated with the existing staff. Staff resources will be provided during interims.
10. Beginning in FY23, the existing LBO coordinator will dedicate .07 FTE of staff time (approximately 146 hours) to performing the logistical aspects of the commission (i.e., reserving rooms, making copies, posting agendas, taking meeting minutes). Cost will be absorbed by the LBO.
11. The LBO director will dedicate 0.30 FTE (approximately 626 hours) to this effort beginning FY23. Existing staff will be used and cost absorbed by the LBO.
12. The level of support to the commission under this scenario with regards to time and expertise will require new staff in addition to the stated dedication of time by existing staff. Additional funds will be needed for the compensation (salary and fringe), workspace accommodations, and operational costs associated with the new hires.
13. Beginning FY 23, the LBO will hire five additional full-time analysts (a composite of 5.0 FTEs) with tax expenditure expertise to perform the detailed analysis of tax expenditures, present the work to the commission, and to prepare the annual report for consideration of the commission.
14. Beginning FY23, the LBO will hire a 1.0 FTE deputy director to oversee the tax expenditure work and new analysts working in that capacity.
15. All new hires will elect family insurance coverage.
16. Initial equipment and supplies will need to be purchased for the new staff. This includes computers, phones, general software and licenses, and supplies for six staff, as well as one printer.
17. The LBO may move to leased space beginning in FY23. If so, additional costs would be incurred to lease space to accommodate six additional staff. For this fiscal note, we assume that LBO will move to leased space. It is

anticipated that 1,100 additional square feet would be needed at a lease rate of $32/square foot/year. Cost may be incurred to build out and prepare the office space in the last quartile of FY22. This cost includes workstations, wiring and technology access (server, switch). The additional 1,100 lease space arrangements may be needed in the last quartile of FY22 so that the office space would then be ready for new hired TERC staff in FY23.

18. A statistical analysis and modeling software will need to be purchased. It is assumed that nine licenses will be needed for the specialized software (three existing analysts, five new hire analysts, and one deputy director). Cost is estimated to be $1,200 annually for each of the licenses for a total of $10,800 annually beginning FY23.
19. Specialized training will be provided to the new 6.0 FTE related to tax expenditure analysis for the TERC staff each FY beginning FY23 at a total cost of $1,500 per person per year.
20. The LBO would need to contract with an economist for expertise and consulting services to assist TERC to prepare for its work of the in-depth tax expenditure analysis that begins in FY26. Cost is estimated to be $50,000 annually beginning FY25.

Assumptions Specific to Less Robust Commission / Lower Cost / Scenario B

1. The LBO review of fiscal notes for accuracy after implementation will be limited to staffing resources that would be available outside the work of the TERC.
2. Beginning FY26, and after the first three years of the required initial tax assessment, the commission will review 15 to 25 tax expenditures each year of the eight-year cycle, only using the data currently available through DOR reports. LBO staff will not have access to DOR tax data and tax expenditures to be reviewed will be limited to those defined as significant.
3. Assuming that LBO staff will not be directed by the LBO Oversight Commission to perform other activities beyond the fiscal note oversight functions during legislative sessions, the LBO will dedicate three existing analyst staff time at a level of .40 FTE per analyst (835 hours for each analyst) per year beginning FY23 to perform technical support to the commission, compilation of existing data sets, and development of the TERC annual report. Existing staff will be utilized and cost absorbed by the LBO. Staff resources will be provided during interims.
4. Beginning in FY23, the existing LBO coordinator will dedicate .07 FTE of staff time (approximately 146 hours) to performing the logistical aspects of the commission (i.e., reserving rooms, making copies, posting agendas, taking meeting minutes). Existing staff will be used and cost will be absorbed by the LBO.
5. The LBO director will dedicate .30 FTE of staff time from July 1 to December 31 to assist the LBO staff with the work associated with the commission (approximately 626 hours per fiscal year). Existing staff will be used and cost will be absorbed beginning FY23.
6. The remaining staff not assisting the Tax Expenditure commission will work on activities associated with improving the accuracy and timeliness of fiscal notes.
7. House and Senate research and fiscal staff that support the work of legislative tax committees would be available to follow the activities of the commission and for LBO consultation on a limited basis.
8. Commission supply costs are assumed to be nominal and absorbed within the existing LBO budget.
9. If specialized training for staff is needed, that would be an additional cost and is not included for the lower cost estimate.

Expenditure and/or Revenue Formula

Discussion: A range of projected costs is provided dependent on the expectations of the work and staff support of Tax Expenditure Review Commission. Note that the frequency of meetings is consistent between the high cost and low cost scenarios, but the duration of each meeting is anticipated to vary with longer meetings likely with a more robust commission with more and detailed analysis to discuss (high end spectrum).

On the high end of the spectrum (Scenario A) is a robust highly active Tax Expenditure Review Commission.

The following tables summarize the projected cost for this level of dedicated staff support performing comprehensive analysis. Although we have presented a range of cost depending on the scope of commission work expectations, the cost for this scenario has been entered in the fiscal note system table due to the uncertainty of the level of work that may be expected by the TERC.

Member Meeting Participation	FY22	FY23	FY24	FY25

Senate Member Mtg Participation Cost - Expenses Only	0	4,000	4,000	4,000
House Member Mtg Participation Cost - Expenses Only	0	4,000	4,000	4,000
Total Member Mtg Participation Cost	**0**	**8,000**	**8,000**	**8,000**

Staff Support Cost	FY22	FY23	FY24	FY25
LBO Coordinator (.07 FTE, 146 Hrs, absorbed)	0	7,000	7,000	7,000
3 LBO Analysts (.40 FTE/835 Hrs each, total of 1.20 FTE, absorbed)	0	125,000	125,000	125,000
LBO Director (.30 FTE, 626 Hrs, absorbed)	0	59,000	59,000	59,000
5 TERC Analysts (1.0 FTE / 2088 Hrs each for a total of 5.0 FTE)	0	491,000	491,000	491,000
TERC Deputy Director (1.0 FTE)	0	138,000	138,000	138,000
Consultant Cost	0	0	0	50,000
Total Staff & Consultant Cost	**0**	**820,000**	**820,000**	**870,000**
Staff Cost Absorbed by LBO	**0**	**(191,000)**	**(191,000)**	**(191,000)**
Net Staff & Consultant Cost	**0**	**629,000**	**629,000**	**679,000**

Operational Cost	FY22	FY23	FY24	FY25
Office Space Rent, Build-out and workspace cost	36,000	35,000	35,000	35,000
Equipment (computers, phones	0	20,000	0	0
General Operations (software, licenses, printer lease, supplies, staff training and travel)	0	74,000	73,000	74,000
Total Operations Cost	**36,000**	**129,000**	**108,000**	**109,000**

Summary of Total Cost	FY22	FY23	FY24	FY25
Member meeting participation cost	0	8,000	8,000	8,000

Staff support & consultant cost	0	820,000	820,000	870,000
Operational cost	36,000	129,000	108,000	109,000
Total cost	**36,000**	**957,000**	**936,000**	**987,000**
Total cost absorbed	**0**	**(191,000)**	**(191,000)**	**(191,000)**
Net cost	**36,000**	**766,000**	**745,000**	**796,000**

New FTE Category	FY22	FY23	FY24	FY25
5 TERC Analysts	0.00	5.00	5.00	5.00
1 TERC Deputy Director	0.00	1.00	1.00	1.00
Total New FTEs	**0.00**	**6.00**	**6.00**	**6.00**

On the low end of the spectrum (Scenario B) is a less active Tax Expenditure Review Commission that is only supported with existing staff. With the constraints on staff time and access to tax data, the commission could hold hearings but could only do little in-depth analysis.

The following tables summarize the projected cost for this level of dedicated staff support.

Member Meeting Participation	FY22	FY23	FY24	FY25
Senate Member Mtg Participation Cost - Expenses Only	0	4,000	4,000	4,000
House Member Mtg Participation Cost - Expenses Only	0	4,000	4,000	4,000
Total Member Mtg Participation Cost	**0**	**8,000**	**8,000**	**8,000**

Staff Support Cost	FY22	FY23	FY24	FY25
LBO Coordinator (.07 FTE, 146 Hrs, absorbed)	0	7,000	7,000	7,000
3 LBO Analysts (.40 FTE/835 Hrs each, total of 1.20 FTE, absorbed)	0	125,000	125,000	125,000
LBO Director (.30 FTE, 626 Hrs, absorbed)	0	59,000	59,000	59,000

Total Staff Cost	**0**	**191,000**	**191,000**	**191,000**
Staff Cost Absorbed by LBO	**0**	**(191,000)**	**(191,000)**	**(191,000)**
Net Staff Cost	**0**	**0**	**0**	**0**

Summary of Total Cost	FY22	FY23	FY24	FY25
Member meeting participation cost	0	8,000	8,000	8,000
Staff support cost	0	191,000	191,000	191,000
Total cost	**0**	**199,000**	**199,000**	**199,000**
Total cost absorbed	**0**	**(191,000)**	**(191,000)**	**(191,000)**
Net cost	**0**	**8,000**	**8,000**	**8,000**

Long-Term Fiscal Considerations

Cost would be ongoing in the future. After initial tax expenditure review that would occur during the first three years of the establishment of the commission and the first eight-year cycle of in-depth tax expenditure analysis, future analysis may require less resources with the baseline analysis having been conducted.

Local Fiscal Impact

N/A

References/Sources

Krista Carsner, Legislative Budget Office

Joe Harney, Legislative Budget Office

Michelle Weber, Legislative Coordinating Commission

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State of MN Tax Expenditure Budget for FYs 20-23, MN Department of Revenue

A Review of Selected Tax Expenditures, November 2013, MN House Research Department

Mineral Taxation, 2015 Evaluation Report, Office of the Legislative Auditor

Minnesota Research Tax Credit, 2017 Evaluation Report, Office of the Legislative Auditor

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HF1019 - 0 - Tax Expenditures; Requirements, Review Commission

Chief Author:	**Paul Marquart**
Commitee:	**State Government Finance and Policy**
Date Completed:	**2/23/2021 1:50:27 PM**
Agency:	Minn Management and Budget

State Fiscal Impact	Yes	No
Expenditures	X	
Fee/Departmental Earnings		X
Tax Revenue		X
Information Technology		X
Local Fiscal Impact		X

This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative.
Reductions shown in the parentheses.

State Cost (Savings)		**Biennium**		**Biennium**	
Dollars in Thousands	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
Total	-	-	-	-	-
Biennial Total			-		-

Full Time Equivalent Positions (FTE)		**Biennium**		**Biennium**	
	FY2021	**FY2022**	**FY2023**	**FY2024**	**FY2025**
Total	-	-	-	-	-

LBO Analyst's Comment

I have reviewed this fiscal note for reasonableness of content and consistency with the LBO's Uniform Standards and Procedures.

LBO Signature:	Joe Harney	**Date:**	2/23/2021 8:49:19 AM
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State Cost (Savings) Calculation Details
This table shows direct impact to state government only. Local government impact, if any, is discussed in the narrative. Reductions are shown in parentheses.
*Transfers In/Out and Absorbed Costs are only displayed when reported.

State Cost (Savings) = 1-2			Biennium		Biennium	
Dollars in Thousands		FY2021	FY2022	FY2023	FY2024	FY2025
	Total	-	-	-	-	-
	Biennial Total			-		-
1 - Expenditures, Absorbed Costs*, Transfers Out*						
	Total	-	-	-	-	-
	Biennial Total			-		-
2 - Revenues, Transfers In*						
	Total	-	-	-	-	-
	Biennial Total			-		-

Bill Description

Section 1 mandates that any bill that creates a new tax expenditure or continues an expiring tax expenditure must include an expiration for the tax expenditure that is no more than eight years from the day the provision takes effect. The effective date for this section is beginning with the 2022 legislative session.

Assumptions

Minnesota Management and Budget's (MMB) Economic Analysis Unit forecasts the state's significant tax types in the state's November and February forecasts under MS 16A.103. MMB does not anticipate significant costs *within the current budget horizon* for the Economic Analysis Unit attributable to Section 1. The provision does not go into effect until the 2022 legislative session. Moreover, MMB does not anticipate a significant number of tax expenditures will expire within the current budget horizon.

However, MMB does anticipate that the bill will result in long-term staffing and administrative costs that will mostly occur *outside the current budget horizon*. Tax expenditure expirations will need to be tracked and factored into revenue forecasts. As the number of expiration dates grow this will increase the complexity of forecasting. MMB is unable to quantify the potential fiscal impact without knowing the number and type of tax expenditures for which the Legislature will enact an expiration, and the schedule on which these tax expenditure expirations will occur.

Additionally, secondary staffing and administrative costs may arise from the need for the state's economic forecast to reflect the economic impact of expiring provisions. When a tax expenditure is set to expire within the forecast window, MMB will need to estimate the impact of the expiration on Minnesota income, business profits, sales, and other economic variables. Moreover, in instances where the Legislature regularly extends expiring tax expenditure provisions, MMB may need to release separate forecast data reflective of the tax expenditure expiring, and, by contrast, reflective of the tax expenditure being extended. This practice is sometimes used by the federal Congressional Budget Office to add information to their current law forecast about tax provisions that are set to expire but are widely expected to be extended. This analysis is beyond the Economic Analysis Unit's normal forecast work, but it may be necessary to maintain the accuracy and value of the economic and revenue forecasts. This additional analysis would result in significant administrative and staffing costs for the unit.

Expenditure and/or Revenue Formula

Long-Term Fiscal Considerations

As noted above, MMB anticipates increased staffing and administrative costs for the Economic Analysis Unit, although these costs are likely to occur outside the current budget horizon and cannot be accurately quantified at this time. These costs may be significant, however, particularly in the case of tax expenditures that are significant in scope or economic impact and/or if many tax expenditures are expiring or being extended. The number of tax expenditures affected by this bill may increase over time as we approach the maximum expiration window of eight years and as the Tax Expenditure Review Commission established in this bill reports to the Legislature its recommendations on whether a tax expenditure should be continued, repealed, or modified.

Local Fiscal Impact

References/Sources

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