

# HOUSE RESEARCH

## Bill Summary

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## Section

### Article 1: Property Taxes

#### Overview

Makes changes to Minnesota's property tax system including:

- Exempts the first \$200,000 of commercial-industrial property from the state general tax
- Freezes the state general tax at the 2017 level
- Provides a reduced class rate for congressionally-chartered veterans' services organizations
- Eliminates the annual filing requirement for veterans receiving the disabled veterans' exclusion
- Allows a one-year look-back of property whose value has been successfully appealed to the tax court or a local or county board
- Establishes a Legislative Working Group to develop proposals for simplifying the property tax system
- Narrows the exemption for agricultural containment facilities
- Provides for more efficient management and disposal of tax-forfeited property

- 1** **Allowed commercial and industrial operations.** Allows cell towers to be installed on property within an agricultural preserve in greater Minnesota. (*Note: only three counties in greater Minnesota participate in the agricultural preserves program—Waseca, Winona, and Wright.*)
- 2 & 22** **County levy authority and special taxing districts.** Requires a county to treat its levy for a soil and water conservation district as a special taxing district and requires that the levy for this district be certified separately.
- 3** **Secondary liquid agricultural chemical containment facilities.** Modifies the agricultural containment facilities exemption to apply to secondary containment tanks, cache basins, and berms. Effective retroactively for taxes payable in 2016.
- 4** **Apprenticeship training facilities.** Changes the criteria under which township property may qualify for the training facilities exemption by lowering the population threshold to 1,400. (Haverhill Township, Olmsted County)
- 5** **Electric generation facility; personal property.** Provides an exemption from taxes and payments in lieu of taxes for a new electric generating facility owned by a municipal power agency in or near Owatonna.
- 6** **Leased seasonal-recreational land.** Makes changes to the law affecting the taxation of land leased from governmental units by private entities and used for seasonal-recreational purposes.
  - ▶ Automatically exempts land leased from the state, a county, a city, or a town from taxation, whereas under current law, exemption requires county approval

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(for land leased from the federal government, the exemption is already automatic).

- ▶ Eliminates the requirement that in order to qualify for exemption, the property had to be exempt in 2008 and rented for the same purpose.

Allows the exemption for homesteaded resort property, whereas under current law, it applies only to noncommercial seasonal-recreational property.

- 7** **Definitions; wind energy production systems.** Changes the definition of how multiple wind energy elements can be combined to determine the appropriate size category, which determines the production tax rate. Allows multiple small wind energy producers in the same area with some combined system elements to retain their status as separate small-scale producers for tax purposes.
- 8** **Restrictions on transfers of specific parts.** Allows a county to review a deed conveying a parcel of land for transfer or division for conformity with the county's land use regulations.
- 9** **Manufactured home park cooperative.** Eliminates a specific prohibition against ground lease payments being included as part of property taxes payable for shareholders of manufactured home park cooperatives when filing for the homestead credit refund.
- 10** **Special agricultural homestead rules.** Eliminates language allowing certain special agricultural homesteads owned by grantor trusts to qualify for homestead property tax status. This language is moved to section 11, which contains most of the rules relating to trust ownership of homestead and agricultural homestead property.
- 11** **Trust property; homestead.** Allows agricultural land and other property (e.g., the house, garage, and agricultural buildings) to qualify as a homestead when all or portions of the property are owned by a trust for which a deceased or surviving spouse was the grantor.
- 12** **Manufactured homes; sectional structures.** Increases the minimum value for a storage shed, deck, or similar structure on a leased manufactured home site to be considered taxable from \$1,000 to \$10,000.
- 13** **Class 1c (homestead resort) classification.** Extends eligibility for class 1c homestead resort classification to resort properties abutting state trails (currently this classification is limited to resorts abutting public waters). Makes minor change relating to how title to class 1c property is held.
- 14** **Class 2 (agricultural property).** Allows land enrolled in a conservation program administered by a local agency such as a city, town, or water conservation district to qualify as agricultural for property tax purposes, provided that under the program the landowner receives incentive payments in return for restrictions placed on the use of the land. Currently, land enrolled in the Reinvest in Minnesota (RIM) program, or the federal Conservation Reserve Program (CRP), or a similar state or federal conservation program, are allowed to qualify as agricultural.
- 15** **Class 4 (miscellaneous property classification).** Allows garage condominiums with separate legal descriptions to be classified under class 4bb, which is the classification for single-family residential rental units, with a class rate of one percent (up to \$500,000 value).

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Also provides for a property tax reduction of approximately 33 percent for property of nonprofit community service organizations that are congressionally chartered veterans' organizations, i.e. the American Legion and the VFW. This reduction results in a slight increase in tax burdens to all other properties.

- 16 Homestead of disabled veteran or family caregiver.** Allows the surviving spouses of certain veterans to qualify for the spousal benefit if the veteran qualified at the time of death or the spouse is receiving dependency and indemnity compensation (DIC). Also eliminates the annual application requirement, but requires notice for eligibility changes and requires annual certification of a veteran's disability rating.
- 17 Property overvalued.** Allows a property owner to appeal a property's valuation in tax court for the taxes payable year prior to the year for which the value is reduced by a board of appeal, county abatement, or tax court decision.
- 18 General levy amount.** Freezes the state general levy for both commercial-industrial property and seasonal-recreational property at the payable 2017 level for taxes payable in 2018 and thereafter, and then further reduces the commercial-industrial portion of the levy by \$106.4 million, which is the amount estimated to be paid by the first \$200,000 of each commercial-industrial property.
- 19 Commercial-industrial tax capacity.** Provides that the first \$200,000 of each parcel of commercial-industrial property is exempt from the state general levy.
- 20 Apportionment and levy of the state general tax.** Eliminates the 95%/5% apportionment of the state general levy between commercial-industrial and seasonal-recreational property, since each levy amount is now stated separately in section 18.
- 21 Underserved municipalities distribution.** Provides for a distribution of the state general levy paid by properties within a municipality back to the municipality, provided that the municipality: (1) lies within the metropolitan area but outside the transit district area; and (2) has a net fiscal disparities contribution tax capacity in excess of eight percent of the municipality's total net tax capacity. The distribution is equal to the contribution tax capacity in excess of eight percent times the municipality's tax rate. The distribution cannot exceed the amount of state general levy paid by properties within the municipality.
- 23 Proof of timely payment.** Clarifies that a postmark or registration mark qualify as proof of timely mailing of current or delinquent property tax payments and that other evidence may be considered, except for Internet stamps.
- 24 Due dates; penalties.** Equalizes the penalties for first- and second-half late payments of property taxes.
- 25 Abatement of penalty.** On a onetime basis, allows the county treasurer to abate the penalty for late payment of tax if an envelope is postmarked within one business day of the due date.
- 26 Agricultural properties.** Provides the same due date for rural vacant land as for class 2a land and provides that late payment penalties are the same as in section 24.
- 27 Conditions.** Allows the county auditor to offer financial literacy counseling as part of an agreement to enter into a confession of judgment.

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- 28**      **Period of redemption.** Clarifies that the period of redemption for targeted communities and the property classification as of the assessment year of the judgment is used to determine the period of redemption.
- 29**      **Summons and complaint.** Allows a county to commence an action to reduce the period of redemption for abandoned property.
- 30**      **Summons and complaint.** Allows a county to commence an action to reduce the period of redemption for vacant property.
- 31**      **Maintenance; expenditure of public funds.** Provides that a property owner who is a governmental entity is not bound to an agreement or easement to maintain the property with public funds.
- 32**      **Limited right of entry.** Allows the county auditor to protect and secure a vacant or unoccupied property.
- 33**      **Sale; method; requirements; effects.** Allows a county board to sell individual parcels by alternate means, including through a real estate broker.
- 34**      **Duties of commissioner after sale.** Requires the commissioner of revenue to issue a conveyance to the county auditor in conjunction with a closing instead of after the closing.
- 35**      **Online auction.** Allows the county auditor to sell tax-forfeited property through an online auction.
- 36**      **Prohibited purchasers.** Broadens the number of prohibited purchasers of tax-forfeited land to include a person who is delinquent on property taxes for other properties, has a revoked rental license in the last five years, was a vendee on a canceled contract for a purchase of tax-forfeited property, or owns a property with a housing code violation. Clarifies that a prohibited purchaser may not use another person to make a purchase.
- 37**      **Land on or adjacent to public waters.** Authorizes a county to sell property on or adjacent to public waters with written authorization from the commissioner of natural resources.
- 38**      **List of lands for sale; notice; online auctions permitted.** Amends the notice requirements for sales pursuant to section 35.
- 39**      **Repurchase requirements.** Reduces the length of time that an owner at the time of forfeiture may repurchase nonhomestead property from one year to six months.
- 40**      **Forfeited lands list.** Makes technical and clarifying changes to the list of properties withheld from sale for purchase by the state or a political subdivision of the state and amends a reference pursuant to section 39.
- 41**      **Property taxes payable.** Explicitly provides for resident shareholders of manufactured home cooperatives to add a percentage of their ground lease payments to the personal property tax amounts on their individual units when filing for the homestead credit refund.
- 42**      **Early termination of agricultural preserve.** Allows a property's enrollment in the metropolitan agricultural preserves program to be terminated upon the death of an owner of the property. Provides that when an agricultural preserve is terminated under this provision, the property is subject to additional taxes equal to 50 percent of the current year's taxes.  
*(Background: under current law, an agricultural preserve can only be terminated eight*

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*years after the owner notifies the city or county of her/his intention to terminate, and there are no additional taxes imposed when the preserve is terminated.)*

- 43 Allowed commercial and industrial operations.** Allows cell towers to be installed on property within a metropolitan agricultural preserve.
- 44 Grounds.** Authorizes evictions after the redemption period expires on a real estate judgement sale.
- 45 Removal and storage of property.** Allows a plaintiff to dispose of personal property held to enforce a lien 60 days after the order to vacate.
- 46 Recreation levy for Sawyer by Carlton County.** Reinstates and makes permanent authority for Carlton County to levy a tax within the unorganized territory of Sawyer for recreational purposes, limited to \$1,500 per year.
- 47 Property tax reform working group.** Establishes a Legislative Property Tax Reform Working Group to propose changes to the property tax system. The group is charged with making a report presenting two or more alternatives for reform, as described in section 48 by February 15, 2018. The group is to be staffed by legislative staff, but may request assistance from staff of the Education and Revenue Departments.
- 48 Proposals for reform of Minnesota's property tax system.** Charges the working group with developing proposals to restructure the property tax system that reduce complexity and cost and increase transparency and taxpayer understanding, while minimizing the number of properties that experience severe tax changes. At least one proposal must be developed that spends up to \$250 million in state cost per year, and another that spends up to \$500 million in state cost per year.
- 49 Repealer.** Repeals the requirement that all persons appraising real property obtain an Accredited Minnesota Assessor license; repeals a notice requirement for parcels that have not been sold one year before the expiration of the redemption period.

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### Article 2: Aids, Credits, and Refunds

#### Overview

Creates a new school building bond agricultural credit equal to 50 percent of the school debt levy on all agricultural property.

Provides for the percentage of rent constituting property tax used in calculating renter property tax refunds to be set by geographic region.

Fixes an error in the LGA formula that caused a few cities to lose aid even though their unmet need was greater than their aid in the previous year.

Provides for the following additional aids:

- Additional aid beginning in 2018 to small cities with a population density of less than 30 persons per square mile and to the new city of Rice Lake.
- LGA penalty forgiveness and payment to a number of cities.
- A two year supplemental payment for PILT lands currently receiving payments of \$1.50 per acre.

Provides for a one-time increase in the homestead credit refund of \$58 million and the renter property tax refund of \$42 million, for refunds based on taxes payable in 2018 and rent paid in 2017 only.

Repeals the library debt aid to Minneapolis.

Provides for property tax abatements for businesses surrounding Lake Mille Lacs.

- 1** **Payments to school funds.** Provides that state payments to school districts for nonoperating funds must be paid over the first six months of each fiscal year. Under current law, the payments are spread evenly over the entire fiscal year. This is needed so that school districts receive their state credit payments under section 3 in a time frame that more closely approximates when the property tax payments would have been received.

Effective beginning with fiscal year 2019.

- 2** **Aid payment percentage.** Excludes payments for nonoperating funds from the “metering” payment schedule for other state aid payments to school districts.

Effective beginning with fiscal year 2019.

- 3** **School building bond agricultural credit.** Provides for a property tax credit on all property classified as agricultural, excluding the house, garage, and surrounding one acre of land of an agricultural homestead, equal to 50 percent of the tax on the property attributable to school district bonded debt levies. Provides an open and standing appropriation to pay for the credit.

Effective beginning with taxes payable in 2018.

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- 4 Payment; school districts.** Provides for state payment of school bond agricultural credit reimbursements to school districts according to the schedule under section 3.
- 5 Computation of net property taxes.** Includes the new school bond agricultural credit in the list of credits that reduce taxes.
- 6 Notice of proposed property taxes.** Provides for the new school bond agricultural credit to be shown on the Truth-in-Taxation statement.
- 7 School district levies; special requirements.** Defines which school district levies are considered to be debt service levies.
- 8 Computation of tax rates.** Requires the county auditor to compute a school debt tax rate for each school district so that the school bond agricultural credit can be computed.
- 9 Contents of tax statements.** Provides for the school bond agricultural credit to be shown on the tax statement.
- 10 Renter property tax refund; rent constituting property taxes.** Provides for the percent of rent constituting property taxes used in calculating the property tax refund for renters to equal:
- ▶ 16.5 percent for the city of Minneapolis;
  - ▶ 14 percent for the city of St. Paul;
  - ▶ 15 percent for Anoka and Dakota counties, and the portions of Hennepin and Ramsey counties other than Minneapolis and St. Paul; and
  - ▶ 14 percent for the rest of the state.

**Effective date:** Effective for refunds based on rent paid in 2017.

**Background.** Under current law, the percent of rent constituting property taxes is set at 17 percent statewide.

- 11 Renter property tax refund; manufactured homes.** Provides that the percent of rent constituting property taxes for rent paid on the site on which a manufactured home or park trailer is located equals the percentages provided in section 10 based on where the manufactured home or park trailer is located.

**Effective date:** Effective for refunds based on rent paid in 2017.

**Background.** Owner-occupants of manufactured homes are eligible for the homestead credit refund (property tax refund for homeowners or “circuit breaker”) based on the personal property taxes paid on their home plus the rent constituting property taxes paid for the site on which the home is located. Under current law, rent constituting property taxes equals 17 percent of rent paid.

- 12 Border city allocation.** Provides an additional \$3 million allocation for border city aid. This amount is allocated among the five qualifying cities (Breckenridge, Dilworth, East Grand Forks, Moorhead, and Ortonville) on a per capita basis. The city could choose whether to use the allocation for tax reductions under the regular border city enterprise zone program or the border city development zone program. Allocations are used to provide tax



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reductions to businesses in the cities (either new and expanding businesses or existing businesses). The allocations remain available until used.

- 13**     **City revenue need.** Adds the same sparsity adjustment factor to both the medium city revenue need formula and the small city revenue need formula. Medium cities are those with a population between 2,500 and 10,000 while “small cities” have a population of 2,500 or less.

Effective beginning with aids payable in 2018.

- 14**     **Sparsity adjustment.** Adds a new sparsity adjust for medium and small cities equal to \$200 per capita for cities with a population density of less than 30 per square mile. There is a current sparsity adjustment of \$100 per capita for any large city with a population density of less than 150 per square mile.

Effective beginning with aids payable in 2018.

- 15**     **City formula aid.** Uses certified aid from the previous year as the starting point for calculating a city’s formula aid. A city’s formula aid (aid increase) is equal to a percentage of the difference between a city’s unmet need and its certified aid for the previous year.

Effective beginning with aids payable in 2018.

- 16**     **City aid distribution.** Provides that if a city’s aid from the previous year is less than its unmet need for the current year, its new aid amount will be its certified aid from the previous year plus its formula aid calculated under section 15.

If a city’s aid in the previous year is equal to or greater than its current unmet need, its new aid amount is the greater of:

- ▶ its current unmet need; or
- ▶ its aid from the previous year minus the lesser of: (1) \$10 per capita; or (2) 5 percent of its net levy in the previous year.

These are the decreases allowed under current law.

Effective beginning with aids payable in 2018.

- 17**     **Aid reductions for payments to a world fair or expo.** Requires a city, county, or town to report any payments to an organization, such as Expo 2023, promoting a world’s fair in Minnesota to the commissioner of revenue. Revenue must reduce the county program aid (CPA) or city or town local government aid (LGA) payment for the county, town, or city by the amount of any payment in the previous year. No local government’s aid may be reduced to less than zero.

Effective beginning with aids payable in 2018.

- 18**     **Aid Reduction for operating an unauthorized diversion program.** Requires that if a county or city is found by the courts to have operated a diversion program not authorized by law, the county’s CPA or city’s LGA is reduced by the amount of fees that the county or city collected under the program while it was in operation. Allows a taxpayer to challenge the legality of a diversion program in court.

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Effective beginning with the second half payment of calendar year 2017 aids.

- 19 One-time adjustments for certain cities; aids payable in 2017.** Increases the Pay 2017 LGA for the 20 cities affected by the formula error back to their 2016 LGA amounts and uses that adjusted payment in calculating their aid for aids payable in 2018.  
Effective for aids payable in 2017 and 2018.
- 20 Base year formula for newly incorporated city.** Provides a starting city LGA base amount for Pay 2018 LGA equal to the lesser of: (1) 25 percent of its certified levy for taxes payable in 2016; or (2) 50 percent of the city's unmet need for a town that incorporated into a city on October 13, 2015. The new city is Rice Lake in St. Louis County. The amount used as a starting point for the city's Pay 2018 aid will increase from \$5,639 to \$310,539.  
Effective for aids payable in 2018.
- 21 2013 city aid penalty forgiveness.** Provides an extra \$37,473.50 in LGA to the city of Oslo with the July 2017 LGA payment to compensate the city for the loss of one-half of its calendar year 2013 LGA payment, due to the city not filing its 2012 financial reports in a timely fashion. The city filed its 2012 financial reports by December 31, 2013. \$37,473.50 is appropriated from the general fund to make this payment.  
Effective the day after final enactment.
- 22 2014 city aid penalty forgiveness.** Forgives penalties to the cities of Dundee, Jeffers, and Woodstock who lost all or part of their calendar year 2014 LGA payment as a penalty for not filing calendar year 2013 financial reports with the legislative auditor in a timely fashion. The penalty is only forgiven if the city has filed both its calendar year 2013 and 2014 financial statements with the auditor by June 1, 2015. The restored aid will be paid with the July 2017 LGA payment and the \$101,570 needed to make the payments is appropriated from the general fund.  
Effective the day after final enactment.
- 23 Lake Mille Lacs area property tax abatement.** Provides for the abatement of local property taxes and the state general tax for businesses surrounding Lake Mille Lacs in certain municipalities in Aitkin, Crow Wing, and Mille Lacs Counties. To qualify for relief, businesses must document a 5 percent reduction in gross receipts in any successive two-year period beginning in 2010. Mille Lacs County would administer the program for the three included counties.  
Effective the day after final enactment.
- 24 Supplemental payments for other natural resources land.** Provides a supplemental payment of 50 cents per acre for all other natural resources land for which counties are currently receiving \$1.50 per acre in payments in lieu of taxes (PILT). The supplements are paid in calendar years 2017 and 2018 (fiscal years 2018 and 2019) only and will be distributed to other local governments as part of the PILT distribution formula.  
Effective for aids payable in 2017 and 2018 only.
- 25 2017 homestead credit refund.** Directs the commissioner of revenue to increase homestead credit refunds based on taxes payable in 2018 by proportionately decreasing the copayment

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percentages in the schedule so that total projected refunds increase by \$58 million. Makes a general fund appropriation to pay for the increased refunds. Effective for 2017 refunds based on taxes payable in 2018 only.

- 26**     **2017 renter property tax refund.** Directs the commissioner of revenue to increase renter property tax refunds based on rent paid in 2017 by first proportionately decreasing the income thresholds in the schedule so that total projected refunds increase by \$21 million, and then by proportionately decreasing the copayment percentages so that the combined increase in total projected refunds is \$42 million. Makes a general fund appropriation to pay for the increased refunds. Effective for 2017 refunds based on rent paid in 2017 only.
- 27**     **Repealer.** Repeals the library debt service aid to the city of Minneapolis effective starting in calendar year 2018.

**Article 3: In Perpetuity Payments of Land Purchases**

**Overview**

Beginning with land purchased on or after July 1, 2017, with funds appropriated on or after that date from the environment and natural resources trust fund and the outdoor heritage fund, the bill requires onetime payments to be made to counties equal to 30 times the property taxes assessed by “local governments providing land related services.” These funds are invested by the commissioner of revenue acting as an agent on behalf of the counties in an account with the State Board of Investment (SBI).

This account is used to compensate local governments that provide land related services (counties, cities, towns, watersheds, and sanitary districts) for lost property taxes in perpetuity. School districts and other special taxing districts will not receive payments under this bill. The local governments must use the payments to provide land related services as defined in section 17.

The onetime trust fund payment is prorated to a portion of each parcel equal to the portion of the land acquisition costs paid from the fund. The portion of the land purchased that receives the onetime payment would not be eligible for general fund payments in lieu of taxes (PILT). The remaining portion of the purchased land remains eligible for regular PILT payments. If any land receiving a onetime payment under this program is sold, the amount of the onetime payment deposited in the county trust fund is returned to the outdoor heritage fund or environment and natural resources trust fund.

Allows the legislature to delay until fiscal year 2019 the onetime payments on land purchased with funds appropriated in fiscal year 2018.

**1**     **Account for county joint trust fund payments.**

**Subd. 1. Establishment.** Establishes a special account in the combined investment funds with the SBI for management of the onetime payments required under this bill

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on lands purchased with funds from the environment and natural resources trust fund and the outdoor heritage fund.

**Subd. 2. Account maintenance and investment.** Directs the commissioner of revenue to act on behalf of counties in making deposits to and withdrawals from this account. The commissioner will make one deposit annually for payments to all counties under sections 3 and 11 and one withdrawal annually to cover distributions under section 17.

Effective July 1, 2018.

- 2** **Definitions.** Defines the following terms for purposes of section 97A.056, which governs the outdoor heritage fund and the Lessard-Sams Outdoor Heritage Council:
- “land acquisition costs” include various costs, including the new onetime payments required under section 3 of the bill;
  - “local governments providing land related services” means counties, towns, cities, and watershed districts, sanitary districts, and regional sanitary sewer districts;
  - “land related property taxes” means the property taxes imposed by the local governments listed above; it excludes property taxes imposed by school districts and other special taxing districts; and
  - “total price for the land” means the price including acquisition costs but excluding any in-kind services provided by nongovernmental entities.
- 3** **Outdoor heritage trust fund account; trust fund payments.** Paragraph (a) establishes an outdoor heritage trust fund account to be invested by the SBI.
- Paragraph (b) states that land acquired with money from the outdoor heritage fund is eligible for a onetime payment. If money from the fund only makes up a percentage of the total land payment, then only the same percentage of the land acreage is eligible for the onetime payment. If the percentage of the purchase price coming from the outdoor heritage fund is less than 10 percent, then the purchase is ineligible for a onetime payment under this section; if the payment is 90 percent or more, the entire parcel is eligible for the payment. The onetime payment is equal to 30 times the “land related property taxes” assessed in the year prior to the year the land was acquired. Provides an alternative valuation method if the land was previously privately owned and tax-exempt. Requires counties to submit information necessary for determining the payments to the commissioner of revenue by September 1 of each year. Requires the commissioner of revenue to inform the counties of their payment under this section by October 15 of each year.
- Paragraph (c) appropriates the amount necessary to make the payments to the counties from the new outdoor heritage trust fund account to the commissioner of revenue.
- Paragraph (d) requires a county board, in order to receive a payment under this section, to enter into an agreement with the SBI to allow the commissioner to act as their agent regarding depositing and withdrawing money on behalf of the county from the trust fund account established in section 1.

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Paragraph (e) states that lands (or a portion of a purchase) receiving a trust fund payment under this section are not eligible for general fund PILT payments.

Paragraph (f) provides that if land for which a payment is made under this section is later sold, an amount equal to the original onetime payment associated with that land is withdrawn from the county joint trust fund account and returned to the outdoor heritage fund.

Effective July 1, 2017, and applies to all land acquired with money appropriated on or after that date.

**4 Council recommendation.** Requires the Lessard-Sams Outdoor Heritage Council annual recommendations to include an appropriation to make the onetime payments to counties for land purchases made with fund money.

**5 State acquisition of land; restrictions.** Prohibits the state from using money from the outdoor heritage fund to acquire land if the provision for the onetime county trust fund payment is found unconstitutional, or if sufficient money is not appropriated from the fund to make the onetime payment.

Effective July 1, 2017, and applies to all land acquired with money appropriated on or after that date.

**6 Applicability.** States that the definition of “trust fund” applicable to chapter 116P, which deals with the environment and natural resources trust fund, does not apply to the onetime payment provision established in this bill.

**7 Land acquisition costs.** Defines “land acquisition costs” for purposes of chapter 116P to include various costs, including the new onetime payments required under the next section of the bill.

**8 Land related property taxes.** Defines “land related property taxes” for purposes of chapter 116P as the property taxes imposed by the local governments listed in section 9; it excludes property taxes imposed by school districts and other special taxing districts.

**9 Local governments providing land related services.** Defines “local governments providing land related services” for purposes of chapter 116P as counties, towns, cities, and watershed districts, sanitary districts, and regional sanitary sewer districts.

**10 Total payment for the land.** Defines “total payment for the land” as excluding in-kind services provided at no cost to the state.

**11 Environment and natural resources trust fund payment account.**

**Subd. 1. Account created.** Establishes an environment and natural resources trust fund payment account to be invested by the SBI.

**Subd. 2. Trust fund payment; appropriation.** Paragraph (a) states that land acquired with money from the environment and natural resources trust fund is eligible for a onetime payment. If money from the fund only makes up a percentage of the total land payment, then only the same percentage of the land acreage is eligible for the onetime payment. If the percentage of the purchase price coming from the environment and natural resources trust fund is less than 10 percent, then the purchase

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is ineligible for a onetime payment under this section; if the payment is 90 percent or more, the entire parcel is eligible for the payment. The onetime payment is equal to 30 times the “land related property taxes” assessed in the year prior to the year the land was acquired. Provides an alternative valuation method if the land was previously privately owned and tax-exempt. Requires counties to submit information necessary for determining the payments to the commissioner of revenue by September 1 of each year. Requires the commissioner of revenue to inform the counties of their payment under this section by October 15 of each year.

Paragraph (b) appropriates the amount necessary to make the payments to the counties from the new environment and natural resources trust fund payment account to the commissioner of revenue.

Paragraph (c) provides that if land for which a payment is made under this section is later sold, an amount equal to the original onetime payment associated with that land is withdrawn from the county joint trust fund account and returned to the environment and natural resources trust fund.

**Subd. 3. County requirements.** Requires a county board, in order to receive a payment under this section, to enter into an agreement with the SBI to allow the commissioner to act as their agent regarding depositing and withdrawing money on behalf of the county from the trust fund account established in section 1.

**Subd. 4. Ineligible for other payments.** States that lands receiving a trust fund payment under this section are not eligible for PILT payments.

**Subd. 5. State acquisition of land; restrictions.** Prohibits the state from using money from the environment and natural resources trust fund to acquire land if the provision for the onetime county trust fund payment is found unconstitutional, or if sufficient money is not appropriated from the fund to make the onetime payment.

Effective July 1, 2017, and applies to all land acquired with money appropriated on or after that date.

- 12 Expenditures.** Explicitly allows the environment and natural resources trust fund expenditures to include onetime payments for lands acquired with trust fund money.
- 13 Legislative recommendations.** Requires the annual or biennial spending recommendations made by the Legislative-Citizen Commission on Minnesota Resources to include an appropriation to make the onetime payments to counties for land purchased using trust fund money.
- 14 Natural resources land payments in lieu; purpose.** Excludes lands purchased with money from the outdoor heritage fund and environment and natural resources trust fund on or after July 1, 2017, from the purpose statement for the existing PILT program.
- 15 Environment and natural resources trust fund lands.** Excludes lands (or portions of land) purchased with money appropriated from the environment and natural resources trust fund after July 1, 2017, from the definitions of natural resources land used for purposes of PILT payments.

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**16 Outdoor heritage lands.** Excludes lands (or portions of land) purchased with money appropriated from the outdoor heritage fund after July 1, 2017, from the definitions of natural resources land used for purposes of PILT payments.

**17 Annual county joint trust fund withdrawals and distribution for environment and natural resources and outdoor heritage lands.**

**Subd. 1. Commissioner of revenue; withdrawals and payments.** Provides that the commissioner will make one withdrawal each year from the county joint trust fund established under section 1, on behalf of all eligible counties. The amount withdrawn is set to the lesser of: (1) the total withdrawal amount the counties certified under subdivision 2; or (2) 5.5 percent of the amount in the fund. Requires that distributions to counties be proportionately decreased if the total withdrawal is less than the total withdrawal amounts certified under subdivision 2.

**Subd. 2. Certification of needed withdrawal, distribution of funds.** The withdrawal amount for each eligible parcel is as follows:

- In the first year of receiving a state payment, the county will withdraw the amount needed to make all local governments providing land related services whole in terms of tax collections—either by paying their share of the remaining taxes owed on the property for that year, or, if the property was already off the tax rolls, paying their share of the amount of tax paid in the previous year.
- In subsequent years the county will withdraw an amount equal to the tax imposed on comparable, adjacent, privately owned land by the local governments providing land related services.

The money is distributed to each taxing jurisdiction based on its share of the total tax rate due to taxes imposed by local governments providing land related services in the area for all eligible parcels in that jurisdiction. If funds are insufficient to make all payments, all payments are reduced proportionately.

The local governments are required to use the amounts paid under this section to fund land related services such as costs of: (1) roads, bridges, and trails; (2) public safety and emergency response services; (3) environmental, recreational, and resource development and management; and (4) other similar costs.

Effective January 1, 2018, and applies to all land acquired with money appropriated on or after July 1, 2017.

**18 Delayed requirement for trust fund payments for appropriations in fiscal year 2018.** Provides that for appropriations for land purchases for fiscal year 2018, the state does not need to make the required appropriations to the trust fund payments accounts in section 3 and section 11, subdivision 5, until August 1, 2018 (fiscal year 2019). The prohibition against land purchases with revenues from the outdoor heritage fund and environment and natural resources fund will only go into effective if the required appropriations have not been made by that date.

Effective the day after final enactment.

**Section**

**Article 4: Tax Increment Financing**

This article authorizes the use of economic development tax increment financing (TIF) districts for workforce housing projects outside of the Twin Cities metropolitan area. In addition, it makes a series of minor changes that increase city powers and flexibility in handling TIF that were requested by the League of Minnesota Cities.

Special law exceptions to various general TIF requirements are provided for the following cities:

- Burnsville
- Seaway Port Authority (located in Duluth)
- Edina
- Maple Grove
- Anoka
- Coon Rapids
- Cottage Grove
- Richfield
- Rochester
- South St. Paul
- St. Louis Park
- St. Paul
- Newport (Washington County Community Development Agency)
- Wayzata

- 1 Economic development districts.** Modifies the definition of economic development TIF districts to authorize the alternative findings for workforce housing projects authorized by section 2.

**Effective date:** Districts for which the request for certification is made after June 30, 2017.

- 2 TIF plan approval; workforce housing projects.** Specifies the findings that a city must make to approve an economic development TIF district for workforce housing:

- the city is located outside the seven-county, Twin Cities metropolitan area (defined by reference to the Metropolitan Council's jurisdictional area);
- the average vacancy rate for rental housing in the city or any other city within 15 miles is 3 percent or less for at least the last two years;
- a business in the city or within 15 miles of the city that employs 20 or more full-time equivalent employees has provided a written statement that the lack of available rental housing has made it difficult to hire employees; and
- the city intends to use increments to develop workforce housing.

**Effective date:** Districts for which the request for certification is made after June 30, 2017.



**Section**

**3 Economic development district.** Allows increments from an economic development district to be spent for workforce housing projects.

Under present law, economic development districts increment may only be used for:

- manufacturing;
- research and development;
- warehousing;
- telemarketing; or
- tourism projects in qualifying counties.

**Effective date:** Districts for which the request for certification is made after June 30, 2017.

**4 Housing districts; income limits.** Allows the higher income limits under the Minnesota Housing Finance Agency (MHFA) challenge program to be used for housing TIF districts, if the project receives an MHFA grant from the program.

**Background information.** Housing TIF districts are allowed to collect 26 years of increment (as contrasted with nine years for economic development districts).

The income limits under present TIF law for rental housing require projects to meet the limits under federal law for tax credit and tax exempt bond financed projects. These limits require projects to meet either a 20-50 or 40-60 test. The 20-50 test requires that 20 percent of the units be occupied by tenants whose incomes (when they begin occupying the unit) are less than 50 percent of the greater of the area or the state median income. The 40-60 test substitutes 40 percent and 60 percent benchmarks in the same test. For 41 rural counties in 2016, the 50 percent income limit is \$31,900 for a family of four and the 60 percent limit is \$38,280. These limits are set based on the state median income, since it is higher than the county amount in those counties. By contrast, the MHFA challenge program uses an 80 percent benchmark and that program does not require adjusting the income limits for family size, providing additional flexibility for smaller units.

**Effective date:** Districts for which the request for certification is made after June 30, 2017.

**5 Definition of increment under five-year and pooling rules.** Modifies the definition of increment under the five-year rule (imposing time limits on spending increments) and the pooling rule (imposing percentage limits on increments that may be spent outside of the TIF district) to exclude increments that are repaid by developers.

**Effective date:** Districts for which the request for certification was made after the day following final enactment.

**6 Pooling limits; application to increments.** Modifies reference to increments in percentage pooling rule to be consistent with the change made in section 5.

**Effective date:** Districts for which the request for certification was made after the day following final enactment.

**7 Five-year rule; application to increments.** Modifies five-year rule reference to increments to be consistent with the change made in section 5.

## Section

**Effective date:** Districts for which the request for certification was made after the day following final enactment.

- 8 Interfund loans.** Modifies the interfund loan provisions to make it easier for cities and development authorities to make and document interfund loans. The changes include:
- Allowing loans to be made up to 60 days after the money has already been transferred or spent. (Under present law, the loan terms must be set before the loan is made.)
  - Authorizes passage of the interfund loan resolution before the TIF plan is approved. Present law is unclear as to whether the resolution can authorize interfund loans for future TIF districts.
  - Authorizes rewriting loan terms after the loan has been made if it is done before the TIF district is decertified.
  - Requires an annual report of the amount of interfund loans made and any amendments of loan terms made in prior years.
- Effective date:** Day following final enactment for all TIF districts.
- 9 Burnsville; TIF.** Modifies a 2008 special law that grants the city of Burnsville special TIF authority to develop the Northwest Quadrant, an area of the city that contains a quarry and closed landfill, bordering on the Minnesota River.
- It allows five more years (from December 31, 2018, to December 31, 2023) to create TIF districts in the area and changes the special rules to provide more exceptions to general law:
- **Economic development district authority.** The city can create economic development districts in the area. Under the 2008 special law, only redevelopment, renewal and renovation, and soils districts could be created.
  - **Waiving increments.** The city may elect the first year it will receive increment from a district (i.e., the year in which the duration limit begins to run) for up to eight years. General law prohibits extending the start of duration limits by waiving increment. In addition, the city is allowed to waive the 2016 increment, which it has already been received, and that increment does not count toward calculation of the duration limit.
  - **Knock-down rule.** The four-year knockdown rule is extended to nine years. That rule drops a parcel from a TIF district if no development or improvements are made within four years after certification of the district.
- 10 Seaway Port Authority; TIF.** Modifies a 2009 special TIF law for the Seaway Port Authority of Duluth by adding four parcels to the area in which the district may be created and authorizing the use of interfund loans prior to approval of the TIF plan for any purpose that tax increments may be spent for. This authority applies to a resolution of the port authority adopted on or after March 25, 2010, and preempts application of the rules adopted by section 8.

**Section**

- 11 Edina; TIF.** Modifies a 2014 special law for the city of Edina, granting the city an additional three years to approve districts.

The 2014 special legislation allowed the city to create housing districts in its Southeast Edina Redevelopment Project Area through June 30, 2017, with a 20-year duration (as compared with 25 years under general law) and only 20 percent of the units were required to be low-income housing, as opposed to 40 percent under general law. The city is authorized to use up to 35 percent of the revenues from its Southdale 2 economic development district to assist these housing developments.

**Effective date:** Day following final enactment without local approval.

- 12 Maple Grove; TIF.** Modifies a 2014 special law for the city of Maple Grove. The special law allowed the city to establish TIF districts subject to various special rules to develop the site. The law defined an area of the city as the project area (i.e., the area in which the city could both expend tax increments and establish the TIF districts). Before proceeding under the law, the city was required to find that specific conditions existed in the defined area—specifically that certain percentage tests were met. This section amends the special law to allow the city to designate only part of the defined area. This will give the city more flexibility in determining whether the percentage tests are met, but will also limit where moneys may be spent and TIF districts created. The city is allowed to include area outside of the defined area, if part of the parcel is in the defined area.

The section allows the city to use money from soils deficiency districts for land acquisition and infrastructure outside of the TIF district that generated the increment, if it is for a development that does not include retail or housing developments. Under the special law, these increments may only be used to pay for soils corrections or the additional costs of infrastructure that result from the soils deficiencies.

- 13 City of Anoka; TIF.** Extends the five-year rule to eight years for the Greens of Anoka redevelopment TIF district in Anoka. It does this by deeming the district to be certified on June 29, 2012, rather than its actual certification date three days later on July 2, 2012.

**Background information.** The five-year rule requires TIF development authorities to complete funding of in-district development activities within a five-year period starting with certification of the district. After the period has run, the in-district share of the increments (75 percent of increments for a redevelopment district) may only be used to pay off outstanding bonds and contracts, incurred during the five-year period. During the Great Recession, the legislature extended the five-year period because of the greater difficulty of complete developments. This was done in two laws that applied to districts certified during the period of time shown in the table.

<b>Year Enacted</b>	<b>District certified during period covered</b>	<b>5-year Rule extended to</b>
2009	June 30, 2003 to April 20, 2009	10 years
2014	April 20, 2009 to June 30, 2012	8 years

**Section**

The section allows the Greens of Anoka district to qualify under the second set of these extensions, even though its certification occurred three days outside of the required window.

- 14 Coon Rapids; TIF.** Allows the city of Coon Rapids to extend the duration of its TIF District 6-1 (Port Riverwalk) through 2038. This is a five year extension.  
**Effective date:** Local approval by the city, county, and school district.
- 15 Cottage Grove; TIF.** Extends the five-year rule for TIF District No. 1-12 (Gateway North) in the city of Cottage Grove to allow expenditures until January 1, 2017. This district was certified in 2002, so that the extension is a ten-year extension of the five-year period.
- 16 Edina; special law approval.** Gives the city of Edina until December 31, 2017, to file its certificate of local approval of a 2014 special TIF law for the city. The city needed to file the certificate with the secretary of state before January 6, 2015, for the law to take effect. Although the city council approved the special law, the required filing was not done.  
In addition, the section validates any actions that the city has taken under the special law prior to the effective date of the section. See the summary of section 11 for a description of the provisions of the special law.  
**Effective date:** Day following final enactment without local approval.
- 17 Richfield; TIF.** Authorizes the city of Richfield and its Housing and Redevelopment Authority (HRA) to extend the duration of the Cedar Avenue TIF district by ten years. This district was established under a 2005 special law as a redevelopment district and has a duration limit of 25 years after receipt of the first increment. As a result, the bill would authorize a 35-year duration.  
The 2005 special law exempted the district from the five-year rule and the requirement that 95 percent of redevelopment district increments must be used to correct the conditions that allowed designation of a redevelopment district (e.g., substandard buildings).  
**Effective date:** Local approval by the city, Hennepin County, and School District No. 280.
- 18 Richfield; TIF.** Extends the five-year rule for the Lyndale Gardens TIF district in the city of Richfield by three years.  
**Effective date:** Local approval by the city.
- 19 Rochester; TIF.** Authorizes the city of Rochester to use increments from its TIF district number 36, BioScience Project that are derived from the sale or lease of property, acquired with tax increments, to operate, maintain, and improve the properties, including funding reserves. Under general law, these increments must be used in the same manner as other increments (except for purposes of the five-year rule and percentage pooling restrictions). It is unclear to what extent they may be used for property maintenance and operations. Three years after decertification of the district, the moneys will no longer be treated as increments.  
**Effective date:** Day following final enactment without local approval.
- 20 South St. Paul; TIF.** Authorizes the Economic Development Authority (EDA) of city of South St. Paul to retroactively approve an interfund loan agreement for the 4th Avenue Village Tax Increment Financing District for purposes of Minnesota Statutes, section

**Section**

469.178, subdivision 7. To do so, the EDA must act by August 1, 2017. The provision is effective the day following final enactment without local approval.

**Background information.** Cities and development authorities (EDAs and similar) often pay for infrastructure costs with money in their general or development funds. The funds can be reimbursed for these costs with tax increments if the expenditures qualify as an “interfund loan” for the TIF district—that is, the city’s general fund is lending money to the TIF project in the expectation of being repaid. (Paying with tax increments shifts some of the cost to the county and school district, because tax increments are generated by their taxes as well as city taxes.) General law requires interfund loan agreements to be approved before the expenditures are made to qualify the spending as items that can be paid with tax increments. That limit is intended to prevent cities from treating expenditures made from their general or development funds as TIF qualified costs after the fact when the TIF district unexpectedly has sufficient increments to reimburse the fund for those costs. This bill would exempt this TIF district from that general law rule.

- 21 **St. Louis Park; TIF.** Extends the five-year rule for the Elmwood Village TIF district in the City of St. Louis Park through December 31, 2019, and increases the permitted pooling percentage for the district from 25 percent to 45 percent. This district was granted a seven-year extension under a 2009 special law.
- 22 **St. Paul; TIF.** Allows the City of St. Paul to waive increments for up to four years (but not beyond taxes payable in 2023) for the TIF district that it created for the Ford Motor Company plant site. This will allow the city flexibility to increase the increment collected for the district by delaying the start of the 25-year duration limit until development of the site has begun. In addition, if the city elects to waive increments under this authority, the district’s certification date will be deemed to be January 2 of the assessment for the first year increment is received under the waiver for purposes of calculating the five-year and four-year (knock-down) rules.
- 23 **Washington County; TIF in Newport.** Authorizes the Washington County Community Development Agency (CDA) to establish TIF districts under special law rules in a defined area of the city of Newport. This authority ends on December 31, 2027.

These special law rules provide that:

- The listed parcels are deemed to meet the statutory “blight” test to establish a redevelopment district (i.e., they are treated as containing substandard buildings). This will give the CDA flexibility to establish redevelopment or renewal districts in the defined area of the city, because these parcel will count toward the percentage tests.
- Increments spent outside the area of the district from which they were collected must be spent on blight correction in the specified geographic area.
- The pooling percentage is increased to 80 percent (compared with 25 percent under general law) but spending of these pooled increments is limited the defined area.
- The five-year rule is extended to nine years and the six-year rule does not apply to the districts.

## Section

**Effective date:** Local approval by both Newport and Washington County; also applies to an existing district created in 2016.

- 24** **Wayzata TIF.** Exempts TIF #3 (Widsten) in the city of Wayzata from the five-year rule to allow the city to use increment from district for a municipal parking ramp. This district is a redevelopment district was certified in 1996, so the five-year ended in 2001.

## Article 5: Local Option Sales and Use Taxes

### Overview

Prohibits local governments from adopting ordinances related to merchant bags.

Modifies existing local sales taxes for:

- ▶ Duluth
- ▶ Mankato and North Mankato
- ▶ Hermantown
- ▶ New Ulm
- ▶ Albert Lea
- ▶ Proctor

Authorizes new local sales taxes for Clay County, the Garrison, Kathio, and West Lake Mille Lacs Sanitary District, and the cities of:

- ▶ East Grand Forks
- ▶ Fairmont
- ▶ Fergus Falls
- ▶ Moose Lake
- ▶ New London
- ▶ Spicer
- ▶ Walker
- ▶ Windom

Authorizes a new local lodging taxes for the city of Sleepy Eye.

## Section

- 1** **Merchant bags.** Prohibits a local government from imposing a fee or tax on merchant-provided bags.  
Effective May 31, 2017. Invalidates ordinances enacted before the effective date.
- 2** **Duluth food and beverage tax.** Changes the boundary line defining the area in which Duluth may spend revenues from its extra half percent food and beverage tax from 34th Avenue West to 14th Avenue West, including Skyline Parkway and the area south.
- 3** **Duluth hotel and motel tax.** Changes the boundary line defining the area in which Duluth may spend revenues from its extra one-half percent lodging tax from 34<sup>th</sup> Avenue West to 14<sup>th</sup> Avenue West, including Skyline Parkway and the area south.

**Section**

- 4 Mankato; use of revenues.** Allows the city to extend its sales tax for different projects, as approved by the voters at the 2016 general election.
- Allows the city to raise another \$47 million plus associated bond costs to fund:
- construction and improvements to regional recreational facilities including indoor athletic facilities;
  - improvements to the flood control and levee system;
  - water quality improvement projects in Blue Earth and Nicollet Counties;
  - expansion of a transit building and related transit improvements;
  - regional public safety and emergency communications equipment, and
  - matching funds for regional facilities such as a historic museum, supportive housing, and a senior center.
- Effective upon the city filing approval with the secretary of state.
- 5 Expiration of taxing authority and expenditure limitation.** The current expiration for the Mankato local sales tax of December 31, 2022, is extended to the earlier of December 31, 2038, or when revenues are sufficient to fund the new projects.
- 6 Bonds.** Allows Mankato to issue an additional \$47 million in bonds based on the voter approval at the 2016 general election.
- 7 Hermantown.** Allows the city of Hermantown to use its existing local sales tax revenue to make debt service payments on the Hermantown Wellness center. Voters approved this use at the 2016 general election. Effective upon the city filing notice with the secretary of state.
- 8 Hermantown.** Extends the city of Hermantown local sales tax through the earlier of December 31, 2036, or when the city council determines that enough funds have been raised to pay the bonds issued for authorized projects.
- 9 New Ulm; use of revenues.** As approved by the voters at the 2016 general election, allows the city to use revenues from its existing sales tax to fund costs, including associated bond costs for the following additional projects:
- constructing an indoor waterpark and improving the existing pool;
  - constructing an indoor playground, wellness center, and gymnastics facility;
  - constructing a multipurpose winter dome;
  - improving Johnson Park Grandstand; and
  - improving the entrance road and parking at Herman Heights Park.
- 10 New Ulm; bonding authority; additional use and extension of the tax.** The city is authorized to bond for up to an additional \$14.8 million for the new projects without an additional vote. The bonds are not included in calculating any debt or levy limits for the city.

**Section**

- 11 New Ulm; termination of taxes.** Extends the termination of the tax until revenues are sufficient to pay off both the existing and newly authorized bonds. The city may terminate the tax earlier if desired.
- 12 Proctor; sales and use tax.** Allows Proctor to increase the rate of its existing local sales tax from one-half percent to one percent, subject to voter approval at the next general election. The revenue from the increased tax would pay for the \$10 million in improvements to public utilities, sidewalks, bike paths and trails, and park and recreation facilities authorized in the 2008 and 2010 special laws. No additional spending is authorized.
- 13 Albert Lea.** Allows the Shell Rock River Watershed Board to use Albert Lea's existing local sales tax revenue for general water quality projects. Currently the revenues may only be used for lake improvement projects. Also requires the board to report to the Albert Lea City Council on a biannual basis on its expenditures. Currently there is no reporting requirement. Effective upon the city filing notice with the secretary of state.
- 14 Albert Lea; termination of taxes.** Extends the city of Albert Lea local sales tax for an additional 15 years, or when the city council determines that the tax has raised \$30 million to pay for authorized projects. The tax was previously authorized for 15 years or until \$15 million was raised.
- 15 City of North Mankato; taxes authorized.** Allows the city to extend its existing sales tax to raise up to an additional \$9 million as approved by the voters at the 2016 general election. In addition to the currently authorized projects the city may use the additional money to fund construction of indoor athletic facilities. The existing projects include an interchange, trails, a library, riverfront development, and lake improvement projects. The city may issue an additional \$9 million in bonds to fund the authorized projects without an additional vote.
- The tax is extended to the earlier of December 31, 2038, or when revenues are sufficient to fund the total \$15 million (additional \$9 million) of projects plus associated bond costs. Currently the tax expires when revenues are sufficient to fund the current \$6 million and associated bond costs.
- Effective upon the city filing approval with the secretary of state.
- 16 East Grand Forks; sales tax authorized.** Allows the city of East Grand Forks to impose a local sales tax of up to one percent to fund improvements to the city swimming pool. The voters approved this at a special election held March 7, 2016. The city would be authorized to issue bonds for up to \$2.82 million for the project without an additional vote. The tax would expire at the earlier of five years or when revenues are sufficient to pay off the bonds.
- 17 Fairmont; sales tax authorized.** Allows the city of Fairmont to impose a local sales tax of up to one-half of one percent to fund up to \$15 million capital and administrative costs for recreational amenities, trails, and a community center. The voters approved this at the 2016 general election. The city would be authorized to issue bonds for these projects without an additional vote. The tax would expire at the earlier of 25 years or when revenues are sufficient to cover the \$15 million plus any associated bond costs.
- 18 Fergus Falls; sales tax authorized.** Allows the city of Fergus Falls to impose a local sales tax of up to one-half of one percent to fund expansion and betterment of the Fergus Fall Public Library. The voters approved this at the 2016 general election. The city would be



## Section

authorized to bond for up to \$9.8 million for the project without an additional vote. The tax would expire at the earlier of 12 years or when revenues are sufficient to pay off the bonds.

- 19** **Moose Lake; sales tax authorized.** Allows the city of Moose Lake to impose a local sales tax of up to one-half of one percent to fund: (1) city park improvements; (2) street and related infrastructure improvements; and (3) improvements to its municipal arena. The voters approved this at the 2012 general election. The city would be authorized to bond for up to \$3 million for the projects without an additional vote. The tax would expire at the earlier of 20 years or when revenues are sufficient to pay off the bonds.
- 20** **New London; sales tax authorized.** Allows the city of New London to impose a local sales tax of up to one-half of one percent to fund: (1) construction and equipping of a new library and community room; (2) construction of an ambulance bay; and (3) improvements to its Senior Citizen Center. The voters approved this at the 2016 general election. The city would be authorized to issue bonds for up to \$872,000 for the projects without an additional vote. The tax would expire at the earlier of 20 years or when revenues are sufficient to pay off the bonds.
- 21** **Sleepy Eye; lodging tax authorized.** Allows the city of Sleepy Eye to impose a local lodging tax of up to two percent to fund in addition to the general local lodging tax of three percent allowed under general statute. Limits the combined lodging tax under this special law plus the general authority to five percent. Ninety-five percent of the revenues from this additional lodging tax must be used for tourism promotion - the same purposes listed in the general law.
- 22** **Spicer; sales tax authorized.** Allows the city of Spicer to impose a local sales tax of up to one-half of one percent to fund: (1) pedestrian public safety improvements on Trunk Highway 23; (2) park and trail capital improvements; and (3) capital improvements to regional community facilities. The voters approved this at the 2016 general election. The tax would expire at the earlier of ten years after first imposed or December 31, 2027.
- 23** **Walker; sales tax authorized.** Allows the city of Walker to impose a local sales tax of up to 1.5 percent to fund a number of projects outlined in its 2012 capital improvement plan. The voters approved this at the 2012 general election. The city would be authorized to bond for up to \$20 million for the projects without an additional vote. The tax would expire at the earlier of 20 years or when revenues are sufficient to pay off the bonds.
- 24** **City of Windom, local taxes authorized.** Allows the city to impose a local sales tax of one percent based on approval of the voters at the 2016 general election. Revenues from the tax must be used to pay for construction and improvement of a fire hall and public safety facility; including associated bond costs. The city may issue bonds for the projects without additional voter approval. The tax expires at the earlier of 15 years after imposition or when revenues equal \$3.5 million.
- 25** **Clay County; sales tax authorized.** Authorizes Clay County to issue local bonds secured by a local sales and use tax on one-half of one percent to finance new county correctional and law enforcement facilities. The voters approved the tax at the November 8, 2016, general election. The county is allowed to issue up to \$52 million in bonds for the project

**Section**

without another vote. The tax expires at the earlier of: (1) 20 years after the tax is first imposed; or (2) when funds are sufficient to repay the bonds.

- 26 Garrison, Kathio, West Mille Lacs Lake Sanitary District; sales tax authorized.** Allows the Garrison, Kathio, West Mille Lacs Lake Sanitary District to impose a local sales tax of up to one percent to raise up to \$10 million to repay bonds and pay for maintenance and improvements of the waste water system. The tax was approved by local voters at the 2016 general election. Allows the district to issue bonds up to \$10 million minus the amount of bonds that the sales tax revenue is already committed to pay. If imposed, the tax expires at the earlier of 20 years or when \$10 million has been raised.
- 27 Proctor; effective date; validation of prior act.** Retroactively approves the extension of the existing sales tax and new uses for the sales tax revenue authorized in the 2008 and 2010 special laws, based on the voter approval at the 2010 general election and the filing of local approval with the secretary of state by January 1, 2015.

**Article 6: Public Finance**

This article makes changes in the procedures and authority to issue local government debt obligations. The principal substantive changes:

- Allow use of capital notes or certificates of indebtedness with 20-year terms to finance replacing Freon (typically in indoor ice rinks). These instruments can be issued subject to a reverse referendum rather than automatically requiring voter approval. The maximum term under present law is ten years.
- Subject lease-revenue bonds to reverse referendum requirements.
- Allow Economic Development Authorities (EDAs) to publish hearing notices in weekly publications.

**Section**

- 1 Town certificates of indebtedness for Freon replacement.** Allows towns to issue 20-year certificates of indebtedness for projects to eliminate R-22 (Freon-based refrigerant).
- 2 Hennepin County capital notes for Freon replacement.** Allows Hennepin County to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant).
- 3 Home rule charter city capital notes for Freon replacement.** Allows home rule charter cities to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant).
- 4 Statutory city capital notes for Freon replacement.** Allows statutory cities to issue 20-year capital notes for projects to eliminate R-22 (Freon-based refrigerant).
- 5 Lease-backed bonds; reverse referendums.** Provides for a reverse referendum on whether a city (excluding first class cities), county, or urban town may enter into a lease of three or more years for real property with a housing and redevelopment authority (HRA), port authority, EDA, or other entity established by special law with powers similar to those authorities, if the authority issued bonds or other debt instruments to finance the property.

## Section

**Background.** Generally, when a local government acquires or improves real property financed by general obligation bonds of the local government, the debt must be approved by the voters. A local government may enter into lease agreements without a referendum. When the local government's lease payments are the source of money to pay off the HRA, port authority, or EDA debt, the bonds can be sold as revenue bonds, which are not subject to an election.

- 6** **Publication requirement; districts created by EDAs.** Allows an EDA to publish hearing notices for creating economic development districts in any general circulation newspaper, not just “daily” newspapers.
- 7** **Waiver of public sale requirement.** Modifies the conditions to qualify for an exemption from public sale (i.e., competitive bidding) of bonds so that the municipality is required to retain an independent “municipal” advisor, rather than a “financial” advisor. This change is consistent with the terminology used by the Securities and Exchange Commission. A municipal advisor is a person that provides a variety of types of financial advice to municipalities, including that provided by traditional fiscal consultant on how to structure bond issues (e.g., entities like Springsted and Ehlers).

## Article 7: Miscellaneous

### Overview

This article:

- Prohibits the use of public money for the passenger rail project between Rochester and the Twin Cities (often referred to as “Zip Rail”), as well as prohibiting using eminent domain, imposing certain security and environment insurance requirements on the project, and other large passenger rail projects (capital costs greater than \$1 billion).
- Subjects municipal use of franchise fees to raise revenue to reverse referendum approval.
- Limits land use fees to defray municipal costs of investigating permitted uses.
- Repeals the political contribution refund.
- Guarantees the amount in the taconite municipal aid account at 100 percent of the 1983 level and indexes the amount allocated to this account to inflation.

- 1** **No state spending for certain rail projects.** Prohibits using state money for the Zip Rail project. This limit applies to any purposes related to the project (e.g., planning, design, engineering, land acquisition, construction, and operation). It does not apply to voluntary private contributions.

**Effective date:** Day following final enactment.

## Section

- 2**      **Restrictions on leasing state property for Zip Rail.** Requires the commissioners of administration and transportation to include security bonds or similar guarantees against state loss in leases for the Zip Rail project (e.g., leasing the highway right-of-way).  
**Effective date:** Day following final enactment.
- 3**      **Eminent domain.** Prohibits use of eminent domain law by the state, a local government, or a private railroad for the Zip Rail project.  
**Effective date:** Day following final enactment.
- 4**      **Franchise fees; reverse referenda.** Provides for public notice, a hearing, and reverse referendum on whether the municipality may impose a franchise fee on a public utility to raises revenue (rather than defraying or offsetting the municipality's costs).  
  
An ordinance or agreement that imposes fees that raise revenue may be for up to five years. The ordinance or agreement with the utility must identify what constitutes a cost to the city. The notice must explain: (1) the fee and its intended uses; (2) that the public utility is likely to pass the fee on to customers and how much that may increase customers' utility bills; (3) that alternatives to the revenue-raising portion of the fee are to raise the revenue from another source available to the municipality or forego planned uses of the revenue; and (4) what revenue raised from another source will cost those paying it.  
**Effective date:** Licenses, permits, or franchise agreements entered starting August 1, 2017. For a fee imposed before then that remains in effect after August 1, 2022, the municipality must follow the notice, hearing, and reverse referendum procedures by August 1, 2022.
- 5**      **Environmental insurance required for passenger rail projects.** Requires a private entity seeking a federal or state permit to construct or operate a passenger rail project with a capital cost of \$1 billion or more to obtain environmental insurance. (The definitions exclude projects operated by a governmental unit, e.g., LRT or commuter rail projects operated by the Metropolitan Council.) The requirements would only apply to the developer of the project, not a contractor who applied for a building permit.  
  
The insurance must cover environmental remediation and impairment damages. The commissioner of the Pollution Control Agency must approve the adequacy of the insurance, including dollar limits on the coverage.  
**Effective date:** Projects for which application is made after the day following final enactment.
- 6**      **Political contribution refund.** Strikes a reference to the political contribution refund, which is repealed in section 4.
- 7**      **Tax, how payable, receipts.** Eliminates the requirement that the county calculate and distribute the proceeds for multi-county mortgages exceeding \$10,000,000, and shifts the burden for calculating and distributing each county's share to the commissioner of revenue.  
  
Effective for tax collected after June 30, 2017.
- 8**      **Political contribution refund; conforming changes.** Eliminates a reference to the political contribution refund, which is repealed in section 16.

**Section**

- 9 Political contribution refund; conforming changes.** Strikes a definition of the term “taxpayer” that is used in determination of the political contribution refund, which is repealed in section 16.
- 10 Guaranteed distribution.** Guarantees the amount in the taconite municipal aid account under the production tax on taconite at 100 percent of the amount allocated in 1983. Under current law, the percent guaranteed decreases with production.  
Effective beginning with 2018 distributions.
- 11 Cities; towns.** Indexes the amount of the production tax allocated to the taconite municipal aid account to inflation.  
Effective beginning with 2018 distributions.
- 12 No local spending for Zip Rail.** Prohibits any city, county, or special taxing district in Development Regions 10 or 11 and the DMC entities from spending public money (other than voluntary private contributions) on the Zip Rail project, parallel to the limits on state spending in section 1.  
Regions 10 and 11 include the following counties: Anoka, Carver, Dakota, Dodge, Fillmore, Freeborn, Goodhue, Hennepin, Houston, Mower, Olmsted, Rice, Scott, Steele, Wabasha, Washington, and Winona.  
**Effective date:** Day following final enactment.
- 13 Limit on land use fees.** Prohibits municipalities from imposing a fee to review or investigate a permitted use to see if it is in compliance with any official control (zoning). This does not apply if the investigation results in finding a violation and no penalty, fine, or charge is imposed.  
**Effective date:** For fees imposed after August 1, 2017.
- 14 No Metropolitan Council spending for Zip Rail.** Prohibits the Metropolitan Council from spending public money (other than voluntary private contributions) on the Zip Rail project, parallel to the limits on state spending in section 1.  
**Effective date:** Day following final enactment.
- 15 Clarification.** Clarifies that current funds in an account funded by a repealed 2007 distribution of the production tax on taconite may be spent as previously authorized and that the funds in the account do not lapse or cancel.  
Effective retroactively to May 22, 2016.
- 16 Repealer.** Repeals the following:
- Political contribution refund program, the section of the data practices law relating to political contribution refunds, the section providing for refund receipts, and an administrative rule related to issuance of refund receipts. Effective for contributions made and refund claims submitted after June 30, 2017.

## Section

**Background.** Laws 2015, chapter 77, suspended the PCR for contributions made after June 30, 2015, and refund claims filed after June 30, 2015. Under current law the program would resume on July 1, 2017.

- Local performance measurement reporting to the state auditor by counties and cities. Effective beginning with taxes payable in 2018.
- Debt service aid for the Lewis and Clark water project in southwestern Minnesota; this project has been funded with state bond proceeds. The aid provisions were never used and are obsolete. Effective the day following final enactment.