

**PROPERTY TAX
House Omnibus Tax Bill
Articles 3-7, 10**

May 9, 2025

**Property Taxes and Local Aids Only --
See Separate Analysis for State Taxes**

	Yes	No
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 2437 (Davids) 2nd Engrossment

	Fund Impact				
	<u>F.Y. 2025</u>	<u>F.Y. 2026</u>	<u>F.Y. 2027</u> (000's)	<u>F.Y. 2028</u>	<u>F.Y. 2029</u>
<u>Article 3: Property Taxes</u>					
Airport Property Exemption		\$0	(\$30)	(\$30)	(\$30)
Purely Public Charity Housing Exemption		\$0	(\$10)	(\$10)	(\$10)
Cooperative Distribution Systems Exemption		\$0	(\$40)	(\$40)	(\$40)
Leech Lake Band Exemption		\$0	\$0	(\$10)	(\$10)
Grand Portage Band Exemption					
School Bond Credit Interaction		\$0	\$0 negligible	negligible	negligible
Property Tax Refund Interaction		\$0	\$0 (negligible)	(negligible)	(negligible)
Mille Lacs Band Exemption		\$0	\$0 (negligible)	(negligible)	(negligible)
Community Land Trusts Valuation		\$0	\$210	\$210	\$210
Exclusion for Veterans with a Disability Modified					
PTR Interaction - Veterans Homesteads		\$0	\$1,000	\$1,050	\$1,100
PTR Interaction - Other Homesteads		\$0	(\$400)	(\$410)	(\$430)
Senior Deferral Program Income Limit Increased		\$0	(\$10)	(\$30)	(\$30)
Land Bank Property Tax Abatement		\$0	(\$10)	(\$10)	(\$20)
Bloomington Port Authority Exemption		\$0	(\$20)	(\$20)	(\$20)
Red Lake Nation Tribal College Exemption		(\$122)	\$0	\$0	\$0
Report on Strategies to Reduce Property Taxes		\$0	\$0	\$0	\$0
<u>Article 4: Property Tax Aids</u>					
LGA Penalty Forgiveness – Alpha	(\$18)	\$0	\$0	\$0	\$0

LGA Base Year Formula Aid – Baldwin	\$0	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Odin	\$0	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Stewart	(\$88)	\$0	\$0	\$0	\$0
LGA Penalty Forgiveness – Trosky	\$0	\$0	\$0	\$0	\$0

Article 5: Tax Increment Financing

TIF Redevelopment Districts		\$0	\$0	\$0	\$0
TIF Temporary Authority Extended		\$0	\$0	\$0	\$0
TIF Five-Year Rule, Income Restrictions		\$0	\$0	\$0	\$0
TIF Local Housing Trust Funds		\$0	\$0	\$0	\$0
Ramsey TIF		\$0	\$0	\$0	\$0
Maplewood TIF		\$0	\$0	\$0	\$0
Maple Grove TIF		\$0	\$0	\$0	\$0
St. Paul TIF		\$0	\$0	\$0	\$0
Brooklyn Center TIF		\$0	\$0	\$0	\$0
Brooklyn Park TIF		\$0	\$0	\$0	\$0
Eden Prairie TIF		\$0	\$0	\$0	\$0
Edina TIF		\$0	\$0	\$0	\$0
Marshall TIF		\$0	\$0	\$0	\$0
Minnetonka TIF		\$0	\$0	\$0	\$0
Moorhead TIF		\$0	\$0	\$0	\$0
Oakdale TIF		\$0	\$0	\$0	\$0
Plymouth TIF		\$0	\$0	\$0	\$0
St. Cloud TIF		\$0	\$0	\$0	\$0
St. Cloud TIF – Cooper Avenue		\$0	\$0	\$0	\$0

Article 6: Public Finance

Local Government Debt Financing Modified	\$0	\$0	\$0	\$0
--	-----	-----	-----	-----

Article 7: Miscellaneous Tax Provisions

SFIA Payment Cap and Reduction	\$8,300	\$8,300	\$3,000	\$3,000
--------------------------------	---------	---------	---------	---------

Local Government Cannabis Aid Repeal				
Cannabis Gross Receipts Revenues	\$8,900	\$14,800	\$18,700	\$22,200
Carryforward Cancel to General Fund	\$5,042	\$0	\$0	\$0

Land Value Taxation Districts Allowed	\$0	unknown	unknown	unknown
---------------------------------------	-----	---------	---------	---------

Extension of Laws 2023 Minneapolis Grants	\$0	\$0	\$0	\$0
---	-----	-----	-----	-----

Browerville Roof Collapse Grant	(\$520)	\$0	\$0	\$0
---------------------------------	---------	-----	-----	-----

Minneapolis Emerald Ash Borer Assistance	(\$400)	\$0	\$0	\$0
--	---------	-----	-----	-----

Article 10: Department of Revenue: Miscellaneous

Add 4d(2) to 1b Remaining Value	\$0	\$0	\$0	\$0
---------------------------------	-----	-----	-----	-----

General Fund Total	(\$106)	\$21,200	\$23,790	\$22,400	\$25,920
---------------------------	----------------	-----------------	-----------------	-----------------	-----------------

Various Effective Dates

Non-General Fund Impacts

Special Revenue Fund

Local Government Cannabis Aid Repeal	\$0	\$12,500	\$13,800	\$18,000
Cannabis Gross Receipts Tax Revenues	(\$8,900)	(\$14,800)	(\$18,700)	(\$22,200)
Carryforward Cancel to General Fund	(\$5,042)	\$0	\$0	\$0

Special Revenue Fund Total	(\$13,942)	(\$2,300)	(\$4,900)	(\$4,200)
-----------------------------------	-------------------	------------------	------------------	------------------

REVENUE ANALYSIS DETAIL

Article 3: Property Taxes

Airport Property Exemption (Section 1)

The effective date is beginning with taxes payable in 2026.

Under current law, if airport property owned by a unit of local government is leased to or used by any person or entity in connection with a business conducted for profit, then the property is taxed as if the lessee or user was the owner of the property. However, the property is exempt from property taxes if:

- 1) it is not owned or operated by the Metropolitan Airports Commission, nor by a city of over 50,000 in population or such a city's airport authority; and
- 2) it is used as a hangar for the storage or repair of aircraft; or used to provide aviation goods, services, or facilities to the airport or general public; or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area.

Under the proposal, the same conditions for exemption would also apply to an airport hangar used for the manufacture of aircraft.

In addition, the proposal would reduce by 50% the net tax capacity of airport property leased to or used by any person or entity if the property is:

- 1) owned or operated by a city of over 50,000 but under 150,000 in population or such a city's airport authority;
- 2) not owned or operated by the Metropolitan Airports Commission; and
- 3) used as a hangar for the storage, repair, or manufacture of aircraft; or used to provide aviation goods, services, or facilities to the airport or general public; or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area.

The 50% reduction in net tax capacity would be applied to taxes payable in 2026 through 2037.

- The proposal would reduce the net tax capacity of the Cirrus manufacturing hangar located at the Duluth International Airport as well as other airport property in the cities of Duluth, Rochester, and St. Cloud.
- This would reduce the commercial-industrial state general tax on eligible properties. However, the reduction in state general tax would have no impact on state revenues in payable years 2026 through 2037, because the tax rate would be adjusted to yield the amount of revenue required by statute.
- Beginning with taxes payable in 2026, an estimated \$460,000 in local property taxes would shift onto other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$30,000 in fiscal year 2027.
- Over the twelve-year period from taxes payable in 2026 through 2037, the total reduction in local property taxes on the eligible properties is estimated to be approximately \$6.6 million.
- Three percent annual growth is assumed.

Purely Public Charity Housing Exemption (Section 2)

The effective date is beginning with taxes payable in 2026.

Under current law, property owned by a qualifying institution of purely public charity is exempt from property taxes if the property is used for the charitable purpose of the qualifying organization.

In its opinion filed March 27, 2024, the Minnesota Supreme Court upheld the Minnesota Tax Court decision that affordable housing properties owned by Alliance Housing Incorporated or North Penn Supportive Housing LLC (collectively referred to as Alliance) are eligible for a property tax exemption because:

- 1) they are owned by an eligible charitable organization, and
- 2) the use of the property corresponds with Alliance's tax-exempt charitable purpose.

The court's decision impacts all future exemption applications for similar properties beginning with assessment year 2025. However, under a separate provision of current law (Minnesota Statutes 273.19 subd. 1), tax-exempt property held under a lease for a term of at least one year is considered, for all purposes of taxation, as the property of the person holding the lease. Therefore, the tenants of eligible Alliance properties (and other similar properties that apply for exemption) will now be liable for personal property taxes beginning with taxes payable in 2026.

Under the proposal, rental housing property owned by an eligible charitable organization would not be exempt from property taxes unless the property is used in furtherance of the tax-exempt charitable purpose of the organization. However, property used solely to provide rental housing on the basis of income characteristics would not be eligible for the exemption.

- It is assumed that all Alliance properties included in the court case have applied for exemption but that other affordable housing properties will not apply for exemption during the forecast period.

Under current law:

- The property taxes on court-exempted Alliance properties will be paid by the tenants rather than by the property owners.
- However, occupied units on these properties will no longer receive the class 4d low-income rental housing classification because the tenants, as the new taxpayers, do not *provide* low-income rental housing.
- As a result, the net tax capacity (NTC) class rate for taxes payable in 2026 will be the apartment class rate of 1.25%, rather than the class 4d rate of 0.25%, which will increase the NTC taxes for tenants by a factor of five (relative to what Alliance would have paid).

Under the proposal:

- Alliance, and not its tenants, would be liable for property taxes on the court-exempted properties.
- Beginning with taxes payable in 2026, these properties would be taxable as class 4d property and not apartment property, which would lower the NTC taxes by a factor of five. This would shift property taxes away from the Alliance properties and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in fiscal year 2027.

Under both current law and the proposal:

- The tenants will be eligible for the renter's credit beginning with 2026 income tax returns (filed in fiscal year 2027 and based on rent paid in 2026).

Cooperative Distribution Systems Exemption (Sections 3, 9-10)

The effective date is beginning with assessment year 2025.

Under current law, Rural Electric Association (REA) cooperatives pay a tax of \$10 for each 100 members in lieu of all personal property taxes on distribution lines – and attachments and appurtenances of those distribution lines – located in a rural area.

Under the proposal, this sentence in statute:

“The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon *distribution lines and the attachments and appurtenances thereto of such associations*, located in rural areas.”

would be replaced with the following clarification:

“The tax, when paid, shall be in lieu of all personal property taxes, state, county, or local, upon that part of the association's distribution system, not including substations, or transmission or generation equipment, located in rural areas.”

- The \$10-per-100-members tax is already being paid by REA cooperatives, meaning the proposal would, in effect, create an exemption for the newly eligible personal property.
- Under the proposal, metering and streetlighting equipment would be eligible for exemption from property taxes.
- For taxes payable in 2026, the exemption would shift an estimated \$750,000 in local property taxes away from cooperative personal property and onto all other property, including homesteads, increasing state-paid homeowner property tax refunds by \$40,000 in fiscal year 2027.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2026 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Leech Lake Band Exemption (Section 4)

The effective date is beginning with assessment year 2026.

The proposal would create a property tax exemption for property that:

- (1) was classified as class 3a for taxes payable in 2025;
- (2) is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);
- (3) was on January 1, 2024, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
- (4) is used exclusively for Tribal purposes or institutions of purely public charity.

Eligible property would be limited to one parcel that does not exceed 40,000 square feet. Property used for single-family housing, market-rate apartments, agriculture, or forestry would not qualify for the exemption.

- Property in Minneapolis owned by the Leech Lake Band of Ojibwe would be eligible for the proposed exemption.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible parcel and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by \$10,000 in fiscal year 2028.

- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Grand Portage Band Exemption (Section 5)

The effective date is beginning with assessment year 2026.

The proposal would create a property tax exemption for property that:

- (1) was classified as class 2b for taxes payable in 2025;
- (2) is located in a county with a population greater than 5,580 but less than 5,620 (according to the 2020 federal census);
- (3) is located in an unorganized territory with a population less than 800 (according to the 2020 federal census); and
- (4) was on January 2, 2023, and is for the current assessment, owned by a federally recognized Indian Tribe located within the state of Minnesota.

Eligible property would be limited to no more than five parcels.

- Property in Cook County owned by the Grand Portage Band of Chippewa would be eligible for the proposed exemption.
- Beginning with taxes payable in 2027, the eligible parcels would no longer receive the School Building Bond Credit, resulting in a savings to the state general fund of less than \$5,000 in fiscal year 2028.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible parcels and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2028.

Mille Lacs Band Exemption (Section 6)

The effective date is beginning with assessment year 2026.

The proposal would create a property tax exemption for property that meets the following conditions:

- (1) it is located in a city of the first class with a population greater than 400,000 (as of the 2020 federal census);
- (2) it was on January 1, 2025, and is for the current assessment, owned by a federally recognized Indian Tribe that is located within the state of Minnesota; and
- (3) it contains a mixed use development constructed after January 1, 2024, that includes space used exclusively for noncommercial Tribal government activities.

Property used for housing, agriculture, or forestry would not qualify for the exemption.

- It is assumed that only the Mille Lacs Band of Ojibwe Urban Office, located in the Ventura Project mixed-use housing development in Minneapolis, would be eligible for the exemption.
- It is further assumed that an initial application for exemption would be filed for assessment year 2026.
- Beginning with taxes payable in 2027, the exemption would shift property taxes away from the eligible property and onto all other properties, including homesteads, increasing state-paid homeowner property tax refunds by less than \$5,000 in fiscal year 2028.

- For taxes payable in 2027 and thereafter, the exemption from the commercial-industrial state general tax would have no impact on state revenues, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Homestead Community Land Trust Valuation Modified (Section 7)

The effective date is beginning with assessment year 2025.

Under current law, class 4d(2) homestead community land trust properties must have their market value determined using the normal approach to value without regard to any restrictions that apply because the unit is a community land trust property.

The proposal would eliminate the requirement that class 4d(2) homestead community land trust properties be valued using the normal approach to value, meaning that assessors could take into account restrictions that apply to the property.

- For taxes payable 2025, there are approximately 700 parcels statewide classified as 4d(2) homestead community land trust. The total market value of all class 4d(2) property is \$166 million.
- Under the proposal, assessors may reduce the market value of homestead community land trust properties. It is assumed that all qualifying properties would have their market values lowered under the proposal.
- The proposal would shift property taxes away from class 4d(2) properties whose market values were lowered and onto all other properties, including other homesteads. As a result of property taxes shifting onto homesteads, property tax refunds paid by the state would increase by \$40,000 beginning in fiscal year 2027.
- As a result of the decrease in property taxes for class 4d(2) properties with lower market values, property tax refunds paid by the state would decrease by \$250,000 beginning in fiscal year 2027.
- The impact on property tax refunds is net of these interactions.

Exclusion for Veterans with a Disability Modified (Section 8)

The effective date is beginning with assessment year 2025.

The proposal would increase the maximum market value exclusion for homesteads of a veteran with a disability:

- from \$150,000 to \$175,000 for a veteran with a 70% or greater disability, and
 - from \$300,000 to \$350,000 for a veteran with a total (100%) and permanent disability.
-
- In assessment year 2024, approximately 26,000 homesteads received the exclusion.
 - In assessment year 2025, an estimated 19,300 homesteads would receive a larger exclusion under the proposal.
 - The proposal would result in a net savings to the state of \$600,000 in fiscal year 2027 due to a reduction in state-paid homeowner property tax refunds (PTR) to qualifying homesteads.
 - For taxes payable in 2026, the proposal would reduce state-paid homeowner property tax refunds to qualifying homesteads by \$1 million, resulting in a savings to the state general fund.

- At the same time, the proposal would shift an estimated \$6.8 million of property taxes onto other properties, including other homesteads, increasing state-paid homeowner property tax refunds by \$400,000. The overall savings to the state general fund is net of this cost.
- It is assumed that the number of homesteads enrolled in the program will increase by 5% annually.

Senior Deferral Program Income Limit Increased (Sections 11-14)

The effective date is for applications received for deferral of taxes payable in 2026.

Under current law, the eligibility requirements for participation in the senior citizen property tax deferral program include having a household income of \$96,000 or less.

The bill would increase the household income maximum from \$96,000 to \$110,000 to be eligible for a property tax deferral.

- In 2024 there were 457 senior homesteads receiving a property tax deferral.
- According to the U.S. Social Security Administration, approximately 87% of senior citizen homeowners have incomes under \$96,000.
- Under the proposal, increasing the requirement from \$96,000 to \$110,000 years would increase eligibility for the senior citizen property tax deferral program.
- It is assumed that participation would increase approximately 1% under the proposal, increasing state general fund costs during the forecast period.
- The first partial year of impact is assumed to be fiscal year 2027. Applications received between June 2025 and October 2025 would be eligible for deferral under the new requirement beginning with taxes payable in 2026. The first full year of impact would be fiscal year 2028.

Land Bank Property Tax Abatement (Sections 15-18)

The effective date is the day following final enactment.

The proposal defines a “land bank organization” as a non-profit organization that, at least in part, acquires, holds, or manages vacant, blighted, foreclosed, or tax-forfeited property for future development, redevelopment, or disposal.

Under current law, an abatement of property taxes may be granted for the purpose of local economic development if the abatement meets one of eight criteria that clearly define the public benefit. Under the proposal, the public benefit criteria would be expanded to include:

- (ix) provide for the development of affordable housing to households at or below 80 percent of area median income; or
- (x) allow the property to be held by a land bank organization for future development.

Under the proposal, abatements granted on the basis of either (ix) or (x) above would be limited to a period of no more than five years. In addition, an abatement must be repaid with interest if the land for which the abatement was granted is used for a purpose other than the purpose given by the land bank organization prior to redevelopment.

- It is assumed that the only organization with eligible property is Land Bank Twin Cities.

- Under current law, all political subdivisions are required to add back to their current year levies the total estimated amount of all current year economic development abatements.
- Under the proposal, property taxes would shift from the parcels eligible for an abatement onto all other properties in those local jurisdictions, including homesteads.
- Because the levies set in one calendar year are collected as property taxes in the following calendar year, the property tax shift would occur in the year following the abatement.
- Based on data provided by Land Bank Twin Cities, approximately \$0.5 million in property taxes will be due in 2025 on property eligible for an abatement under the proposal.
- It is assumed that approximately half of Land Bank Twin Cities parcels would receive an abatement for taxes payable in 2025.
- Under this assumption, approximately \$0.25 million in property taxes would shift onto other properties beginning with taxes payable in 2026, resulting in a cost to the general fund of \$10,000 beginning in fiscal year 2027 due to increased homeowner property tax refunds.

Bloomington Port Authority Exemption (Section 19)

The effective date is upon local approval for taxes payable in 2026 through 2031.

Under current law, property held by a political subdivision for later resale for economic development purposes is eligible for an exemption from property taxes for up to nine years.

Under the proposal, property that was acquired by the Port Authority of the city of Bloomington in May 2016 and was exempt for taxes payable in 2017 through 2025 would continue to be exempt for taxes payable in 2026 through 2031.

To receive the extended exemption, an initial exemption application must be filed with the assessor by June 30, 2025.

- Under the proposal, three parcels purchased by the Port Authority of Bloomington in May 2016 would be eligible for the extended exemption.
- The parcels are currently taxable as commercial property for taxes payable in 2026.
- For taxes payable in 2026, extending the exemption would shift approximately \$400,000 in local property taxes away from the eligible parcels and onto all other property, including homesteads, increasing homeowner property tax refunds by \$20,000 in fiscal year 2027.
- The exemption from the commercial-industrial state general tax would have no impact on state revenues in payable year 2026 and thereafter, because the tax rate would be adjusted to yield the amount of revenue required by statute.

Red Lake Nation Tribal College Exemption (Section 20)

The effective date is the day following final enactment.

Under the proposal, property located in the city of Minneapolis and acquired by Red Lake Nation College Without Borders, LLC in either August 2021 or September 2021 would be exempt from property taxes payable in 2022, and from the portion of property taxes payable in 2021 due after the property was acquired.

The county auditor would certify by August 1, 2025, the amount to be paid by the commissioner of revenue for the retroactive exemption, and the commissioner of revenue would make the payment to the county by August 15, 2025. All prior year penalties, interest, and costs would be canceled.

- Two parcels acquired by Red Lake Nation College in 2021 would be eligible for the retroactive exemption.
- As part of a private college, both parcels are currently exempt from property taxes.
- Approximately \$122,000 in delinquent taxes are due on the eligible parcels for taxes payable in 2021 and 2022, including approximately \$24,000 of state general tax.
- Under the proposal, the state general tax amount would not be collected, and the state would pay the remaining \$98,000 to Hennepin County in fiscal year 2026.
- Approximately \$50,000 in penalties, interest, and costs are currently due on the eligible parcels. Under the proposal, this amount would be canceled.

Report on Strategies to Reduce Property Taxes (Section 21)

The effective date is assumed to be July 1, 2025.

The proposal would require the Department of Revenue to prepare a report describing the advantages and disadvantages of different approaches for reducing property taxes paid by homeowners and renters.

- There would be no revenue impact to the state general fund.

Article 4: Property Tax Aids

LGA Penalty Forgiveness – City of Alpha (Section 1)

The effective date is day following final enactment.

The bill would allow the city of Alpha to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of \$18,472 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Alpha would receive a payment of \$18,472 in FY 2025.

LGA Base Year Formula Aid – City of Baldwin (Section 2)

The effective date is for aids payable in calendar year 2026.

Under current law, the starting point for calculating a city's local government aid (LGA) is the city's previous year certified aid.

The bill would set previous year aid for the newly incorporated city of Baldwin equal to \$2.85 per capita for purposes of calculating payable year 2026 LGA.

- The city of Baldwin in Sherburne County was established in the fall of 2024. The city will first become eligible for LGA certified in the summer of 2025 for aid payable year 2026.
- Under current law, the city of Baldwin is estimated to receive approximately \$200 in payable year 2026. Under the proposal, the city is estimated to receive approximately \$20,200, an additional \$20,000.
- There would be no state cost associated with this change in formula distribution because total aid is set to a fixed appropriation level. The formula change would shift aid to the city of Baldwin and away from other cities receiving local government aid.

LGA Penalty Forgiveness – City of Odin (Section 3)

The effective date is day following final enactment.

The bill would allow the city of Odin to receive payment for the amount of its 2024 Local Government Aid (LGA) and 2024 Small Cities Assistance that was withheld for failing to meet financial reporting requirements with the state auditor. The city must file its 2023 financial reports by June 1, 2025.

Up to \$39,909 of the current LGA appropriation would be available for the payment to be made before the end of fiscal year 2025 by June 30, 2025.

- Under the proposal there would be no additional costs to the state general fund in fiscal year 2025 because the money for payment is already appropriated for LGA and Small Cities Assistance. Any unpaid payments would not cancel to the state general fund until after June 30, 2025.

LGA Penalty Forgiveness – City of Stewart (Section 4)

The effective date is day following final enactment.

The bill would allow the city of Stewart to receive payment for the portion of its 2023 Local Government Aid (LGA) payment withheld for failing to meet financial reporting requirements with the state auditor. The city must have filed its financial reports for 2022 by June 1, 2025.

A onetime appropriation from the general fund is provided in fiscal year 2025 for a payment of \$87,501.50 to be made by June 30, 2025.

- Under current law, unpaid LGA payments cancel to the state general fund.
- The bill provides a onetime appropriation for payment of the withheld amount at a cost to the state general fund.
- The city of Stewart would receive a payment of \$87,501.50 in FY 2025.

LGA Penalty Forgiveness – City of Trosky (Section 5)

The effective date is day following final enactment.

The bill would allow the city of Trosky to receive payment for the amount of its 2024 Local Government Aid (LGA) and 2024 Small Cities Assistance that was withheld for failing to meet financial reporting requirements with the state auditor. The city must file its 2023 financial reports by June 1, 2025.

Up to \$25,003 of the current LGA appropriation would be available for the payment to be made before the end of fiscal year 2025 by June 30, 2025.

- Under the proposal there would be no additional costs to the state general fund in fiscal year 2025 because the money for payment is already appropriated for LGA and Small Cities Assistance. Any unpaid payments would not cancel to the state general fund until after June 30, 2025.

Article 5: Tax Increment Financing

TIF Redevelopment Districts (Sections 1-2, 10)

The effective date is for districts for which the request for certification is made after June 30, 2025.
Under current law, a redevelopment tax increment financing (TIF) district may be established if one or more conditions are met, as listed in statute.

The proposal would add an additional condition that may be used to establish a redevelopment TIF district: the property consists of vacant, unused, underused, inappropriately used, or infrequently used property intended or recently occupied for commercial or industrial purposes in Minneapolis, St. Paul, or Duluth. Any redevelopment districts established under this criterion would be exempt from complying with certain information usually required from the city prior to creating the district and the original net tax capacity would equal the value of the land for parcels containing commercial or industrial buildings determined to be vacant or underused.

- The proposed changes to the general TIF provisions would have no impact on the state general fund.

TIF Temporary Authority Extended (Section 3)

The effective date is the day following final enactment.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would clarify that transferred increment includes interest earned on transferred increment. It would also allow municipalities to extend the date by which transferred increment may be used if they amend a written spending plan prior to December 31, 2025.

Under current law, transferred increment may be used to provide assistance to private development consisting of the construction or substantial rehabilitation of buildings and ancillary facilities if it will create or retain jobs in the state. Construction must commence before December 31, 2025. The proposal would also extend this deadline to December 31, 2026.

Under current law, transferred increment must be spent by December 31, 2025. The proposal would extend that date to December 31, 2026 if authorized by an amended spending plan. It would also expand the uses allowed for transferred increment to include being loaned, invested, or otherwise irrevocably committed. The proposal also defines what is included in the requirement to return increment to the district.

- The proposed changes to the general TIF provisions would have no impact on the state general fund.

TIF Five-Year Rule Extended, Income Restrictions Modified (Sections 4-5, 7-8)

The effective date is for districts for which the request for certification is made after June 30, 2025.

Under current law, there are income limitations that must be satisfied for a tax increment financing (TIF) district to qualify as a housing district. The proposal would keep those income limitations for districts located in metropolitan counties but remove them for districts located in other areas of the state. The proposal also modifies the income limitations to meet the federal definition of low-income housing.

Also under current law, the five-year rule essentially requires development activity for a TIF district to be finished within a five-year period after the certification of the district. After this period has expired, increments may only be spent to pay off obligations that were incurred during the five-year period or for permitted expenditures under pooling. The six-year rule requires districts to be decertified when sufficient increment has been received to pay for these obligations. The proposal would extend the five-year rule to ten years and the six-year rule to 11 years for districts certified after June 30, 2025 that are not located in a metropolitan county.

- The proposed changes to the general TIF provisions would have no impact on the state general fund.

TIF Increment Transfers to Local Housing Trust Funds (Sections 6, 9)

The effective date is the day following final enactment.

Under current law, increment from a tax increment financing (TIF) district may only be used for certain expenditures outside the TIF district. Additionally, rental housing in a housing TIF district is subject to certain income requirements.

The proposal expands the uses of increment allowed outside the district to include transferring increment to a housing trust fund. Funds distributed from increment transferred to a housing trust fund must benefit households meeting certain income requirements and follow the city's ordinance or policy on the distribution of funds between rental and homeowner households. The proposal would also modify the income requirements for rental housing in a housing TIF district.

- The proposed changes to the general TIF provisions would have no impact on the state general fund.

Ramsey TIF (Section 11)

The effective date is following local approval.

Under current law, special rules apply for a redevelopment tax increment financing (TIF) district in the city of Ramsey relating to the Northstar Transit Station.

The proposal would add another special rule for the TIF district: it would extend the time in which the city is allowed to adopt interfund loan resolutions. Under current law, an interfund loan or advance must be authorized by resolution no later than 60 days after money is transferred, advanced, or spent, whichever is earlier. The proposal would extend that deadline to December 31, 2025.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Maplewood TIF (Section 12)

The effective date is following local approval.

Under current law, special rules apply for any redevelopment tax increment financing (TIF) districts in the city of Maplewood relating to the 3M Renovation and Retention Project Area.

The proposal would expand the project area within which expenditures are allowed for these districts. The proposal would also remove a special rule that had excluded the district from pooling restrictions.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Maple Grove TIF (Section 13)

The effective date is following local approval.

Under current law, the city of Maple Grove was allowed to establish tax increment financing (TIF) districts within a defined project area that were subject to special rules as established by the legislature in 2014 and revised in 2017. The project area includes rights-of-way for all present and future highway interchanges abutting the project area.

The proposal would expand the definition of the project area to include rights-of-way for all present and future highway interchanges serving the project area. Some of the special rules that apply to these districts are also modified:

- The five-year rule for development activity to commence is extended from eight years to 13 years.
- The number of years increments from a soil deficiency district may be collected is extended from 20 years to 25 years.
- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

St. Paul TIF (Section 14)

The effective date is following local approval.

Under current law, special rules apply to the Ford Site Redevelopment Tax Increment Financing (TIF) District in the City of St. Paul, including being allowed to waive increments for up to four years and setting a different certification date if increments are waived.

The proposal would add another special rule for the Ford Site Redevelopment TIF District: it would extend the five-year rule for development activity to commence to ten years.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Brooklyn Center TIF (Section 15)

The effective date is following local approval.

The proposal would allow the city of Brooklyn Center or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply, such as excluding it from requirements for establishing a redevelopment district and excluding it from certain rules on the use of increment. The authority to establish a TIF district under this authority expires December 31, 2031.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Brooklyn Park TIF (Sections 16-18)

The effective date is following local approval.

The proposal would allow the city of Brooklyn Park or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts in three locations: the Village Creek Area, the 610/Zane Area, and the Biotech Area. Each location has its own defined area within which a TIF district may be created. Any districts established under this authority would have special rules that apply that would exclude it from requirements for establishing a redevelopment district and exclude it from certain rules on the use of increment. The authority to request certification of any district under this proposal expires December 31, 2031.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Eden Prairie TIF (Section 19)

The effective date is following local approval.

The proposal would allow the city of Eden Prairie or its economic development authority to establish one or more redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply that would exclude it from requirements for establishing a redevelopment district and exclude it from certain rules on the use of increment. The authority to approve a TIF plan and establish a TIF district under this proposal expires December 31, 2026.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Edina TIF (Sections 20-21)

The effective date is following local approval.

The proposal would extend the five-year rule for development activity to commence to ten years for two tax increment financing (TIF) districts in the city of Edina: 72nd & France 2 and 70th & France. The proposal would also allow the city of Edina or its housing and redevelopment authority to extend the duration of the 72nd & France 2 TIF District by five years and the 70th & France TIF District by ten years.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Marshall TIF (Section 22)

The effective date is following local approval.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would allow the city of Marshall to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-1, TIF District No. 1-7, or TIF District No. 2-1 could be used for this purpose. The use of transferred increment would have to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 would be returned to the district.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Minnetonka TIF (Section 23)

The effective date is following local approval.

The proposal would extend the five-year rule for development activity to commence to ten years for the renewal and renovation tax increment financing (TIF) district established in 2021 by the city of Minnetonka and its Economic Development Authority. The proposal would also exclude these districts from certain rules on the use of increment.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Moorhead TIF (Section 24)

The effective date is following local approval.

Under current law, the five-year rule essentially requires development activity for a TIF district to be finished within a five-year period after the certification of the district. After this period has expired, increments may only be spent to pay off obligations that were incurred during the five-year period or for permitted expenditures under pooling. The six-year rule requires districts to be decertified when sufficient increment has been received to pay for these obligations.

The proposal would extend the five-year rule to ten years and the six-year rule to eleven years for Tax Increment Financing (TIF) District No. 31 in the city of Moorhead.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Oakdale TIF (Section 25)

The effective date is following local approval.

Under current law, there are rules regarding the transfer of unobligated tax increment financing (TIF) increment. The proposal would allow the city of Oakdale to spend, loan, or invest transferred increment through December 31, 2027. Only transferred increment collected from TIF District No. 1-4 or TIF District No. 1-6 could be used for this purpose. The use of transferred increment would have to be detailed in the city's written spending plan. Any increment not spent, loaned, or invested by December 31, 2027 would be returned to the district.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Plymouth TIF (Section 26)

The effective date is following local approval.

The proposal would allow the city of Plymouth to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply, such as excluding it from requirements for establishing a redevelopment district, excluding it from certain rules on the use of increment, and extending the five-year rule for development activity to commence to ten years. The authority to establish a TIF district under this authority expires December 31, 2031.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

St. Cloud TIF (Section 27)

The effective date is following local approval.

The proposal would allow the city of St. Cloud or its economic development authority to establish no more than two redevelopment tax increment financing (TIF) districts within a defined area. Any districts established under this authority would have special rules that apply, such as excluding it from requirements for establishing a redevelopment district, excluding it from certain rules on the use of increment, and allowing increment to be spent on reconstruction, expansion, or new construction of adjacent public infrastructure. The authority to establish a TIF district under this authority expires December 31, 2031.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

St. Cloud TIF – Cooper Avenue (Section 28)

The effective date is following local approval.

Under current law, the five-year rule essentially requires development activity for a TIF district to be finished within a five-year period after the certification of the district. After this period has expired, increments may only be spent to pay off obligations that were incurred during the five-year period or for permitted expenditures under pooling. The proposal would extend the five-year rule to April 30, 2031 for the Cooper Avenue Redevelopment TIF District in the city of St. Cloud.

- The proposed changes to this special TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Article 6: Public Finance

Local Government Debt Financing Modified (Sections 1-10)

The effective date is July 1, 2025.

The proposal makes several modifications to local government debt financing. It would shorten the required timing of a number of public notices, add construction of a court house or justice center to debt obligations for which the state provides a guarantee, clarify which obligations for which a state guarantee may be provided, clarify which obligations fall under bond allocation act rules, and adjust the deadline for issuers that receive an allocation from the unified pool to issue obligations.

- There is no assumed impact to the state general fund.

Article 7: Miscellaneous Tax Provisions

SFIA Payment Cap (Section 13)

The effective date is for payments in fiscal years 2026 through 2029 only.

Under current law, land enrolled in the Sustainable Forest Incentive Act (SFIA) program is eligible for an annual per-acre incentive payment. Payment rates vary based on the covenant duration and the number of acres enrolled.

Under the proposal, SFIA payments in fiscal years 2026 through 2029 must not exceed 100 percent of the property tax as determined by using the formula in M.S. 290C.07, paragraph (a). However, if the total amount of payments exceeds a predetermined fiscal year total, then each recipient's payment amount would be reduced proportionally, (or, if the total amount of payments is less than the predetermined fiscal year total, then each recipient's payment amount would be increased proportionally), such that the total amount of payments in each fiscal year equals the predetermined fiscal year total. The total payment amount would be set at \$8,340,000 for fiscal year 2026, \$9,180,000 for fiscal year 2027, \$15,370,000 for fiscal year 2028, and \$16,290,000 for fiscal year 2029.

- For SFIA incentive payments in calendar year 2025, the property tax as determined under the proposal is \$16.96 per acre.
- Under the proposal, approximately 40% of SFIA parcels would receive a reduced payment prior to proportional reductions being applied to all recipients.
- Under the proposal, all recipients would receive a reduced SFIA payment in fiscal years 2026 through 2029.

Local Government Cannabis Aid Repealed (Sections 16, 26, 30)

The effective date for repeal of the aid is beginning with aids payable in 2026.

The effective date for depositing cannabis gross receipts tax revenues in the general fund is July 1, 2025.

Under current law, 20% of the cannabis gross receipts tax is deposited into the special revenue fund and paid to counties and cities via local government cannabis aid.

The proposal would repeal local government cannabis aid. The 20% of the cannabis gross receipts tax for local government cannabis aid would instead be deposited into to the state general fund beginning July 1, 2025. Any remaining balance in the special revenue fund would cancel to the general fund.

- Local government cannabis aid payments would end beginning with payable year 2026, decreasing state costs by \$12.5 million in FY 2027, \$13.8 million in FY 2028, and \$18.0 million in FY 2029.
- The 20% share of cannabis gross receipts tax revenues that were previously deposited into the special revenue fund and used to pay the aid would instead be deposited into the state general fund beginning on July 2, 2025, increasing revenues to the general fund beginning in FY 2026.
- An estimated balance of \$5.042 million remaining in the special revenue fund would cancel to the state general fund on January 2, 2026, increasing revenues to the general fund in FY 2026.

Land Value Taxation Districts Allowed (Sections 19-23)

The effective date is beginning with taxes payable 2026.

Under current law property taxes are allocated based on the value of land and improvements of a parcel. Improvements may include things like structures and buildings. The proposal would allow cities to create land-value taxation districts in which property taxes would be reallocated using one or more of four methods, including two based solely on land values that would exclude improvements to the parcel.

- Under the proposal it is unknown how many land-value taxations districts would be created.
- The creation of land-value taxation districts may shift taxes away from some parcels and onto others within a district. Depending on the shifting, it is possible the property tax changes may increase or decrease state general fund costs for property tax refunds beginning in fiscal year 2027.

Extension of Minneapolis Grants (Section 25)

The effective date is assumed to be July 1, 2025.

Under current law, the 2023 tax bill provided a one-time appropriation of \$10 million from the state general fund for a grant to the city of Minneapolis. \$8 million was to be spent on businesses located on Lake Street and \$2 million to be spent on two property acquisitions.

The proposal would extend the availability of the \$10 million appropriation from the 2023 tax bill through fiscal year 2027.

- The original appropriation for grant was unspent. Extending the availability would result in no additional costs to the state general fund.

Browerville Roof Collapse Grant (Section 28)

The effective date is July 1, 2025.

The proposal would provide a one-time appropriation from the state general fund for a grant of \$520,000 to the Browerville public schools. The funds must be used for renovating a building damaged in a 2023 roof collapse.

- The one-time appropriation would result in a cost of \$520,000 to the state general fund in fiscal year 2026.

Minneapolis Emerald Ash Borer Assistance Provided (Section 29)

The effective date is July 1, 2025.

The proposal would create a one-time \$400,000 aid to reimburse eligible homeowners for costs incurred for treating or removing trees infested with emerald ash borer since 2020. The state would distribute aid on July 1, 2025. The aid would be for homeowners in Minneapolis located within environmental justice areas and whose income is below 200 percent of the official federal poverty guideline. The city would be required to report the use of funds.

- The one-time appropriation would increase state general fund costs by \$400,000 in fiscal year 2026.

Article 10: Department of Revenue: Miscellaneous

Add 4d(2) as an Option for Remaining Market Value of 1b Properties (Section 3)

Effective beginning with assessment year 2025.

Under current law, class 1b homesteads of persons who are blind or disabled receive a classification rate of 0.45% for the first \$50,000 of value. Any value over \$50,000 receives the same classification rates as 1a residential homesteads and 2a agricultural homestead house, garage, and first acre: 1.00% for value between \$50,000 and \$500,000 and 1.25% for any value over \$500,000.

During the 2023 legislative session, a new homestead property classification was created with a reduced classification rate: class 4d(2) homestead community land trusts. Properties classified as 4d(2) have a classification rate of 0.75%.

The proposal would allow class 1b properties that also qualify for class 4d(2) to receive the reduced classification rate of 0.75% for value over \$50,000.

- Approximately 11,100 parcels are at least partially classified as class 1b homesteads of persons who are blind or disabled in assessment year 2023.
- According to the Minnesota Community Land Trust Coalition, there are 13 community land trust organizations in Minnesota that have a portfolio of about 1,400 homes throughout the state.
- It is assumed that the proposal would have no impact on the state general fund.

Source: Minnesota Department of Revenue
Property Tax Division – Research Unit
<https://www.revenue.state.mn.us/revenue-analyses>