

quire changes to ensure the most prudent use of state resources.

\$400,000 is for a grant to the county of Polk to repair a structure north of Climax on marked state highway 220 damaged by flooding.

For grants under this section, the requirements of Minnesota Statutes, section 174.50, subdivisions 4, 5, 6, 6a, and 7, are waived.

Sec. 5. BOND SALE AUTHORIZATION.

Subdivision 1. BOND PROCEEDS FUND. To provide the money appropriated in this article from the bond proceeds fund, the commissioner of finance shall sell and issue bonds of the state in an amount up to \$4,625,000 in the manner, upon the terms, and with the effect prescribed by Minnesota Statutes, sections 16A.631 to 16A.675, and by the Minnesota Constitution, article XI, sections 4 to 7.

Subd. 2. TRANSPORTATION FUND. To provide the money appropriated in this article from the state transportation fund, the commissioner of finance shall sell and issue bonds of the state in an amount up to \$1,400,000 in the manner, upon the terms, and with the effect prescribed by Minnesota Statutes, sections 16A.631 to 16A.675, and by the Minnesota Constitution, article XI, sections 4 to 7. The proceeds of the bonds, except accrued interest and any premium received on the sale of the bonds, must be credited to a bond proceeds account in the state transportation fund.

Sec. 6. EFFECTIVE DATE.

This article is effective the day following final enactment.

Presented to the governor May 30, 2003

Signed by the governor June 12, 2003, 9:41 a.m.

CHAPTER 21—H.F.No. 7

An act relating to the financing and operation of state and local government; providing for job opportunity building zones; providing for a biotechnology and health sciences industry zone; changing income, sales and use, motor vehicle sales, motor vehicle registration, property, cigarette and tobacco, liquor, mortgage registry and deed, and other taxes; updating references to the Internal Revenue Code; changing accelerated sales tax liability provisions and extending the requirements to other taxes; changing or providing property tax and sales tax exemptions; requiring payment of certain lawful gambling taxes; altering the computation and payments of

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intergovernmental aids; imposing levy limits; modifying truth in taxation requirements; providing economic development incentives; changing tax increment financing requirements; providing powers to certain cities and counties; authorizing a special taxing district; providing for collection of certain debts and charges; providing for payments into and transfers among certain funds and accounts; providing for distribution of certain revenues and funds; regulating limited used vehicle licenses; making certain changes relating to the taconite assistance area; authorizing municipalities to collect certain charges as a special assessment; changing certain requirements relating to the metropolitan mosquito control district; regulating tax preparers; providing for studies; providing penalties; appropriating money; amending Minnesota Statutes 2002, sections 3.986, subdivision 4; 4A.02; 16A.152, subdivisions 1, 1b, 2; 18B.07, subdivision 2, as amended; 62J.692, subdivision 4, by adding a subdivision; 168.27, subdivision 4a; 270.60, subdivision 4; 270A.03, subdivision 2; 270A.07, subdivisions 1, 2; 272.02, subdivision 25, by adding subdivisions; 272.029, by adding a subdivision; 273.11, subdivision 13; 273.13, subdivision 25; 273.1341, as added; 273.1398, subdivisions 4a, 4c, 6, 8; 275.025, subdivision 1; 275.065, subdivision 3; 275.066; 275.70, subdivision 5; 275.71, subdivisions 2, 4, 5, 6; 275.72, subdivision 3; 275.73, subdivision 2; 275.74, subdivision 3; 276A.01, subdivision 2; 287.12; 287.29, subdivision 1; 287.31, by adding a subdivision; 289A.02, subdivision 7, as amended; 289A.08, subdivision 16, as amended; 289A.20, subdivision 4; 289A.31, subdivision 7; 289A.60, subdivision 15; 290.01, subdivisions 19, as amended, 19b, 29, 31, as amended; 290.06, subdivision 2c, by adding subdivisions; 290.067, subdivision 1; 290.0671, subdivision 1; 290.091, subdivision 2; 290.0921, subdivision 3; 290.0922, subdivisions 2, 3; 290A.03, subdivision 15, as amended; 297A.68, by adding subdivisions; 297A.70, subdivisions 8, 10, 14, 16; 297A.71, by adding a subdivision; 297B.01, subdivision 7; 297B.03; 297F.09, subdivisions 1, 2, by adding a subdivision; 297F.10, subdivision 1, as amended; 297G.01, by adding a subdivision; 297G.03, subdivision 1; 297G.09, by adding a subdivision; 298.018, subdivisions 1, 2; 298.22, subdivisions 2, 8; 298.2211, subdivisions 1, 2; 298.2213, subdivision 3; 298.2214, subdivisions 1, 3; 298.223, subdivision 1; 298.28, subdivisions 7, 11; 298.292, subdivision 2; 298.293; 298.298; 349.16, by adding a subdivision; 429.101, subdivision 1; 469.169, by adding a subdivision; 469.174, subdivisions 6, as amended, 10, by adding a subdivision; 469.1763, subdivisions 2, 4; 469.177, subdivision 1; 473.167, subdivision 3; 473.249, subdivision 1; 473.253, subdivision 1; 473.704, subdivision 17, as amended; 474A.061, subdivision 1, as amended; 477A.011, subdivisions 34, 36, by adding subdivisions; 477A.013, subdivisions 8, 9; 477A.03, subdivision 2, by adding subdivisions; 611.27, subdivisions 13, 15; Laws 1980, chapter 511, section 1, subdivision 2, as amended; Laws 1980, chapter 511, section 2, as amended; Laws 1993, chapter 375, article 9, section 46, subdivision 2, as amended; Laws 1998, chapter 389, article 16, section 35, subdivision 1, as amended; Laws 1999, chapter 243, article 4, section 19, as amended; Laws 2001, First Special Session chapter 5, article 12, section 95, as amended; Laws 2001, First Special Session chapter 5, article 20, section 22; Laws 2002, chapter 377, article 3, section 15; 2003 First Special Session H. F. No. 1, article 2, section 118, subdivision 6; proposing coding for new law in Minnesota Statutes, chapters 270; 469; 477A; repealing Minnesota Statutes 2002, sections 37.13, subdivision 2; 272.02, subdivision 26; 273.138, subdivisions 2, 3, 6; 273.1398, subdivisions 2, 2c, 4d; 273.166; 275.065, subdivision 3a; 325E.112, subdivision 2a; 477A.011, subdivision 37; 477A.0121; 477A.0122; 477A.0123; 477A.0132; 477A.03, subdivisions 3, 4; 477A.06; 477A.07.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

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ARTICLE 1

JOB OPPORTUNITY BUILDING ZONES

Section 1. Minnesota Statutes 2002, section 272.02, is amended by adding a subdivision to read:

Subd. 64. **JOB OPPORTUNITY BUILDING ZONE PROPERTY.** (a) Improvements to real property, and personal property, classified under section 273.13, subdivision 24, and located within a job opportunity building zone, designated under section 469.314, are exempt from ad valorem taxes levied under chapter 275.

(b) Improvements to real property, and tangible personal property, of an agricultural production facility located within an agricultural processing facility zone, designated under section 469.314, is exempt from ad valorem taxes levied under chapter 275.

(c) For property to qualify for exemption under paragraph (a), the occupant must be a qualified business, as defined in section 469.310.

(d) The exemption applies beginning for the first assessment year after designation of the job opportunity building zone by the commissioner of trade and economic development. The exemption applies to each assessment year that begins during the duration of the job opportunity building zone and to property occupied by July 1 of the assessment year by a qualified business. This exemption does not apply to:

(1) the levy under section 475.61 or similar levy provisions under any other law to pay general obligation bonds; or

(2) a levy under section 126C.17, if the levy was approved by the voters before the designation of the job opportunity building zone.

EFFECTIVE DATE. This section is effective beginning for property taxes assessed in 2004, payable in 2005.

Sec. 2. Minnesota Statutes 2002, section 272.029, is amended by adding a subdivision to read:

Subd. 7. **EXEMPTION.** The tax imposed under this section does not apply to electricity produced by wind energy conversion systems located in a job opportunity building zone, designated under section 469.314, for the duration of the zone. The exemption applies beginning for the first calendar year after designation of the zone and applies to each calendar year that begins during the designation of the zone.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 3. Minnesota Statutes 2002, section 290.01, subdivision 19b, is amended to read:

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Subd. 19b. **SUBTRACTIONS FROM FEDERAL TAXABLE INCOME.** For individuals, estates, and trusts, there shall be subtracted from federal taxable income:

(1) interest income on obligations of any authority, commission, or instrumentality of the United States to the extent includable in taxable income for federal income tax purposes but exempt from state income tax under the laws of the United States;

(2) if included in federal taxable income, the amount of any overpayment of income tax to Minnesota or to any other state, for any previous taxable year, whether the amount is received as a refund or as a credit to another taxable year's income tax liability;

(3) the amount paid to others, less the amount used to claim the credit allowed under section 290.0674, not to exceed \$1,625 for each qualifying child in grades kindergarten to 6 and \$2,500 for each qualifying child in grades 7 to 12, for tuition, textbooks, and transportation of each qualifying child in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363. For the purposes of this clause, "tuition" includes fees or tuition as defined in section 290.0674, subdivision 1, clause (1). As used in this clause, "textbooks" includes books and other instructional materials and equipment purchased or leased for use in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. Equipment expenses qualifying for deduction includes expenses as defined and limited in section 290.0674, subdivision 1, clause (3). "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. For purposes of the subtraction provided by this clause, "qualifying child" has the meaning given in section 32(c)(3) of the Internal Revenue Code;

(4) income as provided under section 290.0802;

(5) to the extent included in federal adjusted gross income, income realized on disposition of property exempt from tax under section 290.491;

(6) to the extent not deducted in determining federal taxable income or used to claim the long-term care insurance credit under section 290.0672, the amount paid for health insurance of self-employed individuals as determined under section 162(l) of the Internal Revenue Code, except that the percent limit does not apply. If the individual deducted insurance payments under section 213 of the Internal Revenue Code of 1986, the subtraction under this clause must be reduced by the lesser of:

(i) the total itemized deductions allowed under section 63(d) of the Internal Revenue Code, less state, local, and foreign income taxes deductible under section 164

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of the Internal Revenue Code and the standard deduction under section 63(c) of the Internal Revenue Code; or

(ii) the lesser of (A) the amount of insurance qualifying as "medical care" under section 213(d) of the Internal Revenue Code to the extent not deducted under section 162(1) of the Internal Revenue Code or excluded from income or (B) the total amount deductible for medical care under section 213(a);

(7) the exemption amount allowed under Laws 1995, chapter 255, article 3, section 2, subdivision 3;

(8) to the extent included in federal taxable income, postservice benefits for youth community service under section 124D.42 for volunteer service under United States Code, title 42, sections 12601 to 12604;

(9) to the extent not deducted in determining federal taxable income by an individual who does not itemize deductions for federal income tax purposes for the taxable year, an amount equal to 50 percent of the excess of charitable contributions allowable as a deduction for the taxable year under section 170(a) of the Internal Revenue Code over \$500;

(10) for taxable years beginning before January 1, 2008, the amount of the federal small ethanol producer credit allowed under section 40(a)(3) of the Internal Revenue Code which is included in gross income under section 87 of the Internal Revenue Code;

(11) for individuals who are allowed a federal foreign tax credit for taxes that do not qualify for a credit under section 290.06, subdivision 22, an amount equal to the carryover of subnational foreign taxes for the taxable year, but not to exceed the total subnational foreign taxes reported in claiming the foreign tax credit. For purposes of this clause, "federal foreign tax credit" means the credit allowed under section 27 of the Internal Revenue Code, and "carryover of subnational foreign taxes" equals the carryover allowed under section 904(c) of the Internal Revenue Code minus national level foreign taxes to the extent they exceed the federal foreign tax credit; ~~and~~

(12) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19a, clause (7), an amount equal to one-fifth of the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19a, clause (7), minus the positive value of any net operating loss under section 172 of the Internal Revenue Code generated for the tax year of the addition. The resulting delayed depreciation cannot be less than zero; and

(13) job opportunity building zone income as provided under section 469.316.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 4. Minnesota Statutes 2002, section 290.01, subdivision 29, is amended to read:

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Subd. 29. **TAXABLE INCOME.** The term "taxable income" means:

- (1) for individuals, estates, and trusts, the same as taxable net income;
- (2) for corporations, the taxable net income less
 - (i) the net operating loss deduction under section 290.095; and
 - (ii) the dividends received deduction under section 290.21, subdivision 4; and
 - (iii) the exemption for operating in a job opportunity building zone under section 469.317.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 5. Minnesota Statutes 2002, section 290.06, subdivision 2c, is amended to read:

Subd. 2c. **SCHEDULES OF RATES FOR INDIVIDUALS, ESTATES, AND TRUSTS.** (a) The income taxes imposed by this chapter upon married individuals filing joint returns and surviving spouses as defined in section 2(a) of the Internal Revenue Code must be computed by applying to their taxable net income the following schedule of rates:

- (1) On the first \$25,680, 5.35 percent;
- (2) On all over \$25,680, but not over \$102,030, 7.05 percent;
- (3) On all over \$102,030, 7.85 percent.

Married individuals filing separate returns, estates, and trusts must compute their income tax by applying the above rates to their taxable income, except that the income brackets will be one-half of the above amounts.

(b) The income taxes imposed by this chapter upon unmarried individuals must be computed by applying to taxable net income the following schedule of rates:

- (1) On the first \$17,570, 5.35 percent;
- (2) On all over \$17,570, but not over \$57,710, 7.05 percent;
- (3) On all over \$57,710, 7.85 percent.

(c) The income taxes imposed by this chapter upon unmarried individuals qualifying as a head of household as defined in section 2(b) of the Internal Revenue Code must be computed by applying to taxable net income the following schedule of rates:

- (1) On the first \$21,630, 5.35 percent;
- (2) On all over \$21,630, but not over \$86,910, 7.05 percent;
- (3) On all over \$86,910, 7.85 percent.

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(d) In lieu of a tax computed according to the rates set forth in this subdivision, the tax of any individual taxpayer whose taxable net income for the taxable year is less than an amount determined by the commissioner must be computed in accordance with tables prepared and issued by the commissioner of revenue based on income brackets of not more than \$100. The amount of tax for each bracket shall be computed at the rates set forth in this subdivision, provided that the commissioner may disregard a fractional part of a dollar unless it amounts to 50 cents or more, in which case it may be increased to \$1.

(e) An individual who is not a Minnesota resident for the entire year must compute the individual's Minnesota income tax as provided in this subdivision. After the application of the nonrefundable credits provided in this chapter, the tax liability must then be multiplied by a fraction in which:

(1) the numerator is the individual's Minnesota source federal adjusted gross income as defined in section 62 of the Internal Revenue Code and increased by the additions required under section 290.01, subdivision 19a, clauses (1) and (6), and reduced by the subtraction under section 290.01, subdivision 19b, clause (13), and the Minnesota assignable portion of the subtraction for United States government interest under section 290.01, subdivision 19b, clause (1), after applying the allocation and assignability provisions of section 290.081, clause (a), or 290.17; and

(2) the denominator is the individual's federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, increased by the amounts specified in section 290.01, subdivision 19a, clauses (1) and (6), and reduced by the amounts specified in section 290.01, subdivision 19b, clause clauses (1) and (13).

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 6. Minnesota Statutes 2002, section 290.06, is amended by adding a subdivision to read:

Subd. 29. JOB OPPORTUNITY BUILDING ZONE JOB CREDIT. A taxpayer that is a qualified business, as defined in section 469.310, subdivision 11, is allowed a credit as determined under section 469.318 against the tax imposed by this chapter.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 7. Minnesota Statutes 2002, section 290.067, subdivision 1, is amended to read:

Subdivision 1. **AMOUNT OF CREDIT.** (a) A taxpayer may take as a credit against the tax due from the taxpayer and a spouse, if any, under this chapter an amount equal to the dependent care credit for which the taxpayer is eligible pursuant to the provisions of section 21 of the Internal Revenue Code subject to the limitations provided in subdivision 2 except that in determining whether the child qualified as a dependent, income received as a Minnesota family investment program grant or

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allowance to or on behalf of the child must not be taken into account in determining whether the child received more than half of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of the Internal Revenue Code do not apply.

(b) If a child who has not attained the age of six years at the close of the taxable year is cared for at a licensed family day care home operated by the child's parent, the taxpayer is deemed to have paid employment-related expenses. If the child is 16 months old or younger at the close of the taxable year, the amount of expenses deemed to have been paid equals the maximum limit for one qualified individual under section 21(c) and (d) of the Internal Revenue Code. If the child is older than 16 months of age but has not attained the age of six years at the close of the taxable year, the amount of expenses deemed to have been paid equals the amount the licensee would charge for the care of a child of the same age for the same number of hours of care.

(c) If a married couple:

(1) has a child who has not attained the age of one year at the close of the taxable year;

(2) files a joint tax return for the taxable year; and

(3) does not participate in a dependent care assistance program as defined in section 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of (i) the combined earned income of the couple or (ii) the amount of the maximum limit for one qualified individual under section 21(c) and (d) of the Internal Revenue Code will be deemed to be the employment related expense paid for that child. The earned income limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed amount. These deemed amounts apply regardless of whether any employment-related expenses have been paid.

(d) If the taxpayer is not required and does not file a federal individual income tax return for the tax year, no credit is allowed for any amount paid to any person unless:

(1) the name, address, and taxpayer identification number of the person are included on the return claiming the credit; or

(2) if the person is an organization described in section 501(c)(3) of the Internal Revenue Code and exempt from tax under section 501(a) of the Internal Revenue Code, the name and address of the person are included on the return claiming the credit.

In the case of a failure to provide the information required under the preceding sentence, the preceding sentence does not apply if it is shown that the taxpayer exercised due diligence in attempting to provide the information required.

In the case of a nonresident, part-year resident, or a person who has earned income not subject to tax under this chapter including earned income excluded pursuant to section 290.01, subdivision 19b, clause (13), the credit determined under section 21 of

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the Internal Revenue Code must be allocated based on the ratio by which the earned income of the claimant and the claimant's spouse from Minnesota sources bears to the total earned income of the claimant and the claimant's spouse.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 8. Minnesota Statutes 2002, section 290.0671, subdivision 1, is amended to read:

Subdivision 1. **CREDIT ALLOWED.** (a) An individual is allowed a credit against the tax imposed by this chapter equal to a percentage of earned income. To receive a credit, a taxpayer must be eligible for a credit under section 32 of the Internal Revenue Code.

(b) For individuals with no qualifying children, the credit equals 1.9125 percent of the first \$4,620 of earned income. The credit is reduced by 1.9125 percent of earned income or modified adjusted gross income, whichever is greater, in excess of \$5,770, but in no case is the credit less than zero.

(c) For individuals with one qualifying child, the credit equals 8.5 percent of the first \$6,920 of earned income and 8.5 percent of earned income over \$12,080 but less than \$13,450. The credit is reduced by 5.73 percent of earned income or modified adjusted gross income, whichever is greater, in excess of \$15,080, but in no case is the credit less than zero.

(d) For individuals with two or more qualifying children, the credit equals ten percent of the first \$9,720 of earned income and 20 percent of earned income over \$14,860 but less than \$16,800. The credit is reduced by 10.3 percent of earned income or modified adjusted gross income, whichever is greater, in excess of \$17,890, but in no case is the credit less than zero.

(e) For a nonresident or part-year resident, the credit must be allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph (e).

(f) For a person who was a resident for the entire tax year and has earned income not subject to tax under this chapter including income excluded under section 290.01, subdivision 19b, clause (13), the credit must be allocated based on the ratio of federal adjusted gross income reduced by the earned income not subject to tax under this chapter over federal adjusted gross income.

(g) For tax years beginning after December 31, 2001, and before December 31, 2004, the \$5,770 in paragraph (b) is increased to \$6,770, the \$15,080 in paragraph (c) is increased to \$16,080, and the \$17,890 in paragraph (d) is increased to \$18,890 for married taxpayers filing joint returns.

(h) For tax years beginning after December 31, 2004, and before December 31, 2007, the \$5,770 in paragraph (b) is increased to \$7,770, the \$15,080 in paragraph (c) is increased to \$17,080, and the \$17,890 in paragraph (d) is increased to \$19,890 for married taxpayers filing joint returns.

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(i) For tax years beginning after December 31, 2007, and before December 31, 2010, the \$5,770 in paragraph (b) is increased to \$8,770, the \$15,080 in paragraph (c) is increased to \$18,080 and the \$17,890 in paragraph (d) is increased to \$20,890 for married taxpayers filing joint returns.

(j) The commissioner shall construct tables showing the amount of the credit at various income levels and make them available to taxpayers. The tables shall follow the schedule contained in this subdivision, except that the commissioner may graduate the transition between income brackets.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 9. Minnesota Statutes 2002, section 290.091, subdivision 2, is amended to read:

Subd. 2. **DEFINITIONS.** For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code to the extent that the deduction exceeds 1.3 percent of adjusted gross income, as defined in section 62 of the Internal Revenue Code;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

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(6) the amount of addition required by section 290.01, subdivision 19a, clause (7); less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; and

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, ~~clause~~ clauses (12) and (13).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 10. Minnesota Statutes 2002, section 290.0921, subdivision 3, is amended to read:

Subd. 3. **ALTERNATIVE MINIMUM TAXABLE INCOME.** "Alternative minimum taxable income" is Minnesota net income as defined in section 290.01, subdivision 19, and includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e), (f), and (h) of the Internal Revenue Code. If a corporation files a separate company Minnesota tax return, the minimum tax must be computed on a separate company basis. If a corporation is part of a tax group filing a unitary return, the minimum tax must be computed on a unitary basis. The following adjustments must be made.

(1) For purposes of the depreciation adjustments under section 56(a)(1) and 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal income tax purposes, including any modification made in a taxable year under

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section 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c).

For taxable years beginning after December 31, 2000, the amount of any remaining modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation allowance in the first taxable year after December 31, 2000.

(2) The portion of the depreciation deduction allowed for federal income tax purposes under section 168(k) of the Internal Revenue Code that is required as an addition under section 290.01, subdivision 19c, clause (16), is disallowed in determining alternative minimum taxable income.

(3) The subtraction for depreciation allowed under section 290.01, subdivision 19d, clause (19), is allowed as a depreciation deduction in determining alternative minimum taxable income.

(4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d) of the Internal Revenue Code does not apply.

(5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal Revenue Code does not apply.

(6) The special rule for dividends from section 936 companies under section 56(g)(4)(C)(iii) does not apply.

(7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue Code does not apply.

(8) The tax preference for intangible drilling costs under section 57(a)(2) of the Internal Revenue Code must be calculated without regard to subparagraph (E) and the subtraction under section 290.01, subdivision 19d, clause (4).

(9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal Revenue Code does not apply.

(10) The tax preference for charitable contributions of appreciated property under section 57(a)(6) of the Internal Revenue Code does not apply.

(11) For purposes of calculating the tax preference for accelerated depreciation or amortization on certain property placed in service before January 1, 1987, under section 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the deduction allowed under section 290.01, subdivision 19e.

For taxable years beginning after December 31, 2000, the amount of any remaining modification made under section 290.01, subdivision 19e, not previously deducted is a depreciation or amortization allowance in the first taxable year after December 31, 2004.

(12) For purposes of calculating the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable

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income" as it is used in section 56(g) of the Internal Revenue Code, means alternative minimum taxable income as defined in this subdivision, determined without regard to the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

(13) For purposes of determining the amount of adjusted current earnings under section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), (ii) the amount of refunds of income, excise, or franchise taxes subtracted as provided in section 290.01, subdivision 19d, clause (10), or (iii) the amount of royalties, fees or other like income subtracted as provided in section 290.01, subdivision 19d, clause (11).

(14) Alternative minimum taxable income excludes the income from operating in a job opportunity building zone as provided under section 469.317.

Items of tax preference must not be reduced below zero as a result of the modifications in this subdivision.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 11. Minnesota Statutes 2002, section 290.0922, subdivision 2, is amended to read:

Subd. 2. **EXEMPTIONS.** The following entities are exempt from the tax imposed by this section:

- (1) corporations exempt from tax under section 290.05;
- (2) real estate investment trusts;
- (3) regulated investment companies or a fund thereof; and
- (4) entities having a valid election in effect under section 860D(b) of the Internal Revenue Code;
- (5) town and farmers' mutual insurance companies; and
- (6) cooperatives organized under chapter 308A that provide housing exclusively to persons age 55 and over and are classified as homesteads under section 273.124, subdivision 3; and

(7) an entity, if for the taxable year all of its property is located in a job opportunity building zone designated under section 469.314 and all of its payroll is a job opportunity building zone payroll under section 469.310.

Entities not specifically exempted by this subdivision are subject to tax under this section, notwithstanding section 290.05.

New language is indicated by underline, deletions by ~~strikeout~~.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 12. Minnesota Statutes 2002, section 290.0922, subdivision 3, is amended to read:

Subd. 3. **DEFINITIONS.** (a) "Minnesota sales or receipts" means the total sales apportioned to Minnesota pursuant to section 290.191, subdivision 5, the total receipts attributed to Minnesota pursuant to section 290.191, subdivisions 6 to 8, and/or the total sales or receipts apportioned or attributed to Minnesota pursuant to any other apportionment formula applicable to the taxpayer.

(b) "Minnesota property" means total Minnesota tangible property as provided in section 290.191, subdivisions 9 to 11, and any other tangible property located in Minnesota, but does not include property located in a job opportunity building zone designated under section 469.314. Intangible property shall not be included in Minnesota property for purposes of this section. Taxpayers who do not utilize tangible property to apportion income shall nevertheless include Minnesota property for purposes of this section. On a return for a short taxable year, the amount of Minnesota property owned, as determined under section 290.191, shall be included in Minnesota property based on a fraction in which the numerator is the number of days in the short taxable year and the denominator is 365.

(c) "Minnesota payrolls" means total Minnesota payrolls as provided in section 290.191, subdivision 12, but does not include job opportunity building zone payrolls under section 469.310, subdivision 8. Taxpayers who do not utilize payrolls to apportion income shall nevertheless include Minnesota payrolls for purposes of this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 13. Minnesota Statutes 2002, section 297A.68, is amended by adding a subdivision to read:

Subd. 37. **JOB OPPORTUNITY BUILDING ZONES.** (a) Purchases of tangible personal property or taxable services by a qualified business, as defined in section 469.310, are exempt if the property or services are primarily used or consumed in a job opportunity building zone designated under section 469.314.

(b) Purchase and use of construction materials and supplies for construction of improvements to real property in a job opportunity building zone are exempt if the improvements after completion of construction are to be used in the conduct of a qualified business, as defined in section 469.310. This exemption applies regardless of whether the purchases are made by the business or a contractor.

(c) The exemptions under this subdivision apply to a local sales and use tax regardless of whether the local sales tax is imposed on the sales taxable as defined under this chapter.

New language is indicated by underline, deletions by ~~strikeout~~.

(d) This subdivision applies to sales, if the purchase was made and delivery received during the duration of the zone.

EFFECTIVE DATE. This section is effective for sales made on or after the day following final enactment.

Sec. 14. Minnesota Statutes 2002, section 297B.03, is amended to read:

297B.03 EXEMPTIONS.

There is specifically exempted from the provisions of this chapter and from computation of the amount of tax imposed by it the following:

(1) purchase or use, including use under a lease purchase agreement or installment sales contract made pursuant to section 465.71, of any motor vehicle by the United States and its agencies and instrumentalities and by any person described in and subject to the conditions provided in section 297A.67, subdivision 11;

(2) purchase or use of any motor vehicle by any person who was a resident of another state or country at the time of the purchase and who subsequently becomes a resident of Minnesota, provided the purchase occurred more than 60 days prior to the date such person began residing in the state of Minnesota and the motor vehicle was registered in the person's name in the other state or country;

(3) purchase or use of any motor vehicle by any person making a valid election to be taxed under the provisions of section 297A.90;

(4) purchase or use of any motor vehicle previously registered in the state of Minnesota when such transfer constitutes a transfer within the meaning of section 118, 331, 332, 336, 337, 338, 351, 355, 368, 721, 731, 1031, 1033, or 1563(a) of the Internal Revenue Code of 1986, as amended through December 31, 1999;

(5) purchase or use of any vehicle owned by a resident of another state and leased to a Minnesota based private or for hire carrier for regular use in the transportation of persons or property in interstate commerce provided the vehicle is titled in the state of the owner or secured party, and that state does not impose a sales tax or sales tax on motor vehicles used in interstate commerce;

(6) purchase or use of a motor vehicle by a private nonprofit or public educational institution for use as an instructional aid in automotive training programs operated by the institution. "Automotive training programs" includes motor vehicle body and mechanical repair courses but does not include driver education programs;

(7) purchase of a motor vehicle for use as an ambulance by an ambulance service licensed under section 144E.10;

(8) purchase of a motor vehicle by or for a public library, as defined in section 134.001, subdivision 2, as a bookmobile or library delivery vehicle;

(9) purchase of a ready-mixed concrete truck;

New language is indicated by underline, deletions by ~~strikeout~~.

(10) purchase or use of a motor vehicle by a town for use exclusively for road maintenance, including snowplows and dump trucks, but not including automobiles, vans, or pickup trucks;

(11) purchase or use of a motor vehicle by a corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, or educational purposes, except a public school, university, or library, but only if the vehicle is:

(i) a truck, as defined in section 168.011, a bus, as defined in section 168.011, or a passenger automobile, as defined in section 168.011, if the automobile is designed and used for carrying more than nine persons including the driver; and

(ii) intended to be used primarily to transport tangible personal property or individuals, other than employees, to whom the organization provides service in performing its charitable, religious, or educational purpose;

(12) purchase of a motor vehicle for use by a transit provider exclusively to provide transit service is exempt if the transit provider is either (i) receiving financial assistance or reimbursement under section 174.24 or 473.384, or (ii) operating under section 174.29, 473.388, or 473.405;

(13) purchase or use of a motor vehicle by a qualified business, as defined in section 469.310, located in a job opportunity building zone, if the motor vehicle is principally garaged in the job opportunity building zone and is primarily used as part of or in direct support of the person's operations carried on in the job opportunity building zone. The exemption under this clause applies to sales, if the purchase was made and delivery received during the duration of the job opportunity building zone. The exemption under this clause also applies to any local sales and use tax.

EFFECTIVE DATE. This section is effective for sales made after December 31, 2003.

Sec. 15. [469.310] DEFINITIONS.

Subdivision 1. SCOPE. For purposes of sections 469.310 to 469.320, the following terms have the meanings given.

Subd. 2. AGRICULTURAL PROCESSING FACILITY. "Agricultural processing facility" means one or more facilities or operations that transform, package, sort, or grade livestock or livestock products, agricultural commodities, or plants or plant products into goods that are used for intermediate or final consumption including goods for nonfood use, and surrounding property.

Subd. 3. APPLICANT. "Applicant" means a local government unit or units applying for designation of an area as a job opportunity building zone or a joint powers board, established under section 471.59, acting on behalf of two or more local government units.

Subd. 4. COMMISSIONER. "Commissioner" means the commissioner of trade and economic development.

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Subd. 5. DEVELOPMENT PLAN. "Development plan" means a plan meeting the requirements of section 469.311.

Subd. 6. JOB OPPORTUNITY BUILDING ZONE OR ZONE. "Job opportunity building zone" or "zone" means a zone designated by the commissioner under section 469.314, and includes an agricultural processing facility zone.

Subd. 7. JOB OPPORTUNITY BUILDING ZONE PERCENTAGE OR ZONE PERCENTAGE. "Job opportunity building zone percentage" or "zone percentage" means the following fraction reduced to a percentage:

(1) the numerator of the fraction is:

(i) the ratio of the taxpayer's property factor under section 290.191 located in the zone for the taxable year over the property factor numerator determined under section 290.191, plus

(ii) the ratio of the taxpayer's job opportunity building zone payroll factor under subdivision 8 over the payroll factor numerator determined under section 290.191; and

(2) the denominator of the fraction is two.

When calculating the zone percentage for a business that is part of a unitary business as defined under section 290.17, subdivision 4, the denominator of the payroll and property factors is the Minnesota payroll and property of the unitary business as reported on the combined report under section 290.17, subdivision 4, paragraph (j).

Subd. 8. JOB OPPORTUNITY BUILDING ZONE PAYROLL FACTOR. "Job opportunity building zone payroll factor" or "job opportunity building zone payroll" is that portion of the payroll factor under section 290.191 that represents:

(1) wages or salaries paid to an individual for services performed in a job opportunity building zone; or

(2) wages or salaries paid to individuals working from offices within a job opportunity building zone if their employment requires them to work outside the zone and the work is incidental to the work performed by the individual within the zone.

Subd. 9. LOCAL GOVERNMENT UNIT. "Local government unit" means a statutory or home rule charter city, county, town, iron range resources and rehabilitation agency, regional development commission, or a federally designated economic development district.

Subd. 10. PERSON. "Person" includes an individual, corporation, partnership, limited liability company, association, or any other entity.

Subd. 11. QUALIFIED BUSINESS. (a) "Qualified business" means a person carrying on a trade or business at a place of business located within a job opportunity building zone.

(b) A person that relocates a trade or business from outside a job opportunity building zone into a zone is not a qualified business, unless the business:

New language is indicated by underline, deletions by strikeout.

(1)(i) increases full-time employment in the first full year of operation within the job opportunity building zone by at least 20 percent measured relative to the operations that were relocated and maintains the required level of employment for each year the zone designation applies; or

(ii) makes a capital investment in the property located within a zone equivalent to ten percent of the gross revenues of operation that were relocated in the immediately preceding taxable year; and

(2) enters a binding written agreement with the commissioner that:

(i) pledges the business will meet the requirements of clause (1);

(ii) provides for repayment of all tax benefits enumerated under section 469.315 to the business under the procedures in section 469.319, if the requirements of clause (1) are not met for the taxable year or for taxes payable during the year in which the requirements were not met; and

(iii) contains any other terms the commissioner determines appropriate.

Subd. 12. RELOCATES. (a) "Relocates" means that the trade or business:

(1) ceases one or more operations or functions at another location in Minnesota and begins performing substantially the same operations or functions at a location in a job opportunity building zone; or

(2) reduces employment at another location in Minnesota during a period starting one year before and ending one year after it begins operations in a job opportunity building zone and its employees in the job opportunity building zone are engaged in the same line of business as the employees at the location where it reduced employment.

(b) "Relocate" does not include an expansion by a business that establishes a new facility that does not replace or supplant an existing operation or employment, in whole or in part.

(c) "Trade or business" includes any business entity that is substantially similar in operation or ownership to the business entity seeking to be a qualified business under this section.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 16. [469.311] DEVELOPMENT PLAN.

(a) An applicant for designation of a job opportunity building zone must adopt a written development plan for the zone before submitting the application to the commissioner.

(b) The development plan must contain, at least, the following:

(1) a map of the proposed zone that indicates the geographic boundaries of the zone, the total area, and present use and conditions generally of the land and structures within those boundaries;

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(2) evidence of community support and commitment from local government, local workforce investment boards, school districts, and other education institutions, business groups, and the public;

(3) a description of the methods proposed to increase economic opportunity and expansion, facilitate infrastructure improvement, reduce the local regulatory burden, and identify job-training opportunities;

(4) current social, economic, and demographic characteristics of the proposed zone and anticipated improvements in education, health, human services, and employment if the zone is created;

(5) a description of anticipated activity in the zone and each subzone, including, but not limited to, industrial use, industrial site reuse, commercial or retail use, and residential use; and

(6) any other information required by the commissioner.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 17. [469.312] JOB OPPORTUNITY BUILDING ZONES; LIMITATIONS.

Subdivision 1. MAXIMUM SIZE. A job opportunity building zone may not exceed 5,000 acres. For a zone designated as an agricultural processing facility zone, the zone also may not exceed the size of a site necessary for the agricultural processing facility, including ancillary operations and space for expansion in the reasonably foreseeable future.

Subd. 2. SUBZONES. The area of a job opportunity building zone may consist of one or more noncontiguous areas or subzones.

Subd. 3. OUTSIDE METROPOLITAN AREA. The area of a job opportunity building zone must be located outside of the metropolitan area, as defined in section 473.121, subdivision 2.

Subd. 4. BORDER CITY DEVELOPMENT ZONES. (a) The area of a job opportunity building zone may not include the area of a border city development zone designated under section 469.1731. The city may remove property from a border city development zone contingent upon the area being designated as a job opportunity building zone. Before removing a parcel of property from a border city development zone, the city must obtain the written consent to the removal from each recipient that is located on the parcel and receives incentives under the border city development zone. Consent of any other property owner or taxpayer in the border city development zone is not required.

(b) A city may not provide tax incentives under section 469.1734 to individuals or businesses for operations or activity in a job opportunity building zone.

Subd. 5. DURATION LIMIT. The maximum duration of a zone is 12 years. The applicant may request a shorter duration. The commissioner may specify a shorter

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duration, regardless of the requested duration.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 18. [469.313] APPLICATION FOR DESIGNATION.

Subdivision 1. WHO MAY APPLY. One or more local government units, or a joint powers board under section 471.59, acting on behalf of two or more units, may apply for designation of an area as a job opportunity building zone. All or part of the area proposed for designation as a zone must be located within the boundaries of each of the governmental units. A local government unit may not submit or have submitted on its behalf more than one application for designation of a job opportunity building zone.

Subd. 2. APPLICATION CONTENT. The application must include:

- (1) a development plan meeting the requirements of section 469.311;
- (2) the proposed duration of the zone, not to exceed 12 years;
- (3) a resolution or ordinance adopted by each of the cities or towns and the counties in which the zone is located, agreeing to provide all of the local tax exemptions provided under section 469.315;
- (4) if the proposed zone includes area in a border city development zone, written consent to removal of the property from the border city development zone to the extent required by section 469.312, subdivision 4;
- (5) an agreement by the applicant to treat incentives provided under the zone designation as business subsidies under sections 116J.993 to 116J.995 and to comply with the requirements of that law; and
- (6) supporting evidence to allow the commissioner to evaluate the application under the criteria in section 469.314.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 19. [469.314] DESIGNATION OF JOB OPPORTUNITY BUILDING ZONES.

Subdivision 1. COMMISSIONER TO DESIGNATE. (a) The commissioner, in consultation with the commissioner of revenue, shall designate not more than ten job opportunity building zones. In making the designations, the commissioner shall consider need and likelihood of success to yield the most economic development and revitalization of economically distressed rural areas of Minnesota.

(b) In addition to the designations under paragraph (a), the commissioner may, in consultation with the commissioners of agriculture and revenue, designate up to five agricultural processing facility zones.

(c) The commissioner may, upon designation of a zone, modify the development plan, including the boundaries of the zone or subzones, if in the commissioner's

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opinion a modified plan would better meet the objectives of the job opportunity building zone program. The commissioner shall notify the applicant of the modification and provide a statement of the reasons for the modifications.

Subd. 2. NEED INDICATORS. (a) In evaluating applications to determine the need for designation of a job opportunity building zone, the commissioner shall consider the following factors as indicators of need:

(1) the percentage of the population that is below 200 percent of the poverty rate, compared with the state as a whole;

(2) the extent to which the area's average weekly wage is significantly lower than the state average weekly wage;

(3) the amount of property in or near the proposed zone that is deteriorated or underutilized;

(4) the extent to which the median sale price of housing units in the area is below the state median;

(5) the extent to which the median household income of the area is lower than the state median household income;

(6) the extent to which the area experienced a population loss during the 20-year period ending the year before the application is made;

(7) the extent to which an area has experienced sudden or severe job loss as a result of closing of businesses or other employers;

(8) the extent to which property in the area would remain underdeveloped or nonperforming due to physical characteristics;

(9) the extent to which the area has substantial real property with adequate infrastructure and energy to support new or expanded development; and

(10) the extent to which the business startup or expansion rates are significantly lower than the respective rate for the state.

(b) In applying the need indicators, the best available data should be used. If reported data are not available for the proposed zone, data for the smallest area that is available and includes the area of the proposed zone may be used. The commissioner may require applicants to provide data to demonstrate how the area meets one or more of the indicators of need.

Subd. 3. SUCCESS INDICATORS. In determining the likelihood of success of a proposed zone, the commissioner shall consider:

(1) the strength and viability of the proposed development goals, objectives, and strategies in the development plan;

(2) whether the development plan is creative and innovative in comparison to other applications;

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(3) local public and private commitment to development of the proposed zone and the potential cooperation of surrounding communities;

(4) existing resources available to the proposed zone;

(5) how the designation of the zone would relate to other economic and community development projects and to regional initiatives or programs;

(6) how the regulatory burden will be eased for businesses operating in the proposed zone;

(7) proposals to establish and link job creation and job training; and

(8) the extent to which the development is directed at encouraging and that designation of the zone is likely to result in the creation of high-paying jobs.

Subd. 4. DESIGNATION SCHEDULE. (a) The schedule in paragraphs (b) to (f) applies to the designation of job opportunity building zones.

(b) The commissioner shall publish the form for applications and any procedural, form, or content requirements for applications by no later than August 1, 2003. The commissioner may publish these requirements on the Internet, in the State Register, or by any other means the commissioner determines appropriate to disseminate the information to potential applicants for designation.

(c) Applications must be submitted by October 15, 2003.

(d) The commissioner shall designate the zones by no later than December 31, 2003.

(e) The designation of the zones takes effect January 1, 2004.

(f) The commissioner may reserve one or more of the ten authorized zones for a second round of designations in calendar year 2004. If the commissioner chooses to reserve designations for this purpose, the commissioner shall establish the schedule for the second round of designations, notwithstanding the dates in paragraphs (c), (d), and (e). The commissioner shall allow a period of at least 90 days for submission of applications after notification of the second round. A zone designated in the second round takes effect on January 1, 2005.

Subd. 5. GEOGRAPHIC DISTRIBUTION. The commissioner shall have as a goal the geographic distribution of zones around the state.

Subd. 6. RULEMAKING EXEMPTION. The commissioner's actions in establishing procedures, requirements, and making determinations to administer sections 469.310 to 469.320 are not a rule for purposes of chapter 14 and are not subject to the Administrative Procedure Act contained in chapter 14 and are not subject to section 14.386.

EFFECTIVE DATE. This section is effective the day following final enactment.

New language is indicated by underline, deletions by ~~strikeout~~.

Sec. 20. [469.315] TAX INCENTIVES AVAILABLE IN ZONES.

Qualified businesses that operate in a job opportunity building zone, individuals who invest in a qualified business that operates in a job opportunity building zone, and property located in a job opportunity building zone qualify for:

- (1) exemption from individual income taxes as provided under section 469.316;
- (2) exemption from corporate franchise taxes as provided under section 469.317;
- (3) exemption from the state sales and use tax and any local sales and use taxes on qualifying purchases as provided in section 297A.68, subdivision 37;
- (4) exemption from the state sales tax on motor vehicles and any local sales tax on motor vehicles as provided under section 297B.03;
- (5) exemption from the property tax as provided in section 272.02, subdivision 64;
- (6) exemption from the wind energy production tax under section 272.029, subdivision 7; and
- (7) the jobs credit allowed under section 469.318.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 21. [469.316] INDIVIDUAL INCOME TAX EXEMPTION.

Subdivision 1. APPLICATION. An individual operating a trade or business in a job opportunity building zone, and an individual making a qualifying investment in a qualified business operating in a job opportunity building zone qualifies for the exemptions from taxes imposed under chapter 290, as provided in this section. The exemptions provided under this section apply only to the extent that the income otherwise would be taxable under chapter 290. Subtractions under this section from federal taxable income, alternative minimum taxable income, or any other base subject to tax are limited to the amount that otherwise would be included in the tax base absent the exemption under this section. This section applies only to taxable years beginning during the duration of the job opportunity building zone.

Subd. 2. RENTS. An individual is exempt from the taxes imposed under chapter 290 on net rents derived from real or tangible personal property located in a zone for a taxable year in which the zone was designated a job opportunity building zone. If tangible personal property was used both within and outside of the zone, the exemption amount for the net rental income must be multiplied by a fraction, the numerator of which is the number of days the property was used in the zone and the denominator of which is the total days.

Subd. 3. BUSINESS INCOME. An individual is exempt from the taxes imposed under chapter 290 on net income from the operation of a qualified business in a job opportunity building zone. If the trade or business is carried on within and without the zone and the individual is not a resident of Minnesota, the exemption must be apportioned based on the zone percentage for the taxable year. If the trade or business is carried on within and without the zone and the individual is a resident of Minnesota,

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the exemption must be apportioned based on the zone percentage for the taxable year, except the ratios under section 469.310, subdivision 7, clause (1), items (i) and (ii), must use the denominators of the property and payroll factors determined under section 290.191. No subtraction is allowed under this section in excess of 20 percent of the sum of the job opportunity building zone payroll and the adjusted basis of the property at the time that the property is first used in the job opportunity building zone by the business.

Subd. 4. CAPITAL GAINS. (a) An individual is exempt from the taxes imposed under chapter 290 on:

(1) net gain derived on a sale or exchange of real property located in the zone and used by a qualified business. If the property was held by the individual during a period when the zone was not designated, the gain must be prorated based on the percentage of time, measured in calendar days, that the real property was held by the individual during the period the zone designation was in effect to the total period of time the real property was held by the individual;

(2) net gain derived on a sale or exchange of tangible personal property used by a qualified business in the zone. If the property was held by the individual during a period when the zone was not designated, the gain must be prorated based on the percentage of time, measured in calendar days, that the property was held by the individual during the period the zone designation was in effect to the total period of time the property was held by the individual. If the tangible personal property was used outside of the zone during the period of the zone's designation, the exemption must be multiplied by a fraction, the numerator of which is the number of days the property was used in the zone during the time of the designation and the denominator of which is the total days the property was held during the time of the designation; and

(3) net gain derived on a sale of an ownership interest in a qualified business operating in the job opportunity building zone, meeting the requirements of paragraph (b). The exemption on the gain must be multiplied by the zone percentage of the business for the taxable year prior to the sale.

(b) A qualified business meets the requirements of paragraph (a), clause (3), if it is a corporation, an S corporation, or a partnership, and for the taxable year its job opportunity building zone percentage exceeds 25 percent. For purposes of paragraph (a), clause (3), the zone percentage must be calculated by modifying the ratios under section 469.310, subdivision 7, clause (1), items (i) and (ii), to use the denominators of the property and payroll factors determined under section 290.191. Upon the request of an individual holding an ownership interest in the entity, the entity must certify to the owner, in writing, the job opportunity building zone percentage needed to determine the exemption.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

New language is indicated by underline, deletions by ~~strikeout~~.

Sec. 22. [469.317] CORPORATE FRANCHISE TAX EXEMPTION.

(a) A qualified business is exempt from taxation under section 290.02, the alternative minimum tax under section 290.0921, and the minimum fee under section 290.0922, on the portion of its income attributable to operations within the zone. This exemption is determined as follows:

(1) for purposes of the tax imposed under section 290.02, by multiplying its taxable net income by its zone percentage and subtracting the result in determining taxable income;

(2) for purposes of the alternative minimum tax under section 290.0921, by multiplying its alternative minimum taxable income by its zone percentage and reducing alternative minimum taxable income by this amount; and

(3) for purposes of the minimum fee under section 290.0922, by excluding property and payroll in the zone from the computations of the fee or by exempting the entity under section 290.0922, subdivision 2, clause (7).

(b) No subtraction is allowed under this section in excess of 20 percent of the sum of the corporation's job opportunity building zone payroll and the adjusted basis of the property at the time that the property is first used in the job opportunity building zone by the corporation.

(c) This section applies only to taxable years beginning during the duration of the job opportunity building zone.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 23. [469.318] JOBS CREDIT.

Subdivision 1. CREDIT ALLOWED. A qualified business is allowed a credit against the taxes imposed under chapter 290. The credit equals seven percent of the:

(1) lesser of:

(i) zone payroll for the taxable year, less the zone payroll for the base year; or

(ii) total Minnesota payroll for the taxable year, less total Minnesota payroll for the base year; minus

(2) \$30,000 multiplied by (the number of full-time equivalent employees that the qualified business employs in the job opportunity building zone for the taxable year, minus the number of full-time equivalent employees the business employed in the zone in the base year, but not less than zero).

Subd. 2. DEFINITIONS. (a) For purposes of this section, the following terms have the meanings given.

(b) "Base year" means the taxable year beginning during the calendar year prior to the calendar year in which the zone designation took effect.

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(c) "Full-time equivalent employees" means the equivalent of annualized expected hours of work equal to 2,080 hours.

(d) "Minnesota payroll" means the wages or salaries attributed to Minnesota under section 290.191, subdivision 12, for the qualified business or the unitary business of which the qualified business is a part, whichever is greater.

(e) "Zone payroll" means wages or salaries used to determine the zone payroll factor for the qualified business, less the amount of compensation attributable to any employee that exceeds \$100,000.

Subd. 3. INFLATION ADJUSTMENT. For taxable years beginning after December 31, 2004, the dollar amounts in subdivision 1, clause (2), and subdivision 2, paragraph (e), are annually adjusted for inflation. The commissioner of revenue shall adjust the amounts by the percentage determined under section 290.06, subdivision 2d, for the taxable year.

Subd. 4. REFUNDABLE. If the amount of the credit exceeds the liability for tax under chapter 290, the commissioner of revenue shall refund the excess to the qualified business.

Subd. 5. APPROPRIATION. An amount sufficient to pay the refunds authorized by this section is appropriated to the commissioner of revenue from the general fund.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 24. [469.319] REPAYMENT OF TAX BENEFITS.

Subdivision 1. REPAYMENT OBLIGATION. A business must repay the amount of the total tax reduction listed in section 469.315 and any refund under section 469.318 in excess of tax liability, received during the two years immediately before it ceased to operate in the zone, if the business:

(1) received tax reductions authorized by section 469.315; and

(2)(i) did not meet the goals specified in an agreement entered into with the applicant that states any obligation the qualified business must fulfill in order to be eligible for tax benefits. The commissioner may extend for up to one year the period for meeting any goals provided in an agreement. The applicant may extend the period for meeting other goals by documenting in writing the reason for the extension and attaching a copy of the document to its next annual report to the commissioner; or

(ii) ceased to operate its facility located within the job opportunity building zone or otherwise ceases to be or is not a qualified business.

Subd. 2. DEFINITIONS. (a) For purposes of this section, the following terms have the meanings given.

(b) "Business" means any person who received tax benefits enumerated in section 469.315.

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(c) “Commissioner” means the commissioner of revenue.

Subd. 3. DISPOSITION OR REPAYMENT. The repayment must be paid to the state to the extent it represents a state tax reduction and to the county to the extent it represents a property tax reduction. Any amount repaid to the state must be deposited in the general fund. Any amount repaid to the county for the property tax exemption must be distributed to the local governments with authority to levy taxes in the zone in the same manner provided for distribution of payment of delinquent property taxes. Any repayment of local sales taxes must be repaid to the city or county imposing the local sales tax.

Subd. 4. REPAYMENT PROCEDURES. (a) For the repayment of taxes imposed under chapter 290 or 297A or local taxes collected pursuant to section 297A.99, a business must file an amended return with the commissioner of revenue and pay any taxes required to be repaid within 30 days after ceasing to do business in the zone. The amount required to be repaid is determined by calculating the tax for the period or periods for which repayment is required without regard to the exemptions and credits allowed under section 469.315.

(b) For the repayment of taxes imposed under chapter 297B, a business must pay any taxes required to be repaid to the motor vehicle registrar, as agent for the commissioner of revenue, within 30 days after ceasing to do business in the zone.

(c) For the repayment of property taxes, the county auditor shall prepare a tax statement for the business, applying the applicable tax extension rates for each payable year and provide a copy to the business. The business must pay the taxes to the county treasurer within 30 days after receipt of the tax statement. The taxpayer may appeal the valuation and determination of the property tax to the tax court within 30 days after receipt of the tax statement.

(d) The provisions of chapters 270 and 289A relating to the commissioner’s authority to audit, assess, and collect the tax and to hear appeals are applicable to the repayment required under paragraphs (a) and (b). The commissioner may impose civil penalties as provided in chapter 289A, and the additional tax and penalties are subject to interest at the rate provided in section 270.75, from 30 days after ceasing to do business in the job opportunity building zone until the date the tax is paid.

(e) If a property tax is not repaid under paragraph (c), the county treasurer shall add the amount required to be repaid to the property taxes assessed against the property for payment in the year following the year in which the treasurer discovers that the business ceased to operate in the job opportunity building zone.

(f) For determining the tax required to be repaid, a tax reduction is deemed to have been received on the date that the tax would have been due if the taxpayer had not been entitled to the exemption or on the date a refund was issued for a refundable tax credit.

(g) The commissioner may assess the repayment of taxes under paragraph (d) any time within two years after the business ceases to operate in the job opportunity building zone, or within any period of limitations for the assessment of tax under section 289A.38, whichever period is later.

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Subd. 5. WAIVER AUTHORITY. The commissioner may waive all or part of a repayment, if the commissioner, in consultation with the commissioner of trade and economic development and appropriate officials from the local government units in which the qualified business is located, determines that requiring repayment of the tax is not in the best interest of the state or the local government units and the business ceased operating as a result of circumstances beyond its control including, but not limited to:

- (1) a natural disaster;
- (2) unforeseen industry trends; or
- (3) loss of a major supplier or customer.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 25. [469.320] ZONE PERFORMANCE; REMEDIES.

Subdivision 1. REPORTING REQUIREMENT. An applicant receiving designation of a job opportunity building zone under section 469.314 must annually report to the commissioner on its progress in meeting the zone performance goals under the development plan for the zone and the applicant's compliance with the business subsidy law under sections 116J.993 to 116J.995.

Subd. 2. PROCEDURES. For reports required by subdivision 1, the commissioner may prescribe:

- (1) the required time or times by which the reports must be filed;
- (2) the form of the report; and
- (3) the information required to be included in the report.

Subd. 3. REMEDIES. If the commissioner determines, based on a report filed under subdivision 1 or other available information, that a zone or subzone is failing to meet its performance goals, the commissioner may take any actions the commissioner determines appropriate, including modification of the boundaries of the zone or a subzone or termination of the zone or a subzone. Before taking any action, the commissioner shall consult with the applicant and the affected local government units, including notifying them of the proposed actions to be taken. The commissioner shall publish any order modifying a zone in the State Register and on the Internet. The applicant may appeal the commissioner's order under the contested case procedures of chapter 14.

Subd. 4. EXISTING BUSINESSES. (a) An action to remove area from a zone or to terminate a zone under this section does not apply to:

- (1) the property tax on improvements constructed before the first January 2 following publication of the commissioner's order;

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(2) sales tax on purchases made before the first day of the next calendar month beginning at least 30 days after publication of the commissioner's order; and

(3) individual income tax or corporate franchise tax attributable to a facility that was in operation before the publication of the commissioner's order.

(b) The tax exemptions specified in paragraph (a) terminate on the date on which the zone expires under the original designation.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 26. [477A.08] JOB OPPORTUNITY BUILDING ZONE AID.

Subdivision 1. ELIGIBILITY. (a) For each assessment year that the exemption for job opportunity building zone property is in effect under section 272.02, subdivision 64, the assessor shall determine the difference between the actual net tax capacity and the net tax capacity that would be determined for the job opportunity building zone, including any property removed from the zone that continues to qualify under section 469.320, subdivision 4, if the exemption were not in effect.

(b) Each city and county is eligible for aid equal to one-half of:

(1) the amount by which the sum of the differences determined in paragraph (a) for the corresponding assessment year exceeds three percent of the city's or county's total taxable net tax capacity for taxes payable in 2003, multiplied by

(2) the city's or the county's, as applicable, average local tax rate for taxes payable in 2003.

Subd. 2. CERTIFICATION. The county assessor shall notify the commissioner of revenue of the amount determined under subdivision 1, paragraph (b), clause (1), for any city or county that qualifies for aid under this section by June 30 of the assessment year, in a form prescribed by the commissioner. The commissioner shall notify each city and county of its qualifying aid amount by August 15 of the assessment year.

Subd. 3. APPROPRIATION; PAYMENT. The commissioner shall pay each city and county its qualifying aid amount by July 20 of the following year. An amount sufficient to pay the aid under this section is appropriated to the commissioner of revenue from the general fund.

EFFECTIVE DATE. This section is effective beginning for aid based on property taxes assessed in 2004, payable in 2005.

Sec. 27. APPROPRIATION; COST OF ADMINISTRATION.

\$100,000 in fiscal year 2004 and \$30,000 in fiscal year 2005 are appropriated to the commissioner of trade and economic development for the cost of designating job opportunity building zones.

\$53,000 in fiscal year 2004 and \$29,000 in fiscal year 2005 are appropriated to the commissioner of revenue for the cost of administering the tax provisions of this act.

EFFECTIVE DATE. This section is effective the day following final enactment.

New language is indicated by underline, deletions by strikeout.

ARTICLE 2

BIOTECHNOLOGY AND HEALTH SCIENCE ZONES

Section 1. LEGISLATIVE FINDINGS.

The legislature finds, as a matter of public policy, that biotechnology and the health sciences hold immense promise in improving the quality of our lives, including curing diseases, making our foods safer and more abundant, reducing our dependence on fossil fuels and foreign oil, making better use of Minnesota agriculture products, and growing tens of thousands of new, high-paying jobs.

The legislature further finds that there are hundreds of discoveries made each year at the University of Minnesota, the Mayo Clinic, and other research institutions that, if properly commercialized, could help provide these benefits.

The legislature further finds that biotechnology and health sciences companies benefit from location in proximity to these research institutions and the many faculty, students, and other intellectual and physical infrastructure these institutions provide.

The legislature further finds that Minnesota's high-quality workforce is attractive to biotechnology and health sciences companies that would want to relocate, start up, or expand in Minnesota.

The legislature further finds and declares that it is appropriate and necessary, to improve our quality of life and as a matter of economic development, that Minnesota take rapid and affirmative steps to encourage the development of biotechnology and the health sciences and the commercialization of important discoveries, especially through expansion of business opportunities in proximity to the research institutions where those discoveries occur. This must include attention to the ethical, legal, and societal impacts of the industry, including risk assessment and environmental protection.

Sec. 2. Minnesota Statutes 2002, section 272.02, is amended by adding a subdivision to read:

Subd. 65. BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE PROPERTY. (a) Improvements to real property, and personal property, classified under section 273.13, subdivision 24, and located within a biotechnology and health sciences industry zone are exempt from ad valorem taxes levied under chapter 275, as provided in this subdivision.

(b) For property to qualify for exemption under paragraph (a), the occupant must be a qualified business, as defined in section 469.330.

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(c) The exemption applies beginning for the first assessment year after designation of the biotechnology and health sciences industry zone by the commissioner of trade and economic development. The exemption applies to each assessment year that begins during the duration of the biotechnology and health sciences industry zone. This exemption does not apply to:

(1) a levy under section 475.61 or similar levy provisions under any other law to pay general obligation bonds; or

(2) a levy under section 126C.17, if the levy was approved by the voters before the designation of the biotechnology and health sciences industry zone.

(d) The exemption does not apply to taxes imposed by a city, town, or county, unless the governing body adopts a resolution granting the exemption. A city, town, or county may provide a complete property tax exemption, partial property tax exemption, or no property tax exemption to qualified businesses in the biotechnology and health sciences industry zone. "City" includes a statutory or home rule charter city.

(e) For property located in a tax increment financing district, the county shall not adjust the original net tax capacity of the district under section 469.177, subdivision 1, paragraph (a), upon the expiration of an exemption under this subdivision.

EFFECTIVE DATE. This section is effective beginning for property taxes assessed in 2004, payable in 2005.

Sec. 3. Minnesota Statutes 2002, section 290.01, subdivision 29, is amended to read:

Subd. 29. **TAXABLE INCOME.** The term "taxable income" means:

(1) for individuals, estates, and trusts, the same as taxable net income;

(2) for corporations, the taxable net income less

(i) the net operating loss deduction under section 290.095; and

(ii) the dividends received deduction under section 290.21, subdivision 4; and

(iii) the exemption for operating in a biotechnology and health sciences industry zone under section 469.337.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 4. Minnesota Statutes 2002, section 290.06, is amended by adding a subdivision to read:

Subd. 30. **BIOTECHNOLOGY AND HEALTH SCIENCE INDUSTRY ZONE JOB CREDIT.** A taxpayer that is a qualified business, as defined in section 469.330, subdivision 11, is allowed a credit as determined under section 469.338 against the franchise tax imposed under section 290.06, subdivision 1, or the alternative minimum tax imposed under section 290.0921.

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EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 5. Minnesota Statutes 2002, section 290.06, is amended by adding a subdivision to read:

Subd. 31. **BIOTECHNOLOGY AND HEALTH SCIENCE INDUSTRY ZONE RESEARCH AND DEVELOPMENT CREDIT.** A taxpayer that is a qualified business, as defined in section 469.330, subdivision 11, is allowed a credit as determined under section 469.339 against the franchise tax imposed under section 290.06, subdivision 1, or the alternative minimum tax imposed under section 290.0921.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 6. Minnesota Statutes 2002, section 290.0921, subdivision 3, is amended to read:

Subd. 3. **ALTERNATIVE MINIMUM TAXABLE INCOME.** "Alternative minimum taxable income" is Minnesota net income as defined in section 290.01, subdivision 19, and includes the adjustments and tax preference items in sections 56, 57, 58, and 59(d), (e), (f), and (h) of the Internal Revenue Code. If a corporation files a separate company Minnesota tax return, the minimum tax must be computed on a separate company basis. If a corporation is part of a tax group filing a unitary return, the minimum tax must be computed on a unitary basis. The following adjustments must be made.

(1) For purposes of the depreciation adjustments under section 56(a)(1) and 56(g)(4)(A) of the Internal Revenue Code, the basis for depreciable property placed in service in a taxable year beginning before January 1, 1990, is the adjusted basis for federal income tax purposes, including any modification made in a taxable year under section 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c).

For taxable years beginning after December 31, 2000, the amount of any remaining modification made under section 290.01, subdivision 19e, or Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c), not previously deducted is a depreciation allowance in the first taxable year after December 31, 2000.

(2) The portion of the depreciation deduction allowed for federal income tax purposes under section 168(k) of the Internal Revenue Code that is required as an addition under section 290.01, subdivision 19c, clause (16), is disallowed in determining alternative minimum taxable income.

(3) The subtraction for depreciation allowed under section 290.01, subdivision 19d, clause (19), is allowed as a depreciation deduction in determining alternative minimum taxable income.

(4) The alternative tax net operating loss deduction under sections 56(a)(4) and 56(d) of the Internal Revenue Code does not apply.

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(5) The special rule for certain dividends under section 56(g)(4)(C)(ii) of the Internal Revenue Code does not apply.

(6) The special rule for dividends from section 936 companies under section 56(g)(4)(C)(iii) does not apply.

(7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue Code does not apply.

(8) The tax preference for intangible drilling costs under section 57(a)(2) of the Internal Revenue Code must be calculated without regard to subparagraph (E) and the subtraction under section 290.01, subdivision 19d, clause (4).

(9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal Revenue Code does not apply.

(10) The tax preference for charitable contributions of appreciated property under section 57(a)(6) of the Internal Revenue Code does not apply.

(11) For purposes of calculating the tax preference for accelerated depreciation or amortization on certain property placed in service before January 1, 1987, under section 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the deduction allowed under section 290.01, subdivision 19e.

For taxable years beginning after December 31, 2000, the amount of any remaining modification made under section 290.01, subdivision 19e, not previously deducted is a depreciation or amortization allowance in the first taxable year after December 31, 2004.

(12) For purposes of calculating the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable income" as it is used in section 56(g) of the Internal Revenue Code, means alternative minimum taxable income as defined in this subdivision, determined without regard to the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

(13) For purposes of determining the amount of adjusted current earnings under section 56(g)(3) of the Internal Revenue Code, no adjustment shall be made under section 56(g)(4) of the Internal Revenue Code with respect to (i) the amount of foreign dividend gross-up subtracted as provided in section 290.01, subdivision 19d, clause (1), (ii) the amount of refunds of income, excise, or franchise taxes subtracted as provided in section 290.01, subdivision 19d, clause (10), or (iii) the amount of royalties, fees or other like income subtracted as provided in section 290.01, subdivision 19d, clause (11).

(14) Alternative minimum taxable income excludes the income from operating in a biotechnology and health sciences industry zone as provided under section 469.337.

Items of tax preference must not be reduced below zero as a result of the modifications in this subdivision.

New language is indicated by underline, deletions by ~~strikeout~~.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 7. Minnesota Statutes 2002, section 290.0922, subdivision 3, is amended to read:

Subd. 3. **DEFINITIONS.** (a) "Minnesota sales or receipts" means the total sales apportioned to Minnesota pursuant to section 290.191, subdivision 5, the total receipts attributed to Minnesota pursuant to section 290.191, subdivisions 6 to 8, and/or the total sales or receipts apportioned or attributed to Minnesota pursuant to any other apportionment formula applicable to the taxpayer.

(b) "Minnesota property" means total Minnesota tangible property as provided in section 290.191, subdivisions 9 to 11, ~~and~~ any other tangible property located in Minnesota, but does not include property of a qualified business located in a biotechnology and health sciences zone designated under section 469.334. Intangible property shall not be included in Minnesota property for purposes of this section. Taxpayers who do not utilize tangible property to apportion income shall nevertheless include Minnesota property for purposes of this section. On a return for a short taxable year, the amount of Minnesota property owned, as determined under section 290.191, shall be included in Minnesota property based on a fraction in which the numerator is the number of days in the short taxable year and the denominator is 365.

(c) "Minnesota payrolls" means total Minnesota payrolls as provided in section 290.191, subdivision 12, but does not include biotechnology and health sciences zone payroll under section 469.330, subdivision 8. Taxpayers who do not utilize payrolls to apportion income shall nevertheless include Minnesota payrolls for purposes of this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 8. Minnesota Statutes 2002, section 297A.68, is amended by adding a subdivision to read:

Subd. 38. **BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE.** (a) Purchases of tangible personal property or taxable services by a qualified business, as defined in section 469.330, are exempt if the property or services are primarily used or consumed in a biotechnology and health sciences industry zone designated under section 469.334.

(b) Purchase and use of construction materials and supplies for construction of improvements to real property in a biotechnology and health sciences industry zone are exempt if the improvements after completion of construction are to be used in the conduct of a qualified business, as defined in section 469.330. This exemption applies regardless of whether the purchases are made by the business or a contractor.

(c) The exemptions under this subdivision apply to a local sales and use tax regardless of whether the local sales tax is imposed on the sales taxable as defined under this chapter.

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(d)(1) The tax on sales of goods or services exempted under this subdivision are imposed and collected as if the applicable rate under section 297A.62 applied. Upon application by the purchaser, on forms prescribed by the commissioner, a refund equal to the tax paid must be paid to the purchaser. The application must include sufficient information to permit the commissioner to verify the sales tax paid and the eligibility of the claimant to receive the credit. No more than two applications for refunds may be filed under this subdivision in a calendar year. The provisions of section 289A.40 apply to the refunds payable under this subdivision.

(2) The amount required to make the refunds is annually appropriated to the commissioner of revenue.

(3) The aggregate amount refunded to a qualified business must not exceed the amount allocated to the qualified business under section 469.335.

(e) This subdivision applies only to sales made during the duration of the designation of the zone.

EFFECTIVE DATE. This section is effective for sales made on or after the day following final enactment.

Sec. 9. [469.330] DEFINITIONS.

Subdivision 1. SCOPE. For purposes of sections 469.330 to 469.341, the following terms have the meanings given.

Subd. 2. APPLICANT. "Applicant" means a local government unit or units applying for designation of an area as a biotechnology and health sciences industry zone or a joint powers board, established under section 471.59, acting on behalf of two or more local government units.

Subd. 3. BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY FACILITY. "Biotechnology and health sciences industry facility" means one or more facilities or operations involved in:

(1) researching, developing, and/or manufacturing a biotechnology product or service or a biotechnology-related health sciences product or service;

(2) researching, developing, and/or manufacturing a biotechnology medical device product or service or a biotechnology-related medical device product or service;
or

(3) promoting, supplying, or servicing a facility or operation involved in clause (1) or (2), if the business derives more than 50 percent of its gross receipts from those activities.

Subd. 4. COMMISSIONER. "Commissioner" means the commissioner of trade and economic development.

Subd. 5. DEVELOPMENT PLAN. "Development plan" means a plan meeting the requirements of section 469.331.

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Subd. 6. **BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE OR ZONE.** “Biotechnology and health sciences industry zone” or “zone” means a zone designated by the commissioner under section 469.334.

Subd. 7. **BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE PERCENTAGE OR ZONE PERCENTAGE.** “Biotechnology and health sciences industry zone percentage” or “zone percentage” means the following fraction reduced to a percentage:

(1) the numerator of the fraction is:

(i) the ratio of the taxpayer’s property factor under section 290.191 located in the zone for the taxable year over the property factor numerator determined under section 290.191, plus

(ii) the ratio of the taxpayer’s biotechnology and health sciences industry zone payroll factor under subdivision 8 over the payroll factor numerator determined under section 290.191; and

(2) the denominator of the fraction is two.

When calculating the zone percentage for a business that is part of a unitary business as defined under section 290.17, subdivision 4, the denominator of the payroll and property factors is the Minnesota payroll and property of the unitary business as reported on the combined report under section 290.17, subdivision 4, paragraph (j).

Subd. 8. **BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE PAYROLL FACTOR.** “Biotechnology and health sciences industry zone payroll factor” or “biotechnology and health sciences industry zone payroll” is that portion of the payroll factor under section 290.191 that represents:

(1) wages or salaries paid to an individual for services performed for a qualified business in a biotechnology and health sciences industry zone; or

(2) wages or salaries paid to individuals working from offices of a qualified business within a biotechnology and health sciences industry zone if their employment requires them to work outside the zone and the work is incidental to the work performed by the individual within the zone.

Subd. 9. **LOCAL GOVERNMENT UNIT.** “Local government unit” means a statutory or home rule charter city, county, town, or school district.

Subd. 10. **PERSON.** “Person” includes an individual, corporation, partnership, limited liability company, association, or any other entity.

Subd. 11. **QUALIFIED BUSINESS.** (a) “Qualified business” means a person carrying on a trade or business at a biotechnology and health sciences industry facility located within a biotechnology and health sciences industry zone.

(b) A person that relocates a biotechnology and health sciences industry facility from outside a biotechnology and health sciences industry zone into a zone is not a qualified business, unless the business:

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(1)(i) increases full-time employment in the first full year of operation within the biotechnology and health sciences industry zone by at least 20 percent measured relative to the operations that were relocated and maintains the required level of employment for each year the zone designation applies; or

(ii) makes a capital investment in the property located within a zone equivalent to ten percent of the gross revenues of operation that were relocated in the immediately preceding taxable year; and

(2) enters a binding written agreement with the commissioner that:

(i) pledges the business will meet the requirements of clause (1);

(ii) provides for repayment of all tax benefits enumerated under section 469.336 to the business under the procedures in section 469.340, if the requirements of clause (1) are not met; and

(iii) contains any other terms the commissioner determines appropriate.

Subd. 12. RELOCATES. (a) "Relocates" means that the trade or business:

(1) ceases one or more operations or functions at another location in Minnesota and begins performing substantially the same operations or functions at a location in a biotechnology and health sciences industry zone; or

(2) reduces employment at another location in Minnesota during a period starting one year before and ending one year after it begins operations in a biotechnology and health sciences industry zone and its employees in the biotechnology and health sciences industry zone are engaged in the same line of business as the employees at the location where it reduced employment.

(b) "Relocate" does not include an expansion by a business that establishes a new facility that does not replace or supplant an existing operation or employment, in whole or in part.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 10. [469.331] DEVELOPMENT PLAN.

(a) An applicant for designation of a biotechnology and health sciences industry zone must adopt a written development plan for the zone before submitting the application to the commissioner.

(b) The development plan must contain, at least, the following:

(1) a map of the proposed zone that indicates the geographic boundaries of the zone, the total area, and present use and conditions generally of the land and structures within those boundaries;

(2) evidence of community support and commitment from local government, local workforce investment boards, school districts, and other education institutions, business groups, and the public;

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(3) a description of the methods proposed to increase economic opportunity and expansion, facilitate infrastructure improvement, reduce the local regulatory burden, and identify job-training opportunities;

(4) current social, economic, and demographic characteristics of the proposed zone and anticipated improvements in education, health, human services, and employment if the zone is created;

(5) a description of anticipated activity in the zone and each subzone, including, but not limited to, industrial use and industrial site reuse;

(6) a description of the tax exemptions under section 469.336 to be provided to each qualifying business based on a development agreement between the applicant and each qualified business. The development agreement must also state any obligations the qualified business must fulfill in order to be eligible for tax benefits; and

(7) any other information required by the commissioner.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 11. [469.332] BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE; LIMITATIONS.

Subdivision 1. MAXIMUM SIZE. A biotechnology and health sciences industry zone may not exceed 5,000 acres.

Subd. 2. SUBZONES. The area of a biotechnology and health sciences industry zone may consist of one or more noncontiguous areas or subzones.

Subd. 3. DURATION LIMIT. The maximum duration of a zone is 12 years. The applicant may request a shorter duration. The commissioner may specify a shorter duration, regardless of the requested duration.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 12. [469.333] APPLICATION FOR DESIGNATION.

Subdivision 1. WHO MAY APPLY. One or more local government units, or a joint powers board under section 471.59, acting on behalf of two or more units, may apply for designation of an area as a biotechnology and health sciences industry zone. All or part of the area proposed for designation as a zone must be located within the boundaries of each of the governmental units. A local government unit may not submit or have submitted on its behalf more than one application for designation of a biotechnology and health sciences industry zone.

Subd. 2. APPLICATION CONTENT. The application must include:

(1) a development plan meeting the requirements of section 469.331;

(2) the proposed duration of the zone, not to exceed 12 years;

(3)(i) a resolution or ordinance adopted by each of the cities or towns and the counties in which the zone is located, agreeing to provide all of the local sales and use

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tax exemptions provided under section 469.336; or (ii) a resolution or ordinance adopted by each of the cities or towns and the counties in which the zone is located that declares whether it will provide property tax exemptions under section 469.336;

(4) an agreement by the applicant to treat incentives provided under the zone designation as business subsidies under sections 116J.993 to 116J.995 and to comply with the requirements of that law; and

(5) supporting evidence to allow the commissioner to evaluate the application under the criteria in section 469.334.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 13. [469.334] DESIGNATION OF BIOTECHNOLOGY AND HEALTH SCIENCES INDUSTRY ZONE.

Subdivision 1. COMMISSIONER TO DESIGNATE. (a) The commissioner, in consultation with the commissioner of revenue and the director of the office of strategic and long-range planning, shall designate not more than one biotechnology and health sciences industry zone. Priority must be given to applicants with a development plan that links a higher education/research institution with a biotechnology and health sciences industry facility.

(b) The commissioner may consult with the applicant prior to the designation of the zone. The commissioner may modify the development plan, including the boundaries of the zone or subzones, if in the commissioner's opinion a modified plan would better meet the objectives of the biotechnology and health sciences industry zone program. The commissioner shall notify the applicant of the modifications and provide a statement of the reasons for the modifications.

Subd. 2. NEED INDICATORS. (a) In evaluating applications to determine the need for designation of a biotechnology and health sciences industry zone, the commissioner shall consider the following factors as indicators of need:

(1) the extent to which land in proximity to a significant scientific research institution could be developed as a higher and better use for biotechnology and health sciences industry facilities;

(2) the amount of property in or near the zone that is deteriorated or underutilized; and

(3) the extent to which property in the area would remain underdeveloped or nonperforming due to physical characteristics.

(b) The commissioner may require applicants to provide data to demonstrate how the area meets one or more of the indicators of need.

Subd. 3. SUCCESS INDICATORS. In determining the likelihood of success of a proposed zone, the commissioner shall consider:

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(1) applicants that show a viable link between a higher education/research institution, the biotechnology and/or medical devices business sectors, and one or more units of local government with a development plan;

(2) the extent to which the area has substantial real property with adequate infrastructure and energy to support new or expanded development;

(3) the strength and viability of the proposed development goals, objectives, and strategies in the development plan;

(4) whether the development plan is creative and innovative in comparison to other applications;

(5) local public and private commitment to development of a biotechnology and health sciences industry facility or facilities in the proposed zone and the potential cooperation of surrounding communities;

(6) existing resources available to the proposed zone;

(7) how the designation of the zone would relate to other economic and community development projects and to regional initiatives or programs;

(8) how the regulatory burden will be eased for biotechnology and health sciences industry facilities located in the proposed zone;

(9) proposals to establish and link job creation and job training in the biotechnology and health sciences industry with research/educational institutions; and

(10) the extent to which the development is directed at encouraging, and that designation of the zone is likely to result in, the creation of high-paying jobs.

Subd. 4. DESIGNATION SCHEDULE. (a) The schedule in paragraphs (b) to (e) applies to the designation of the biotechnology and health sciences industry zone.

(b) The commissioner shall publish the form for applications and any procedural, form, or content requirements for applications by no later than August 1, 2003. The commissioner may publish these requirements on the Internet, in the State Register, or by any other means the commissioner determines appropriate to disseminate the information to potential applicants for designation.

(c) Applications must be submitted by October 15, 2003.

(d) The commissioner shall designate the zones by no later than December 31, 2003.

(e) The designation of the zones takes effect January 1, 2004.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 14. [469.335] APPLICATION FOR TAX BENEFITS.

(a) To claim a tax credit or exemption against a state tax under section 469.336, clauses (2) through (5), a business must apply to the commissioner for a tax credit

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certificate. As a condition of its application, the business must agree to furnish information to the commissioner that is sufficient to verify the eligibility for any credits or exemptions claimed. The total amount of the state tax credits and exemptions allowed for the specified period may not exceed the amount of the tax credit certificates provided by the commissioner to the business. The commissioner must verify to the commissioner of revenue the amount of tax exemptions or credits for which each business is eligible.

(b) A tax credit certificate issued under this section may specify the particular tax exemptions or credits against a state tax that the qualified business is eligible to claim under section 469.336, clauses (2) through (5), and the amount of each exemption or credit allowed.

(c) The commissioner may issue \$1,000,000 of tax credits or exemptions in fiscal year 2004. Any tax credits or exemptions not awarded in fiscal year 2004 may be awarded in fiscal year 2005.

(d) A qualified business must use the tax credits or tax exemptions granted under this section by the later of the end of the state fiscal year or the taxpayer's tax year in which the credits or exemptions are granted.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 15. [469.336] TAX INCENTIVES AVAILABLE IN ZONES.

Qualified businesses that operate in a biotechnology and health sciences industry zone, individuals who invest in a qualified business that operates in a biotechnology and health sciences industry zone, and property of a qualified business located in a biotechnology and health sciences industry zone qualify for:

(1) exemption from the property tax as provided in section 272.02, subdivision 65;

(2) exemption from corporate franchise taxes as provided under section 469.337;

(3) exemption from the state sales and use tax and any local sales and use taxes on qualifying purchases as provided in section 297A.68, subdivision 37;

(4) research and development credits as provided under section 469.339;

(5) jobs credits as provided under section 469.338.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 16. [469.337] CORPORATE FRANCHISE TAX EXEMPTION.

(a) A qualified business is exempt from taxation under section 290.02, the alternative minimum tax under section 290.0921, and the minimum fee under section 290.0922, on the portion of its income attributable to operations of a qualified business within the biotechnology and health sciences industry zone. This exemption is determined as follows:

New language is indicated by underline, deletions by strikeout.

(1) for purposes of the tax imposed under section 290.02, by multiplying its taxable net income by its zone percentage and subtracting the result in determining taxable income;

(2) for purposes of the alternative minimum tax under section 290.0921, by multiplying its alternative minimum taxable income by its zone percentage and reducing alternative minimum taxable income by this amount; and

(3) for purposes of the minimum fee under section 290.0922, by excluding property and payroll in the zone from the computations of the fee.

(b) No subtraction is allowed under this section in excess of 20 percent of the sum of the corporation's biotechnology and health sciences industry zone payroll and the adjusted basis of the property at the time that the property is first used in the biotechnology and health sciences industry zone by the corporation.

(c) No reduction in tax is allowed in excess of the amount allocated under section 469.335.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2003.

Sec. 17. [469.338] JOBS CREDIT.

Subdivision 1. CREDIT ALLOWED. A qualified business is allowed a credit against the taxes imposed under chapter 290.

The credit equals seven percent of the:

(1) lesser of:

(i) zone payroll for the taxable year, less the zone payroll for the base year; or

(ii) total Minnesota payroll for the taxable year, less total Minnesota payroll for the base year; minus

(2) \$30,000 multiplied by the number of full-time equivalent employee positions that the qualified business employs in the biotechnology and health sciences industry zone for the taxable year, minus the number of full-time equivalent employees the business employed in the zone in the base year, but not less than zero.

Subd. 2. DEFINITIONS. (a) For purposes of this section, the following terms have the meaning given.

(b) "Base year" means the taxable year beginning during the calendar year in which the commissioner designated the zone.

(c) "Full-time equivalent employee position" means the equivalent of annualized expected hours of work equal to 2,080 hours.

(d) "Minnesota payroll" means the wages or salaries attributed to Minnesota under section 290.191, subdivision 12, for the qualified business or the unitary business of which the qualified business is a part, whichever is greater.

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(e) "Zone payroll" means wages or salaries used to determine the zone payroll factor for the qualified business.

Subd. 3. INFLATION ADJUSTMENT. For taxable years beginning after December 31, 2004, the dollar amount in subdivision 1, clause (2), is annually adjusted for inflation. The commissioner of revenue shall adjust the amount by the percentage determined under section 290.06, subdivision 2d, for the taxable year.

Subd. 4. REFUNDABLE. If the amount of the credit calculated under this section and allocated to the qualified business under section 14 exceeds the liability for tax under chapter 290, the commissioner of revenue shall refund the excess to the qualified business.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 18. [469.339] CREDIT FOR INCREASING RESEARCH ACTIVITIES IN A BIOTECHNOLOGY AND HEALTH SCIENCES ZONE.

Subdivision 1. CREDIT ALLOWED. A corporation, other than a corporation treated as an "S" corporation under section 290.9725, is allowed a credit against the portion of the franchise tax computed under section 290.06, subdivision 1, for the taxable year equal to:

(1) five percent of the first \$2,000,000 of the excess (if any) of (i) the qualified research expenses for the taxable year, over (ii) the base amount; and

(2) 2.5 percent of all such excess expenses over \$2,000,000.

Subd. 2. DEFINITIONS. (a) For purposes of this section, the following terms have the meanings given.

(b) "Qualified research expenses" means qualified research expenses and basic research payments as defined in section 41(b) and (e) of the Internal Revenue Code.

(c) "Qualified research" means activities in the fields of biotechnology or health sciences that are "qualified research" as defined in section 41(d) of the Internal Revenue Code, except that the term does not include qualified research conducted outside the biotechnology and health sciences industry zone.

(d) "Base amount" means base amount as defined in section 4(c) of the Internal Revenue Code, except that the average annual gross receipts must be calculated using Minnesota sales or receipts under section 290.191 and the definitions contained in paragraphs (b) and (c) apply.

(e) "Liability for tax" for purposes of this section means the tax imposed under this chapter for the taxable year reduced by the sum of the nonrefundable credits allowed under this chapter.

Subd. 3. REFUNDABLE CREDIT. If the credit determined under this section and allocated to the taxpayer under section 469.335 for the taxable year exceeds the

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taxpayer's liability for tax for the year, the commissioner shall refund the difference to the taxpayer.

Subd. 4. PARTNERSHIPS. For partnerships, the credit is allocated in the same manner provided by section 41(f)(2) of the Internal Revenue Code.

Subd. 5. ADJUSTMENTS; ACQUISITIONS AND DISPOSITIONS. If a taxpayer acquires or disposes of the major portion of a trade or business or the major portion of a separate unit of a trade or business in a transaction with another taxpayer, the taxpayer's qualified research expenses and base amount are adjusted in the same manner provided by section 41(f)(3) of the Internal Revenue Code.

Subd. 6. INTERACTION; REGULAR RESEARCH CREDIT. Any amount used to calculate a credit under this section may not be used to generate a credit under section 290.068.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 19. [469.340] REPAYMENT OF TAX BENEFITS.

Subdivision 1. REPAYMENT OBLIGATION. A business must repay the amount of the tax reduction listed in section 469.336 and any refunds under sections 469.338 and 469.339 in excess of tax liability, received during the two years immediately before it ceased to operate in the zone, if the business:

(1) received tax reductions authorized by section 469.336; and

(2)(i) did not meet the goals specified in an agreement entered into with the applicant that states any obligation the qualified business must fulfill in order to be eligible for tax benefits. The commissioner may extend for up to one year the period for meeting any goals provided in an agreement. The applicant may extend the period for meeting other goals by documenting in writing the reason for the extension and attaching a copy of the document to its next annual report to the commissioner; or

(ii) ceased to operate its facility located within the biotechnology and health sciences industry zone or otherwise ceases to be or is not a qualified business.

Subd. 2. DEFINITIONS. (a) For purposes of this section, the following terms have the meanings given.

(b) "Business" means any person who received tax benefits enumerated in section 469.336.

(c) "Commissioner" means the commissioner of revenue.

Subd. 3. DISPOSITION OR REPAYMENT. The repayment must be paid to the state to the extent it represents a state tax reduction and to the county to the extent it represents a property tax reduction. Any amount repaid to the state must be deposited in the general fund. Any amount repaid to the county for the property tax exemption must be distributed to the local governments with authority to levy taxes in the zone in the same manner provided for distribution of payment of delinquent property taxes.

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Any repayment of local sales taxes must be repaid to the city or county imposing the local sales tax.

Subd. 4. **REPAYMENT PROCEDURES.** (a) For the repayment of taxes imposed under chapter 290 or 297A or local taxes collected pursuant to section 297A.99, a business must file an amended return with the commissioner of revenue and pay any taxes required to be repaid within 30 days after ceasing to do business in the zone. The amount required to be repaid is determined by calculating the tax for the period or periods for which repayment is required without regard to the exemptions and credits allowed under section 469.336.

(b) For the repayment of property taxes, the county auditor shall prepare a tax statement for the business, applying the applicable tax extension rates for each payable year and provide a copy to the business. The business must pay the taxes to the county treasurer within 30 days after receipt of the tax statement. The taxpayer may appeal the valuation and determination of the property tax to the tax court within 30 days after receipt of the tax statement.

(c) The provisions of chapters 270 and 289A relating to the commissioner's authority to audit, assess, and collect the tax and to hear appeals are applicable to the repayment required under paragraph (a). The commissioner may impose civil penalties as provided in chapter 289A, and the additional tax and penalties are subject to interest at the rate provided in section 270.75, from 30 days after ceasing to do business in the biotechnology and health sciences industry zone until the date the tax is paid.

(d) If a property tax is not repaid under paragraph (b), the county treasurer shall add the amount required to be repaid to the property taxes assessed against the property for payment in the year following the year in which the treasurer discovers that the business ceased to operate in the biotechnology and health sciences industry zone.

(e) For determining the tax required to be repaid, a tax reduction is deemed to have been received on the date that the tax would have been due if the taxpayer had not been entitled to the exemption, or on the date a refund was issued for a refundable credit.

(f) The commissioner may assess the repayment of taxes under paragraph (c) any time within two years after the business ceases to operate in the biotechnology and health sciences industry zone, or within any period of limitations for the assessment of tax under section 289A.38, whichever period is later.

Subd. 5. **WAIVER AUTHORITY.** The commissioner may waive all or part of a repayment, if the commissioner, in consultation with the commissioner of trade and economic development and appropriate officials from the local government units in which the business is located, determines that requiring repayment of the tax is not in the best interest of the state or the local government units and the business ceased operating as a result of circumstances beyond its control including, but not limited to:

- (1) a natural disaster;

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- (2) unforeseen industry trends; or
- (3) loss of a major supplier or customer.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 20. [469.341] ZONE PERFORMANCE; REMEDIES.

Subdivision 1. REPORTING REQUIREMENT. An applicant receiving designation of a biotechnology and health sciences industry zone under section 469.334 must annually report to the commissioner on its progress in meeting the zone performance goals under the development plan for the zone and the applicant's compliance with the business subsidy law under sections 116J.993 to 116J.995.

Subd. 2. PROCEDURES. For reports required by subdivision 1, the commissioner may prescribe:

- (1) the required time or times by which the reports must be filed;
- (2) the form of the report; and
- (3) the information required to be included in the report.

Subd. 3. REMEDIES. If the commissioner determines, based on a report filed under subdivision 1 or other available information, that a zone or subzone is failing to meet its performance goals, the commissioner may take any actions the commissioner determines appropriate, including modification of the boundaries of the zone or a subzone or termination of the zone or a subzone. Before taking any action, the commissioner shall consult with the applicant and the affected local government units, including notifying them of the proposed actions to be taken. The commissioner shall publish any order modifying a zone in the State Register and on the Internet. The applicant may appeal the commissioner's order under the contested case procedures of chapter 14.

Subd. 4. EXISTING BUSINESSES. (a) An action to remove area from a zone or to terminate a zone under this section does not apply to:

- (1) the property tax on improvements constructed before the first January 2 following publication of the commissioner's order;
- (2) sales tax on purchases made before the first day of the next calendar month beginning at least 30 days after publication of the commissioner's order; and
- (3) individual income tax or corporate franchise tax attributable to a facility that was in operation before the publication of the commissioner's order.

(b) The tax exemptions specified in paragraph (a) terminate on the date on which the zone expires under the original designation.

EFFECTIVE DATE. This section is effective the day following final enactment.

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ARTICLE 3

FEDERAL UPDATE

Section 1. Minnesota Statutes 2002, section 289A.02, subdivision 7, as amended by Laws 2003, chapter 127, article 4, section 1, is amended to read:

Subd. 7. **INTERNAL REVENUE CODE.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~December 31, 2002~~ June 15, 2003.

EFFECTIVE DATE. This section is effective the day following final enactment and is intended to adopt the provisions of H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act of 2003, if it is enacted into law.

Sec. 2. Minnesota Statutes 2002, section 290.01, subdivision 19, as amended by Laws 2003, chapter 127, article 4, section 2, is amended to read:

Subd. 19. **NET INCOME.** The term "net income" means the federal taxable income, as defined in section 63 of the Internal Revenue Code of 1986, as amended through the date named in this subdivision, incorporating any elections made by the taxpayer in accordance with the Internal Revenue Code in determining federal taxable income for federal income tax purposes, and with the modifications provided in subdivisions 19a to 19f.

In the case of a regulated investment company or a fund thereof, as defined in section 851(a) or 851(g) of the Internal Revenue Code, federal taxable income means investment company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

(1) the exclusion of net capital gain provided in section 852(b)(2)(A) of the Internal Revenue Code does not apply;

(2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal Revenue Code must be applied by allowing a deduction for capital gain dividends and exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal Revenue Code; and

(3) the deduction for dividends paid must also be applied in the amount of any undistributed capital gains which the regulated investment company elects to have treated as provided in section 852(b)(3)(D) of the Internal Revenue Code.

The net income of a real estate investment trust as defined and limited by section 856(a), (b), and (c) of the Internal Revenue Code means the real estate investment trust taxable income as defined in section 857(b)(2) of the Internal Revenue Code.

The net income of a designated settlement fund as defined in section 468B(d) of the Internal Revenue Code means the gross income as defined in section 468B(b) of the Internal Revenue Code.

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The provisions of sections 1113(a), 1117, 1206(a), 1313(a), 1402(a), 1403(a), 1443, 1450, 1501(a), 1605, 1611(a), 1612, 1616, 1617, 1704(l), and 1704(m) of the Small Business Job Protection Act, Public Law Number 104-188, the provisions of Public Law Number 104-117, the provisions of sections 313(a) and (b)(1), 602(a), 913(b), 941, 961, 971, 1001(a) and (b), 1002, 1003, 1012, 1013, 1014, 1061, 1062, 1081, 1084(b), 1086, 1087, 1111(a), 1131(b) and (c), 1211(b), 1213, 1530(c)(2), 1601(f)(5) and (h), and 1604(d)(1) of the Taxpayer Relief Act of 1997, Public Law Number 105-34, the provisions of section 6010 of the Internal Revenue Service Restructuring and Reform Act of 1998, Public Law Number 105-206, the provisions of section 4003 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Public Law Number 105-277, and the provisions of section 318 of the Consolidated Appropriation Act of 2001, Public Law Number 106-554, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1996, shall be in effect for taxable years beginning after December 31, 1996.

The provisions of sections 202(a) and (b), 221(a), 225, 312, 313, 913(a), 934, 962, 1004, 1005, 1052, 1063, 1084(a) and (c), 1089, 1112, 1171, 1204, 1271(a) and (b), 1305(a), 1306, 1307, 1308, 1309, 1501(b), 1502(b), 1504(a), 1505, 1527, 1528, 1530, 1601(d), (e), (f), and (i) and 1602(a), (b), (c), and (e) of the Taxpayer Relief Act of 1997, Public Law Number 105-34, the provisions of sections 6004, 6005, 6012, 6013, 6015, 6016, 7002, and 7003 of the Internal Revenue Service Restructuring and Reform Act of 1998, Public Law Number 105-206, the provisions of section 3001 of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, Public Law Number 105-277, the provisions of section 3001 of the Miscellaneous Trade and Technical Corrections Act of 1999, Public Law Number 106-36, and the provisions of section 316 of the Consolidated Appropriation Act of 2001, Public Law Number 106-554, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1997, shall be in effect for taxable years beginning after December 31, 1997.

The provisions of sections 5002, 6009, 6011, and 7001 of the Internal Revenue Service Restructuring and Reform Act of 1998, Public Law Number 105-206, the provisions of section 9010 of the Transportation Equity Act for the 21st Century, Public Law Number 105-178, the provisions of sections 1004, 4002, and 5301 of the Omnibus Consolidation and Emergency Supplemental Appropriations Act, 1999, Public Law Number 105-277, the provision of section 303 of the Ricky Ray Hemophilia Relief Fund Act of 1998, Public Law Number 105-369, the provisions of sections 532, 534, 536, 537, and 538 of the Ticket to Work and Work Incentives Improvement Act of 1999, Public Law Number 106-170, the provisions of the Installment Tax Correction Act of 2000, Public Law Number 106-573, and the provisions of section 309 of the Consolidated Appropriation Act of 2001, Public Law Number 106-554, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1998, shall be in effect for taxable years beginning after December 31, 1998.

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The provisions of the FSC Repeal and Extraterritorial Income Exclusion Act of 2000, Public Law Number 106-519, and the provision of section 412 of the Job Creation and Worker Assistance Act of 2002, Public Law Number 107-147, shall become effective at the time it became effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1999, shall be in effect for taxable years beginning after December 31, 1999. The provisions of sections 306 and 401 of the Consolidated Appropriation Act of 2001, Public Law Number 106-554, and the provision of section 632(b)(2)(A) of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law Number 107-16, and provisions of sections 101 and 402 of the Job Creation and Worker Assistance Act of 2002, Public Law Number 107-147, shall become effective at the same time it became effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 2000, shall be in effect for taxable years beginning after December 31, 2000. The provisions of sections 659a and 671 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law Number 107-16, the provisions of sections 104, 105, and 111 of the Victims of Terrorism Tax Relief Act of 2001, Public Law Number 107-134, and the provisions of sections 201, 403, 413, and 606 of the Job Creation and Worker Assistance Act of 2002, Public Law Number 107-147, shall become effective at the same time it became effective for federal purposes.

The Internal Revenue Code of 1986, as amended through March 15, 2002, shall be in effect for taxable years beginning after December 31, 2001.

The provisions of sections 101 and 102 of the Victims of Terrorism Tax Relief Act of 2001, Public Law Number 107-134, shall become effective at the same time it becomes effective for federal purposes.

The Internal Revenue Code of 1986, as amended through ~~December 31, 2002~~ June 15, 2003, shall be in effect for taxable years beginning after December 31, 2002. The provisions of section 201 of the Jobs and Growth Tax Relief and Reconciliation Act of 2003, H.R. 2, if it is enacted into law, are effective at the same time it became effective for federal purposes.

Except as otherwise provided, references to the Internal Revenue Code in subdivisions 19a to 19g mean the code in effect for purposes of determining net income for the applicable year.

EFFECTIVE DATE. This section is effective the day following final enactment and is intended to adopt the provisions of H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act of 2003, if it is enacted into law.

Sec. 3. Minnesota Statutes 2002, section 290.01, subdivision 31, as amended by Laws 2003, chapter 127, article 4, section 3, is amended to read:

Subd. 31. **INTERNAL REVENUE CODE.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended

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through ~~December 31, 2002~~ June 15, 2003.

EFFECTIVE DATE. This section is effective the day following final enactment and is intended to adopt the provisions of H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act of 2003, if it is enacted into law.

Sec. 4. Minnesota Statutes 2002, section 290A.03, subdivision 15, as amended by Laws 2003, chapter 127, article 4, section 4, is amended to read:

Subd. 15. **INTERNAL REVENUE CODE.** "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~December 31, 2002~~ June 15, 2003.

EFFECTIVE DATE. This section is effective for refunds payable for rents paid in 2003 and thereafter and property taxes payable in 2004 and thereafter and is intended to adopt the provisions of H.R. 2, the Jobs and Growth Tax Relief Reconciliation Act of 2003, if it is enacted into law.

Sec. 5. **EFFECTIVE DATE.**

This article is effective only after the state makes a certification to the Secretary of the Treasury of the United States that satisfies the requirements of section 601(e) of the Jobs and Growth Tax Relief and Reconciliation Act of 2003, H.R. 2. The commissioner of finance shall certify to the commissioner of revenue when the requirements of this section have been met.

ARTICLE 4

PROPERTY TAXES

Section 1. Minnesota Statutes 2002, section 272.02, subdivision 25, is amended to read:

Subd. 25. **ICE ARENAS; BASEBALL PARKS.** (a) Real and personal property is exempt if it is owned and operated by a private, nonprofit corporation exempt from federal income taxation pursuant to United States Code, title 26, section 501(c)(3), primarily used for an ice arena or ice rink, and used primarily for youth and high school programs.

(b) Real property is exempt if it is owned and operated by a private, nonprofit corporation exempt from federal income taxation pursuant to United States Code, title 26, section 501(c)(3), and primarily used as a baseball park by amateur baseball players.

EFFECTIVE DATE. This section is effective for taxes levied in 2003, payable in 2004, and thereafter.

New language is indicated by underline, deletions by ~~strikeout~~.

Sec. 2. Minnesota Statutes 2002, section 272.02, is amended by adding a subdivision to read:

Subd. 66. ELDERLY LIVING FACILITY. An elderly living facility is exempt from taxation if it meets all of the following requirements:

(1) the facility is located in a city of the first class with a population of more than 350,000;

(2) the facility is owned and operated by a nonprofit corporation organized under chapter 317A;

(3) the construction of the facility was commenced after January 1, 2002, and before June 1, 2003;

(4) the facility consists of two buildings, which are connected to a church that is exempt from taxation under subdivision 6;

(5) the land for the facility was donated to the nonprofit corporation by the church to which the facility is connected;

(6) the residents of the facility must be (i) at least 62 years of age or (ii) handicapped;

(7) the facility operates an on-site congregational dining program in which participation by residents is mandatory, and provides assisted living or similar social and physical support services for residents; and

(8) at least 30 percent of the units in the facility are occupied by persons whose annual income does not exceed 50 percent of median family income for the area.

The property is exempt under this subdivision for taxes levied in each year or partial year of the term of the facility's initial permanent financing or 25 years, whichever is later.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 3. Minnesota Statutes 2002, section 273.11, subdivision 13, is amended to read:

Subd. 13. VALUATION OF INCOME-PRODUCING PROPERTY. Beginning with the 1995 assessment, only accredited assessors or senior accredited assessors or other licensed assessors who have successfully completed at least two income-producing property appraisal courses may value income-producing property for ad valorem tax purposes. "Income-producing property" as used in this subdivision means the taxable property in class 3a and 3b in section 273.13, subdivision 24; class 4a and 4c, except for seasonal recreational property not used for commercial purposes; ~~and class 4d in section 273.13, subdivision 25;~~ and class 5 in section 273.13, subdivision 31. "Income-producing property" includes any property in class 4e in section 273.13, subdivision 25, that would be income-producing property under the definition in this subdivision if it were not substandard. "Income-producing property appraisal course"

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as used in this subdivision means a course of study of approximately 30 instructional hours, with a final comprehensive test. An assessor must successfully complete the final examination for each of the two required courses. The course must be approved by the board of assessors.

EFFECTIVE DATE. This section is effective beginning with the 2004 assessment for property taxes payable in 2005.

Sec. 4. Minnesota Statutes 2002, section 273.13, subdivision 25, is amended to read:

Subd. 25. **CLASS 4.** (a) Class 4a is residential real estate containing four or more units and used or held for use by the owner or by the tenants or lessees of the owner as a residence for rental periods of 30 days or more. Class 4a also includes hospitals licensed under sections 144.50 to 144.56, other than hospitals exempt under section 272.02, and contiguous property used for hospital purposes, without regard to whether the property has been platted or subdivided. The market value of class 4a property has a class rate of 1.8 percent for taxes payable in 2002, 1.5 percent for taxes payable in 2003, and 1.25 percent for taxes payable in 2004 and thereafter, except that class 4a property consisting of a structure for which construction commenced after June 30, 2001, has a class rate of 1.25 percent of market value for taxes payable in 2003 and subsequent years.

(b) Class 4b includes:

- (1) residential real estate containing less than four units that does not qualify as class 4bb, other than seasonal residential, and recreational;
- (2) manufactured homes not classified under any other provision;
- (3) a dwelling, garage, and surrounding one acre of property on a nonhomestead farm classified under subdivision 23, paragraph (b) containing two or three units;
- (4) unimproved property that is classified residential as determined under subdivision 33.

The market value of class 4b property has a class rate of 1.5 percent for taxes payable in 2002, and 1.25 percent for taxes payable in 2003 and thereafter.

(c) Class 4bb includes:

- (1) nonhomestead residential real estate containing one unit, other than seasonal residential, and recreational; and
- (2) a single family dwelling, garage, and surrounding one acre of property on a nonhomestead farm classified under subdivision 23, paragraph (b).

Class 4bb property has the same class rates as class 1a property under subdivision 22.

Property that has been classified as seasonal recreational residential property at any time during which it has been owned by the current owner or spouse of the current owner does not qualify for class 4bb.

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(d) Class 4c property includes:

(1) except as provided in subdivision 22, paragraph (c), real property devoted to temporary and seasonal residential occupancy for recreation purposes, including real property devoted to temporary and seasonal residential occupancy for recreation purposes and not devoted to commercial purposes for more than 250 days in the year preceding the year of assessment. For purposes of this clause, property is devoted to a commercial purpose on a specific day if any portion of the property is used for residential occupancy, and a fee is charged for residential occupancy. In order for a property to be classified as class 4c, seasonal recreational residential for commercial purposes, at least 40 percent of the annual gross lodging receipts related to the property must be from business conducted during 90 consecutive days and either (i) at least 60 percent of all paid bookings by lodging guests during the year must be for periods of at least two consecutive nights; or (ii) at least 20 percent of the annual gross receipts must be from charges for rental of fish houses, boats and motors, snowmobiles, downhill or cross-country ski equipment, or charges for marina services, launch services, and guide services, or the sale of bait and fishing tackle. For purposes of this determination, a paid booking of five or more nights shall be counted as two bookings. Class 4c also includes commercial use real property used exclusively for recreational purposes in conjunction with class 4c property devoted to temporary and seasonal residential occupancy for recreational purposes, up to a total of two acres, provided the property is not devoted to commercial recreational use for more than 250 days in the year preceding the year of assessment and is located within two miles of the class 4c property with which it is used. Class 4c property classified in this clause also includes the remainder of class 1c resorts provided that the entire property including that portion of the property classified as class 1c also meets the requirements for class 4c under this clause; otherwise the entire property is classified as class 3. Owners of real property devoted to temporary and seasonal residential occupancy for recreation purposes and all or a portion of which was devoted to commercial purposes for not more than 250 days in the year preceding the year of assessment desiring classification as class 1c or 4c, must submit a declaration to the assessor designating the cabins or units occupied for 250 days or less in the year preceding the year of assessment by January 15 of the assessment year. Those cabins or units and a proportionate share of the land on which they are located will be designated class 1c or 4c as otherwise provided. The remainder of the cabins or units and a proportionate share of the land on which they are located will be designated as class 3a. The owner of property desiring designation as class 1c or 4c property must provide guest registers or other records demonstrating that the units for which class 1c or 4c designation is sought were not occupied for more than 250 days in the year preceding the assessment if so requested. The portion of a property operated as a (1) restaurant, (2) bar, (3) gift shop, and (4) other nonresidential facility operated on a commercial basis not directly related to temporary and seasonal residential occupancy for recreation purposes shall not qualify for class 1c or 4c;

(2) qualified property used as a golf course if:

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(i) it is open to the public on a daily fee basis. It may charge membership fees or dues, but a membership fee may not be required in order to use the property for golfing, and its green fees for golfing must be comparable to green fees typically charged by municipal courses; and

(ii) it meets the requirements of section 273.112, subdivision 3, paragraph (d).

A structure used as a clubhouse, restaurant, or place of refreshment in conjunction with the golf course is classified as class 3a property;

(3) real property up to a maximum of one acre of land owned by a nonprofit community service oriented organization; provided that the property is not used for a revenue-producing activity for more than six days in the calendar year preceding the year of assessment and the property is not used for residential purposes on either a temporary or permanent basis. For purposes of this clause, a "nonprofit community service oriented organization" means any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, fraternal, civic, or educational purposes, and which is exempt from federal income taxation pursuant to section 501(c)(3), (10), or (19) of the Internal Revenue Code of 1986, as amended through December 31, 1990. For purposes of this clause, "revenue-producing activities" shall include but not be limited to property or that portion of the property that is used as an on-sale intoxicating liquor or 3.2 percent malt liquor establishment licensed under chapter 340A, a restaurant open to the public, bowling alley, a retail store, gambling conducted by organizations licensed under chapter 349, an insurance business, or office or other space leased or rented to a lessee who conducts a for-profit enterprise on the premises. Any portion of the property which is used for revenue-producing activities for more than six days in the calendar year preceding the year of assessment shall be assessed as class 3a. The use of the property for social events open exclusively to members and their guests for periods of less than 24 hours, when an admission is not charged nor any revenues are received by the organization shall not be considered a revenue-producing activity;

(4) post-secondary student housing of not more than one acre of land that is owned by a nonprofit corporation organized under chapter 317A and is used exclusively by a student cooperative, sorority, or fraternity for on-campus housing or housing located within two miles of the border of a college campus;

(5) manufactured home parks as defined in section 327.14, subdivision 3;

(6) real property that is actively and exclusively devoted to indoor fitness, health, social, recreational, and related uses, is owned and operated by a not-for-profit corporation, and is located within the metropolitan area as defined in section 473.121, subdivision 2;

(7) a leased or privately owned noncommercial aircraft storage hangar not exempt under section 272.01, subdivision 2, and the land on which it is located, provided that:

(i) the land is on an airport owned or operated by a city, town, county, metropolitan airports commission, or group thereof; and

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(ii) the land lease, or any ordinance or signed agreement restricting the use of the leased premise, prohibits commercial activity performed at the hangar.

If a hangar classified under this clause is sold after June 30, 2000, a bill of sale must be filed by the new owner with the assessor of the county where the property is located within 60 days of the sale; and

(8) residential real estate, a portion of which is used by the owner for homestead purposes, and that is also a place of lodging, if all of the following criteria are met:

(i) rooms are provided for rent to transient guests that generally stay for periods of 14 or fewer days;

(ii) meals are provided to persons who rent rooms, the cost of which is incorporated in the basic room rate;

(iii) meals are not provided to the general public except for special events on fewer than seven days in the calendar year preceding the year of the assessment; and

(iv) the owner is the operator of the property.

The market value subject to the 4c classification under this clause is limited to five rental units. Any rental units on the property in excess of five, must be valued and assessed as class 3a. The portion of the property used for purposes of a homestead by the owner must be classified as class 1a property under subdivision 22.

Class 4c property has a class rate of 1.5 percent of market value, except that (i) each parcel of seasonal residential recreational property not used for commercial purposes has the same class rates as class 4bb property, (ii) manufactured home parks assessed under clause (5) have the same class rate as class 4b property, (iii) commercial-use seasonal residential recreational property has a class rate of one percent for the first \$500,000 of market value, which includes any market value receiving the one percent rate under subdivision 22, and 1.25 percent for the remaining market value, (iv) the market value of property described in clause (4) has a class rate of one percent, (v) the market value of property described in clauses (2) and (6) has a class rate of 1.25 percent, and (vi) that portion of the market value of property in clause (8) qualifying for class 4c property has a class rate of 1.25 percent.

~~(e) Class 4d property is qualifying low-income rental housing certified to the assessor by the housing finance agency under sections 273.126 and 462A.071. Class 4d includes land in proportion to the total market value of the building that is qualifying low-income rental housing. For all properties qualifying as class 4d, the market value determined by the assessor must be based on the normal approach to value using normal unrestricted rents.~~

Class 4d property has a class rate of 0.9 percent for taxes payable in 2002, and one percent for taxes payable in 2003 and 1.25 percent for taxes payable in 2004 and thereafter.

EFFECTIVE DATE. This section is effective beginning with the 2004 assessment, for property taxes payable in 2005.

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Sec. 5. Minnesota Statutes 2002, section 275.025, subdivision 1, is amended to read:

Subdivision 1. **LEVY AMOUNT.** The state general levy is levied against commercial-industrial property and seasonal recreational property, as defined in this section. The state general levy is \$592,000,000 for taxes payable in 2002. For taxes payable in subsequent years, the levy is increased each year by multiplying the amount for the prior year by the sum of one plus the rate of increase, if any, in the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the Bureau of Economic Analysts of the United States Department of Commerce for the 12-month period ending March 31 of the year prior to the year the taxes are payable. The tax under this section is not treated as a local tax rate under section 469.177 and is not the levy of a governmental unit under chapters 276A and 473F. ~~Beginning in fiscal year 2004, and in each year thereafter, the commissioner of finance shall deposit in an education reserve account, which account is hereby established, the increased amount of the state general levy received for deposit in the general fund for that year over the amount of the state general levy received for deposit in the general fund in fiscal year 2003. The amounts in the education reserve account do not lapse or cancel each year, but remain until appropriated by law for education aid or higher education funding.~~

The commissioner shall increase or decrease the preliminary or final rate for a year as necessary to account for errors and tax base changes that affected a preliminary or final rate for either of the two preceding years. Adjustments are allowed to the extent that the necessary information is available to the commissioner at the time the rates for a year must be certified, and for the following reasons:

- (1) an erroneous report of taxable value by a local official;
- (2) an erroneous calculation by the commissioner; and

(3) an increase or decrease in taxable value for commercial-industrial or seasonal residential recreational property reported on the abstracts of tax lists submitted under section 275.29 that was not reported on the abstracts of assessment submitted under section 270.11, subdivision 2, for the same year.

The commissioner may, but need not, make adjustments if the total difference in the tax levied for the year would be less than \$100,000.

EFFECTIVE DATE. This section is effective June 30, 2003.

Sec. 6. Minnesota Statutes 2002, section 275.065, subdivision 3, is amended to read:

Subd. 3. **NOTICE OF PROPOSED PROPERTY TAXES.** (a) The county auditor shall prepare and the county treasurer shall deliver after November 10 and on or before November 24 each year, by first class mail to each taxpayer at the address listed on the county's current year's assessment roll, a notice of proposed property taxes.

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(b) The commissioner of revenue shall prescribe the form of the notice.

(c) The notice must inform taxpayers that it contains the amount of property taxes each taxing authority proposes to collect for taxes payable the following year. In the case of a town, or in the case of the state general tax, the final tax amount will be its proposed tax. In the case of taxing authorities required to hold a public meeting under subdivision 6, the notice must clearly state that each taxing authority, including regional library districts established under section 134.201, and including the metropolitan taxing districts as defined in paragraph (i), but excluding all other special taxing districts and towns, will hold a public meeting to receive public testimony on the proposed budget and proposed or final property tax levy, or, in case of a school district, on the current budget and proposed property tax levy. It must clearly state the time and place of each taxing authority's meeting, a telephone number for the taxing authority that taxpayers may call if they have questions related to the notice, and an address where comments will be received by mail.

(d) The notice must state for each parcel:

(1) the market value of the property as determined under section 273.11, and used for computing property taxes payable in the following year and for taxes payable in the current year as each appears in the records of the county assessor on November 1 of the current year; and, in the case of residential property, whether the property is classified as homestead or nonhomestead. The notice must clearly inform taxpayers of the years to which the market values apply and that the values are final values;

(2) the items listed below, shown separately by county, city or town, and state general tax, net of the residential and agricultural homestead credit under section 273.1384, voter approved school levy, other local school levy, and the sum of the special taxing districts, and as a total of all taxing authorities:

(i) the actual tax for taxes payable in the current year;

(ii) the tax change due to ~~spending factors~~, defined as the proposed tax minus the constant spending tax amount;

(iii) the tax change due to other factors, defined as the constant spending tax amount minus the actual current year tax; and

(iv) (ii) the proposed tax amount.

If the county levy under clause (2) includes an amount for a lake improvement district as defined under sections 103B.501 to 103B.581, the amount attributable for that purpose must be separately stated from the remaining county levy amount.

In the case of a town or the state general tax, the final tax shall also be its proposed tax unless the town changes its levy at a special town meeting under section 365.52. If a school district has certified under section 126C.17, subdivision 9, that a referendum will be held in the school district at the November general election, the county auditor must note next to the school district's proposed amount that a referendum is pending and that, if approved by the voters, the tax amount may be higher than shown on the

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notice. In the case of the city of Minneapolis, the levy for the Minneapolis library board and the levy for Minneapolis park and recreation shall be listed separately from the remaining amount of the city's levy. In the case of the city of St. Paul, the levy for the St. Paul library agency must be listed separately from the remaining amount of the city's levy. In the case of a parcel where tax increment or the fiscal disparities areawide tax under chapter 276A or 473F applies, the proposed tax levy on the captured value or the proposed tax levy on the tax capacity subject to the areawide tax must each be stated separately and not included in the sum of the special taxing districts; and

(3) the increase or decrease between the total taxes payable in the current year and the total proposed taxes, expressed as a percentage.

For purposes of this section, the amount of the tax on homesteads qualifying under the senior citizens' property tax deferral program under chapter 290B is the total amount of property tax before subtraction of the deferred property tax amount.

(e) The notice must clearly state that the proposed or final taxes do not include the following:

(1) special assessments;

(2) levies approved by the voters after the date the proposed taxes are certified, including bond referenda, and school district levy referenda, and;

(3) a levy limit increase referenda approved by the voters by the first Tuesday after the first Monday in November of the levy year as provided under section 275.73;

~~(3)~~ (4) amounts necessary to pay cleanup or other costs due to a natural disaster occurring after the date the proposed taxes are certified;

(4) (5) amounts necessary to pay tort judgments against the taxing authority that become final after the date the proposed taxes are certified; and

~~(5)~~ (6) the contamination tax imposed on properties which received market value reductions for contamination.

(f) Except as provided in subdivision 7, failure of the county auditor to prepare or the county treasurer to deliver the notice as required in this section does not invalidate the proposed or final tax levy or the taxes payable pursuant to the tax levy.

(g) If the notice the taxpayer receives under this section lists the property as nonhomestead, and satisfactory documentation is provided to the county assessor by the applicable deadline, and the property qualifies for the homestead classification in that assessment year, the assessor shall reclassify the property to homestead for taxes payable in the following year.

(h) In the case of class 4 residential property used as a residence for lease or rental periods of 30 days or more, the taxpayer must either:

(1) mail or deliver a copy of the notice of proposed property taxes to each tenant, renter, or lessee; or

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(2) post a copy of the notice in a conspicuous place on the premises of the property.

The notice must be mailed or posted by the taxpayer by November 27 or within three days of receipt of the notice, whichever is later. A taxpayer may notify the county treasurer of the address of the taxpayer, agent, caretaker, or manager of the premises to which the notice must be mailed in order to fulfill the requirements of this paragraph.

(i) For purposes of this subdivision, subdivisions 5a and 6, "metropolitan special taxing districts" means the following taxing districts in the seven-county metropolitan area that levy a property tax for any of the specified purposes listed below:

(1) metropolitan council under section 473.132, 473.167, 473.249, 473.325, 473.446, 473.521, 473.547, or 473.834;

(2) metropolitan airports commission under section 473.667, 473.671, or 473.672;
and

(3) metropolitan mosquito control commission under section 473.711.

For purposes of this section, any levies made by the regional rail authorities in the county of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, or Washington under chapter 398A shall be included with the appropriate county's levy and shall be discussed at that county's public hearing.

~~(j) If a statutory or home rule charter city or a town has exercised the local levy option provided by section 473.388, subdivision 7, it may include in the notice of its proposed taxes the amount of its proposed taxes attributable to its exercise of the option. In the first year of the city or town's exercise of this option, the statement shall include an estimate of the reduction of the metropolitan council's tax on the parcel due to exercise of that option. The metropolitan council's levy shall be adjusted accordingly.~~

EFFECTIVE DATE. This section is effective for notices prepared in 2003 for taxes payable in 2004, and thereafter.

Sec. 7. Minnesota Statutes 2002, section 275.066, is amended to read:

275.066 SPECIAL TAXING DISTRICTS; DEFINITION.

For the purposes of property taxation and property tax state aids, the term "special taxing districts" includes the following entities:

- (1) watershed districts under chapter 103D;
- (2) sanitary districts under sections 115.18 to 115.37;
- (3) regional sanitary sewer districts under sections 115.61 to 115.67;
- (4) regional public library districts under section 134.201;
- (5) park districts under chapter 398;

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- (6) regional railroad authorities under chapter 398A;
- (7) hospital districts under sections 447.31 to 447.38;
- (8) St. Cloud metropolitan transit commission under sections 458A.01 to 458A.15;
- (9) Duluth transit authority under sections 458A.21 to 458A.37;
- (10) regional development commissions under sections 462.381 to 462.398;
- (11) housing and redevelopment authorities under sections 469.001 to 469.047;
- (12) port authorities under sections 469.048 to 469.068;
- (13) economic development authorities under sections 469.090 to 469.1081;
- (14) metropolitan council under sections 473.123 to 473.549;
- (15) metropolitan airports commission under sections 473.601 to 473.680;
- (16) metropolitan mosquito control commission under sections 473.701 to 473.716;
- (17) Morrison county rural development financing authority under Laws 1982, chapter 437, section 1;
- (18) Croft Historical Park District under Laws 1984, chapter 502, article 13, section 6;
- (19) East Lake county medical clinic district under Laws 1989, chapter 211, sections 1 to 6;
- (20) Floodwood area ambulance district under Laws 1993, chapter 375, article 5, section 39;
- (21) Middle Mississippi river watershed management organization under sections 103B.211 and 103B.241;
- (22) emergency medical services special taxing districts under section 144F.01;
- (23) a county levying under the authority of section 103B.241, 103B.245, or 103B.251; ~~and~~
- (24) Southern St. Louis County Special Taxing District; Chris Jensen Nursing Home under section 12; and
- (25) any other political subdivision of the state of Minnesota, excluding counties, school districts, cities, and towns, that has the power to adopt and certify a property tax levy to the county auditor, as determined by the commissioner of revenue.

Sec. 8. Minnesota Statutes 2002, section 473.167, subdivision 3, is amended to read:

Subd. 3. **TAX.** The council may levy a tax on all taxable property in the metropolitan area, as defined in section 473.121, to provide funds for loans made

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pursuant to subdivisions 2 and 2a. This tax for the right-of-way acquisition loan fund shall be certified by the council, levied, and collected in the manner provided by section 473.13. The tax shall be in addition to that authorized by section 473.249 and any other law and shall not affect the amount or rate of taxes which may be levied by the council or any metropolitan agency or local governmental unit. The amount of the levy shall be as determined and certified by the council, provided that the tax levied by the metropolitan council for the right-of-way acquisition loan fund shall not exceed the product of (1) the metropolitan council's property tax levy under this subdivision for taxes payable in 1997 multiplied by (2) an index for market valuation changes equal to the total market valuation of all taxable property located within the metropolitan area for the current taxes payable year divided by the total market valuation of all taxable property located within the metropolitan area for taxes payable in 1997.

For the purpose of determining the metropolitan council's property tax levy limitation for the right-of-way acquisition loan fund, "total market valuation" means the total market valuation of all taxable property within the metropolitan area without valuation adjustments for fiscal disparities (chapter 473F), tax increment financing (sections 469.174 to 469.179), and high voltage transmission lines (section 273.425) \$2,828,379 for taxes payable in 2004 and \$2,828,379 for taxes payable in 2005. The amount of the levy for taxes payable in 2006 and subsequent years shall not exceed the product of (1) the metropolitan council's property tax levy limitation under this subdivision for the previous year, multiplied by (2) one plus a percentage equal to the growth in the implicit price deflator as defined in section 275.70, subdivision 2.

EFFECTIVE DATE; APPLICATION. This section is effective the day following final enactment and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Sec. 9. Minnesota Statutes 2002, section 473.249, subdivision 1, is amended to read:

Subdivision 1. **INDEXED LIMIT.** (a) The metropolitan council may levy a tax on all taxable property in the metropolitan area defined in section 473.121 to provide funds for the purposes of sections 473.121 to 473.249 and for the purpose of carrying out other responsibilities of the council as provided by law. This tax for general purposes shall be levied and collected in the manner provided by section 473.13.

(b) The property tax levied by the metropolitan council for general purposes shall not exceed \$10,522,329 for taxes payable in 2004 and \$10,522,329 for taxes payable in 2005.

(c) The property tax levy limitation for general purposes for taxes payable in 2006 and subsequent years shall not exceed the product of: (1) the metropolitan council's property tax levy limitation for general purposes for the previous year determined under this subdivision multiplied by (2) ~~the lesser of~~

~~(i) an index for market valuation changes equal to the total market valuation of all taxable property located within the metropolitan area for the current taxes payable year~~

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divided by the total market valuation of all taxable property located within the metropolitan area for the previous taxes payable year;

(ii) an index equal to the implicit price deflator for government consumption expenditures and gross investment for state and local governments for the most recent month for which data are available divided by the same implicit price deflator for the same month of the previous year; or

(iii) 103 percent.

(e) For the purpose of determining the metropolitan council's property tax levy limitation for general purposes, "total market valuation" means the total market valuation of all taxable property within the metropolitan area without valuation adjustments for fiscal disparities (chapter 473F), tax increment financing (sections 469.174 to 469.179), and high voltage transmission lines (section 273.425) one plus a percentage equal to the growth in the implicit price deflator as defined in section 275.70, subdivision 2.

EFFECTIVE DATE; APPLICATION. This section is effective the day following final enactment and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Sec. 10. Minnesota Statutes 2002, section 473.253, subdivision 1, is amended to read:

Subdivision 1. **SOURCES OF FUNDS.** The council shall credit to the livable communities demonstration account the revenues provided in this subdivision. This tax shall be levied and collected in the manner provided by section 473.13. The levy shall not exceed the following amount for the years specified:

(a)(1) for taxes payable in 1996, 50 percent of (i) the metropolitan mosquito control commission's property tax levy for taxes payable in 1995 multiplied by (ii) an index for market valuation changes equal to the total market valuation of all taxable property located within the metropolitan area for the current taxes payable year divided by the total market valuation of all taxable property located in the metropolitan area for the previous taxes payable year; and

(2) for taxes payable in 1997 and subsequent years through 2003, the product of (i) the property tax levy limit under this subdivision for the previous year multiplied by (ii) an index for market valuation changes equal to the total market valuation of all taxable property located within the metropolitan area for the current taxes payable year divided by the total market valuation of all taxable property located in the metropolitan area for the previous taxes payable year;

(2) for taxes payable in 2004 and 2005, \$8,259,070; and

(3) for taxes payable in 2006 and subsequent years, the product of (i) the property tax levy limit under this subdivision for the previous year multiplied by (ii) one plus a percentage equal to the growth in the implicit price deflator as defined in section 275.70, subdivision 2.

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For the purposes of this subdivision, "total market valuation" means the total market valuation of all taxable property within the metropolitan area without valuation adjustments for fiscal disparities under chapter 473F, tax increment financing under sections 469.174 to 469.179, and high voltage transmission lines under section 273.425.

(b) The metropolitan council, for the purposes of the fund, is considered a unique taxing jurisdiction for purposes of receiving aid pursuant to section 273.1398. For aid to be received in 1996, the fund's homestead and agricultural credit base shall equal 50 percent of the metropolitan mosquito control commission's certified homestead and agricultural credit aid for 1995, determined under section 273.1398, subdivision 2, less any permanent aid reduction under section 477A.0132. For aid to be received under section 273.1398 in 1997 and subsequent years, the fund's homestead and agricultural credit base shall be determined in accordance with section 273.1398, subdivision 1.

EFFECTIVE DATE; APPLICATION. This section is effective the day following final enactment and applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Sec. 11. 2003 First Special Session H.F. No. 1, article 2, section 118, subdivision 6, if enacted, is amended to read:

Subd. 6. **OPERATING COSTS OF PHASES THREE TO SIX.** (a) The ongoing costs of the commissioner in operating phases three to six of the statewide public safety radio communication system shall be allocated among and paid by the following users, all in accordance with the statewide public safety radio communication system plan developed by the planning committee under section 473.907:

- (1) the state of Minnesota for its operations using the system;
- (2) all local government units using the system; and
- (3) other eligible users of the system.

(b) Each local government and other eligible users of phases three to six of the system shall pay to the commissioner all sums charged under this section, at the times and in the manner determined by the commissioner. The governing body of each local government shall take all action that may be necessary to provide the funds required for these payments and to make the payments when due.

(c) If the governing body of any local government using phase three, four, five, or six of the system fails to meet any payment to the commissioner under this subdivision when due, the commissioner may certify to the auditor of the county in which the government unit is located the amount required for payment of the amount due with interest at six percent per year. The auditor shall levy and extend the amount due, with interest, as a tax upon all taxable property in the government unit for the next calendar year, free from any existing limitations imposed by law or charter. This tax shall be collected in the same manner as the general taxes of the government unit, and the proceeds of the tax, when collected, shall be paid by the county treasurer to the

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commissioner and credited to the government unit for which the tax was levied.

EFFECTIVE DATE. This section is effective the day following final enactment.

**Sec. 12. SOUTHERN ST. LOUIS COUNTY SPECIAL TAXING DISTRICT;
CHRIS JENSEN NURSING HOME.**

Subdivision 1. ESTABLISHED. The Southern St. Louis County Special Taxing District for purposes of the Chris Jensen Nursing Home is established.

Subd. 2. AREA. The district in subdivision 1 includes all that part of St. Louis county comprising the cities of Duluth, Proctor, Hermantown, Brookston, Floodwood, and Meadowlands, and the townships of Alborn, Alden, Arrowhead, Brevator, Canosia, Culver, Duluth, Elmer, Fine Lakes, Floodwood, Fredenberg, Gensen, Grand Lake, Halden, Industrial, Lakewood, Meadowlands, Midway, Ness, New Independence, Normanna, Northland, North Star, Pequaywan, Prairie Lake, Rice Lake, Solway, Stoney Brook, and Van Buren, and unorganized congressional townships of 52-21, 53-16, and 53-15.

Subd. 3. PURPOSE. The district established in subdivision 1 is established to operate, maintain, and improve the Chris Jensen Nursing Home.

Subd. 4. LEVY AUTHORITY. The district established under subdivision 1 is a public corporation and political subdivision of the state with all the powers, rights, privileges, immunities, and duties that may be validly granted to or imposed on a municipal corporation as provided in this section, and a special taxing district as defined by Minnesota Statutes, section 275.066, clause (24), with the power to adopt and certify a property tax levy to the county auditor. The maximum allowable annual levy for this special taxing district must not exceed 1.90 percent of the taxable tax capacity of the district in the first year and 1.33 percent of the taxable tax capacity of the district in the second year and thereafter.

Subd. 5. MEMBERS; SELECTION; TERMS. The nursing home board is composed of nine members selected as follows:

(1) The mayor of the city of Duluth shall appoint three members, subject to approval of the Duluth city council. Each member appointed under this clause must live in the city of Duluth and at least two must be Duluth city council members. All three appointees serve at the pleasure of the mayor, except that each member shall serve until a successor has been selected and qualified.

(2) The St. Louis county board shall appoint three county board members. Two appointees must reside in the city of Duluth and one must reside in the district but outside the city of Duluth. The members appointed under this clause serve at the pleasure of the county board, except that each member shall serve until a successor has been selected and qualified.

(3) The St. Louis county auditor must convene and preside at a meeting of the mayors of the cities of Hermantown and Proctor at which the mayors must appoint a city council member from one of the two cities to serve on the nursing home board.

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The member appointed under this clause serves at the pleasure of each mayor and either mayor may require the member's resignation at any time, except that the member shall serve until a successor has been selected and qualified.

(4) The St. Louis county auditor must convene and preside at a meeting of the chairs of the town board of supervisors from each of the townships of Rice Lake, Grand Lake, Lakewood, and Canosia at which the chairs must appoint a resident of one of the townships to serve on the nursing home board. The term of the first person appointed after the effective date of this section shall expire December 31 of the third full year following appointment. Thereafter, the term of the person appointed under this clause is three years, except that the member shall serve until a successor has been selected and qualified.

(5) The St. Louis county auditor must convene and preside at a meeting of the mayors of the cities of Brookston, Floodwood, and Meadowlands, and the chairs of the town boards of supervisors from all of the townships in the district not included in clause (4), at which the mayors and town board chairs must appoint a resident of one of the cities, townships, or unorganized areas to serve on the nursing home board. The term of the first person appointed after the effective date of this section shall expire December 31 of the third full year following appointment. Thereafter, the term of the person appointed under this clause is three years, except that the member shall serve until a successor has been selected and qualified.

After the initial appointment of members under clauses (3) to (5), the nursing home board must notify the St. Louis county auditor whenever a member needs to be appointed under these clauses, and the county auditor must convene one or more meetings as necessary to fill the position. Meetings to make appointments under clauses (3) to (5) are subject to the Open Meeting Law, Minnesota Statutes, chapter 13D.

Subd. 6. TIME LIMITS FOR SELECTION; ALTERNATIVE APPOINTMENT BY DISTRICT JUDGE. The appointing authorities must make initial appointments to the nursing home board as soon as practicable, but no later than 60 days after the effective date of this section. A vacant position on the nursing home board for which the member serves at the pleasure of the appointing authority, must be filled as soon as practicable, but no later than 60 days, after the vacancy occurs. For members who serve terms, a successor must be appointed at any time within 60 days before the expiration of the term. Each appointment for a successor must be made in the same manner as the original appointment. If any appointment is not made within the time required, the chief judge of the state's sixth judicial district shall appoint a person who meets the qualifications for appointment to the particular nursing home board seat, if notified in writing by any interested person residing in the district. A person appointed by the chief judge serves as if appointed by the regular appointing authority.

Subd. 7. VACANCIES. A position must be deemed vacant under the conditions specified in Minnesota Statutes, section 351.02, or if the member fails to attend two

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consecutive regular meetings of the board without the consent of the board. The board may consent to a second consecutive absence up to 30 days after it occurs. A vacancy must be filled in the same manner as the original appointment.

Subd. 8. OPEN MEETING LAW. All meetings of the nursing home board are subject to the Open Meeting Law, Minnesota Statutes, chapter 13D.

Subd. 9. PROPERTY. All assets, liabilities, employees, and property of the Chris Jensen Nursing Home shall be transferred to the nursing home board from St. Louis county on the first day of the year after the formation of the nursing home board, but no later than January 1, 2005.

Subd. 10. ORGANIZATION AND OPERATION OF THE BOARD. The nursing home board shall elect officers and establish bylaws at its first meeting.

Subd. 11. EFFECTIVE DATE; LOCAL APPROVAL. This section is effective the day after the governing body of St. Louis county and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

If effective before September 1, 2003, the first levy is the payable 2004 levy; if effective between September 1, 2003, and September 1, 2004, the first levy is the payable 2005 levy; if effective after August 31, 2004, the first levy is the payable 2006 levy.

Sec. 13. REPEALER.

(a) Minnesota Statutes 2002, section 272.02, subdivision 26, is repealed.

(b) Minnesota Statutes 2002, section 275.065, subdivision 3a, is repealed.

EFFECTIVE DATE. Paragraph (a) is effective for the 2003 assessment and thereafter, for taxes payable in 2004 and thereafter. Paragraph (b) is repealed beginning with proposed notices prepared in 2003 for taxes payable in 2004.

ARTICLE 5

CITY AIDS

Section 1. Minnesota Statutes 2002, section 4A.02, is amended to read:

4A.02 STATE DEMOGRAPHER.

(a) The director shall appoint a state demographer. The demographer must be professionally competent in demography and must possess demonstrated ability based upon past performance.

(b) The demographer shall:

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- (1) continuously gather and develop demographic data relevant to the state;
 - (2) design and test methods of research and data collection;
 - (3) periodically prepare population projections for the state and designated regions and periodically prepare projections for each county or other political subdivision of the state as necessary to carry out the purposes of this section;
 - (4) review, comment on, and prepare analysis of population estimates and projections made by state agencies, political subdivisions, other states, federal agencies, or nongovernmental persons, institutions, or commissions;
 - (5) serve as the state liaison with the United States Bureau of the Census, coordinate state and federal demographic activities to the fullest extent possible, and aid the legislature in preparing a census data plan and form for each decennial census;
 - (6) compile an annual study of population estimates on the basis of county, regional, or other political or geographical subdivisions as necessary to carry out the purposes of this section and section 4A.03;
 - (7) by January 1 of each year, issue a report to the legislature containing an analysis of the demographic implications of the annual population study and population projections;
 - (8) prepare maps for all counties in the state, all municipalities with a population of 10,000 or more, and other municipalities as needed for census purposes, according to scale and detail recommended by the United States Bureau of the Census, with the maps of cities showing precinct boundaries;
 - (9) prepare an estimate of population and of the number of households for each governmental subdivision for which the metropolitan council does not prepare an annual estimate, and convey the estimates to the governing body of each political subdivision by May 1 of each year;
 - (10) direct, under section 414.01, subdivision 14, and certify population and household estimates of annexed or detached areas of municipalities or towns after being notified of the order or letter of approval by the Minnesota municipal board; ~~and~~
 - (11) prepare, for any purpose for which a population estimate is required by law or needed to implement a law, a population estimate of a municipality or town whose population is affected by action under section 379.02 or 414.01, subdivision 14; ~~and~~
 - (12) prepare an estimate of average household size for each statutory or home rule charter city with a population of 2,500 or more by May 1 of each year.
- (c) A governing body may challenge an estimate made under paragraph (b) by filing their specific objections in writing with the state demographer by June 10. If the challenge does not result in an acceptable estimate by June 24, the governing body may have a special census conducted by the United States Bureau of the Census. The political subdivision must notify the state demographer by July 1 of its intent to have the special census conducted. The political subdivision must bear all costs of the

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special census. Results of the special census must be received by the state demographer by the next April 15 to be used in that year's May 1 estimate to the political subdivision under paragraph (b).

EFFECTIVE DATE. This section is effective beginning July 1, 2003.

Sec. 2. Minnesota Statutes 2002, section 477A.011, subdivision 34, is amended to read:

Subd. 34. **CITY REVENUE NEED.** (a) For a city with a population equal to or greater than 2,500, "city revenue need" is the sum of (1) ~~3.462312~~ 5.0734098 times the pre-1940 housing percentage; plus (2) ~~2.093826~~ times the ~~commercial industrial~~ percentage; plus (3) ~~6.862552~~ 19.141678 times the population decline percentage; plus (4) ~~.00026~~ times the city population (3) 2504.06334 times the road accidents factor; plus (5) ~~152.0141~~ (4) 355.0547; minus (5) ~~the metropolitan area factor~~; minus (6) 49.10638 times the household size.

(b) For a city with a population less than 2,500, "city revenue need" is the sum of (1) ~~1.795919~~ 2.387 times the pre-1940 housing percentage; plus (2) ~~1.562138~~ 2.67591 times the commercial industrial percentage; plus (3) ~~4.177568~~ 3.16042 times the population decline percentage; plus (4) ~~1.04013~~ 1.206 times the transformed population; minus (5) ~~107.475~~ 62.772.

(c) The city revenue need cannot be less than zero.

(d) For calendar year ~~1998~~ 2005 and subsequent years, the city revenue need for a city, as determined in paragraphs (a) to (c), is multiplied by the ratio of the annual implicit price deflator for government consumption expenditures and gross investment for state and local governments as prepared by the United States Department of Commerce, for the most recently available year to the ~~1993~~ 2003 implicit price deflator for state and local government purchases.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 3. Minnesota Statutes 2002, section 477A.011, subdivision 36, is amended to read:

Subd. 36. **CITY AID BASE.** (a) Except as otherwise provided in this subdivision, "city aid base" means, for each city, the sum of the local government aid and equalization aid it was originally certified to receive in calendar year ~~1993~~ under Minnesota Statutes ~~1992~~, section ~~477A.013~~, subdivisions 3 and 5, and the amount of disparity reduction aid it received in calendar year ~~1993~~ under Minnesota Statutes ~~1992~~, section ~~273.1398~~, subdivision 3 is zero.

(b) For aids payable in ~~1996~~ and thereafter, a city that in ~~1992~~ or ~~1993~~ transferred an amount from governmental funds to its sewer and water fund, which amount exceeded its net levy for taxes payable in the year in which the transfer occurred, has a "city aid base" equal to the sum of (i) its city aid base, as calculated under paragraph (a), and (ii) one-half of the difference between its city aid distribution under section

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477A.013, subdivision 9, for aids payable in 1995 and its city aid base for aids payable in 1995.

(e) The city aid base for any city with a population less than 500 is increased by \$40,000 for aids payable in calendar year 1995 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$40,000 for aids payable in calendar year 1995 only, provided that:

(i) the average total tax capacity rate for taxes payable in 1995 exceeds 200 percent;

(ii) the city portion of the tax capacity rate exceeds 100 percent; and

(iii) its city aid base is less than \$60 per capita.

(d) (c) The city aid base for a city is increased by \$20,000 in 1998 and thereafter and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$20,000 in calendar year 1998 only, provided that:

(i) the city has a population in 1994 of 2,500 or more;

(ii) the city is located in a county, outside of the metropolitan area, which contains a city of the first class;

(iii) the city's net tax capacity used in calculating its 1996 aid under section 477A.013 is less than \$400 per capita; and

(iv) at least four percent of the total net tax capacity, for taxes payable in 1996, of property located in the city is classified as railroad property.

(e) (d) The city aid base for a city is increased by \$200,000 in 1999 and thereafter and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$200,000 in calendar year 1999 only, provided that:

(i) the city was incorporated as a statutory city after December 1, 1993;

(ii) its city aid base does not exceed \$5,600; and

(iii) the city had a population in 1996 of 5,000 or more.

(f) (e) The city aid base for a city is increased by \$450,000 in 1999 to 2008 and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$450,000 in calendar year 1999 only, provided that:

(i) the city had a population in 1996 of at least 50,000;

(ii) its population had increased by at least 40 percent in the ten-year period ending in 1996; and

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(iii) its city's net tax capacity for aids payable in 1998 is less than \$700 per capita.

~~(g)~~ (f) Beginning in 2004, the city aid base for a city is equal to the sum of its city aid base in 2003 and the amount of additional aid it was certified to receive under section 477A.06 in 2003. For 2004 only, the maximum amount of total aid a city may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by the amount it was certified to receive under section 477A.06 in 2003.

~~(h)~~ (g) The city aid base for a city is increased by \$150,000 for aids payable in 2000 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$150,000 in calendar year 2000 only, provided that:

(1) the city has a population that is greater than 1,000 and less than 2,500;

(2) its commercial and industrial percentage for aids payable in 1999 is greater than 45 percent; and

(3) the total market value of all commercial and industrial property in the city for assessment year 1999 is at least 15 percent less than the total market value of all commercial and industrial property in the city for assessment year 1998.

~~(i)~~ (h) The city aid base for a city is increased by \$200,000 in 2000 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$200,000 in calendar year 2000 only, provided that:

(1) the city had a population in 1997 of 2,500 or more;

(2) the net tax capacity of the city used in calculating its 1999 aid under section 477A.013 is less than \$650 per capita;

(3) the pre-1940 housing percentage of the city used in calculating 1999 aid under section 477A.013 is greater than 12 percent;

(4) the 1999 local government aid of the city under section 477A.013 is less than 20 percent of the amount that the formula aid of the city would have been if the need increase percentage was 100 percent; and

(5) the city aid base of the city used in calculating aid under section 477A.013 is less than \$7 per capita.

~~(j)~~ (i) The city aid base for a city is increased by \$225,000 in calendar years 2000 to 2002 and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$225,000 in calendar year 2000 only, provided that:

(1) the city had a population of at least 5,000;

(2) its population had increased by at least 50 percent in the ten-year period ending in 1997;

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~~(3) the city is located outside of the Minneapolis-St. Paul metropolitan statistical area as defined by the United States Bureau of the Census; and~~

~~(4) the city received less than \$30 per capita in aid under section 477A.013, subdivision 9, for aids payable in 1999.~~

~~(k)~~ (i) The city aid base for a city is increased by \$102,000 in 2000 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$102,000 in calendar year 2000 only, provided that:

(1) the city has a population in 1997 of 2,000 or more;

(2) the net tax capacity of the city used in calculating its 1999 aid under section 477A.013 is less than \$455 per capita;

(3) the net levy of the city used in calculating 1999 aid under section 477A.013 is greater than \$195 per capita; and

(4) the 1999 local government aid of the city under section 477A.013 is less than 38 percent of the amount that the formula aid of the city would have been if the need increase percentage was 100 percent.

~~(l)~~ (j) The city aid base for a city is increased by \$32,000 in 2001 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$32,000 in calendar year 2001 only, provided that:

(1) the city has a population in 1998 that is greater than 200 but less than 500;

(2) the city's revenue need used in calculating aids payable in 2000 was greater than \$200 per capita;

(3) the city net tax capacity for the city used in calculating aids available in 2000 was equal to or less than \$200 per capita;

(4) the city aid base of the city used in calculating aid under section 477A.013 is less than \$65 per capita; and

(5) the city's formula aid for aids payable in 2000 was greater than zero.

~~(m)~~ (k) The city aid base for a city is increased by \$7,200 in 2001 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$7,200 in calendar year 2001 only, provided that:

(1) the city had a population in 1998 that is greater than 200 but less than 500;

(2) the city's commercial industrial percentage used in calculating aids payable in 2000 was less than ten percent;

(3) more than 25 percent of the city's population was 60 years old or older according to the 1990 census;

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(4) the city aid base of the city used in calculating aid under section 477A.013 is less than \$15 per capita; and

(5) the city's formula aid for aids payable in 2000 was greater than zero.

(n) (l) The city aid base for a city is increased by \$45,000 in 2001 and thereafter and by an additional \$50,000 in calendar years 2002 to 2011, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$45,000 in calendar year 2001 only, and by \$50,000 in calendar year 2002 only, provided that:

(1) the net tax capacity of the city used in calculating its 2000 aid under section 477A.013 is less than \$810 per capita;

(2) the population of the city declined more than two percent between 1988 and 1998;

(3) the net levy of the city used in calculating 2000 aid under section 477A.013 is greater than \$240 per capita; and

(4) the city received less than \$36 per capita in aid under section 477A.013, subdivision 9, for aids payable in 2000.

(e) (m) The city aid base for a city with a population of 10,000 or more which is located outside of the seven-county metropolitan area is increased in 2002 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (b) or (c), is also increased in calendar year 2002 only, by an amount equal to the lesser of:

(1)(i) the total population of the city, as determined by the United States Bureau of the Census, in the 2000 census, (ii) minus 5,000, (iii) times 60; or

(2) \$2,500,000.

(p) (n) The city aid base is increased by \$50,000 in 2002 and thereafter, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$50,000 in calendar year 2002 only, provided that:

(1) the city is located in the seven-county metropolitan area;

(2) its population in 2000 is between 10,000 and 20,000; and

(3) its commercial industrial percentage, as calculated for city aid payable in 2001, was greater than 25 percent.

(q) (o) The city aid base for a city is increased by \$150,000 in calendar years 2002 to 2011 and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$150,000 in calendar year 2002 only, provided that:

(1) the city had a population of at least 3,000 but no more than 4,000 in 1999;

(2) its home county is located within the seven-county metropolitan area;

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(3) its pre-1940 housing percentage is less than 15 percent; and

(4) its city net tax capacity per capita for taxes payable in 2000 is less than \$900 per capita.

(~~q~~) (p) The city aid base for a city is increased by \$200,000 beginning in calendar year 2003 and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$200,000 in calendar year 2003 only, provided that the city qualified for an increase in homestead and agricultural credit aid under Laws 1995, chapter 264, article 8, section 18.

(q) The city aid base for a city is increased by \$200,000 in 2004 only and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, is also increased by \$200,000 in calendar year 2004 only, if the city is the site of a nuclear dry cask storage facility.

(r) The city aid base for a city is increased by \$10,000 in 2004 and thereafter and the maximum total aid it may receive under section 477A.013, subdivision 9, is also increased by \$10,000 in calendar year 2004 only, if the city was included in a federal major disaster designation issued on April 1, 1998 and its pre-1940 housing stock was decreased by more than 40 percent between 1990 and 2000.

EFFECTIVE DATE. This section is effective beginning with aids payable in 2004.

Sec. 4. Minnesota Statutes 2002, section 477A.011, is amended by adding a subdivision to read:

Subd. 38. HOUSEHOLD SIZE. “Household size” means the average number of persons per household in the jurisdiction as most recently estimated and reported by the state demographer as of July 1 of the aid calculation year.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 5. Minnesota Statutes 2002, section 477A.011, is amended by adding a subdivision to read:

Subd. 39. ROAD ACCIDENTS FACTOR. “Road accidents factor” means the average annual number of vehicular accidents occurring on public roads, streets, and alleys in the jurisdiction as reported to the commissioner of revenue by the commissioner of public safety by July 1 of the aid calculation year using the most recent three-year period for which the commissioner of public safety has complete information, divided by the jurisdiction’s population.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 6. Minnesota Statutes 2002, section 477A.011, is amended by adding a subdivision to read:

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Subd. 40. METROPOLITAN AREA FACTOR. "Metropolitan area factor" means 35.20915 for cities located in the metropolitan area.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 7. Minnesota Statutes 2002, section 477A.013, subdivision 8, is amended to read:

Subd. 8. **CITY FORMULA AID.** In calendar year ~~1994~~ 2004 and subsequent years, the formula aid for a city is equal to the need increase percentage multiplied by the difference between (1) the city's revenue need multiplied by its population, and (2) the sum of the city's net tax capacity multiplied by the tax effort rate, and the taconite aids under sections 298.28 and 298.282, multiplied by the following percentages:

- (i) zero percent for aids payable in 2004;
- (ii) 25 percent for aids payable in 2005;
- (iii) 50 percent for aids payable in 2006;
- (iv) 75 percent for aids payable in 2007; and
- (v) 100 percent for aids payable in 2008 and thereafter.

No city may have a formula aid amount less than zero. The need increase percentage must be the same for all cities.

~~Notwithstanding the prior sentence, in 1995 only, the need increase percentage for a city shall be twice the need increase percentage applicable to other cities if:~~

- ~~(1) the city, in 1992 or 1993, transferred an amount from governmental funds to their sewer and water fund, and~~
- ~~(2) the amount transferred exceeded their net levy for taxes payable in the year in which the transfer occurred.~~

~~The applicable need increase percentage or percentages must be calculated by the department of revenue so that the total of the aid under subdivision 9 equals the total amount available for aid under section 477A.03 after the subtraction under section 477A.014, subdivisions 4 and 5.~~

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 8. Minnesota Statutes 2002, section 477A.013, subdivision 9, is amended to read:

Subd. 9. **CITY AID DISTRIBUTION.** (a) In calendar year 2002 and thereafter, each city shall receive an aid distribution equal to the sum of (1) the city formula aid under subdivision 8, and (2) its city aid base.

(b) ~~The percentage increase aid for a first class city in calendar year 1995 and thereafter, except for 2002, 2004 shall not exceed the percentage increase in the sum~~

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of the aid to all cities under this section in the current calendar year compared to the sum of the aid to all cities in the previous year amount of its aid in calendar year 2003 after the reductions under this article. For aids payable in 2002 only, the amount of the aid paid to a first class city shall not exceed the sum of its aid amount for calendar year 2001 under this section and its aid payment in calendar year 2001 under section 273.1398, subdivision 2, by more than 2.5 percent.

(c) For aids payable in all years except 2002 2005 and thereafter, the total aid for any city, ~~except a first class city,~~ shall not exceed the sum of (1) ten percent of the city's net levy for the year prior to the aid distribution plus (2) its total aid in the previous year. For aids payable in 2002 only, the total aid for any city, ~~except a first class city,~~ shall not exceed the sum of (1) 40 percent of the city's net levy for taxes payable in the year prior to the aid distribution plus (2) 40 percent of its total aid in the previous year under section 273.1398, subdivision 2, plus (3) its total aid in the previous year under this section. For aids payable in 2005 and thereafter, the total aid for any city with a population of 2,500 or more may not decrease from its total aid under this section in the previous year by an amount greater than ten percent of its net levy in the year prior to the aid distribution.

(d) For aids payable in 2004 only, the total aid for a city with a population less than 2,500 may not be less than the amount it was certified to receive in 2003 minus the greater of (1) the reduction to this aid payment in 2003 under this article, or (2) five percent of its 2003 aid amount. For aids payable in 2005 and thereafter, the total aid for a city with a population less than 2,500 must not be less than the amount it was certified to receive in the previous year minus five percent of its 2003 certified aid amount.

EFFECTIVE DATE. This section is effective beginning with aids payable in 2004.

Sec. 9. Minnesota Statutes 2002, section 477A.03, subdivision 2, is amended to read:

Subd. 2. **ANNUAL APPROPRIATION.** (a) A sum sufficient to discharge the duties imposed by sections 477A.011 to 477A.014 is annually appropriated from the general fund to the commissioner of revenue.

(b) Aid payments to counties under section 477A.0121 are limited to \$20,265,000 in 1996. Aid payments to counties under section 477A.0121 are limited to \$27,571,625 in 1997. For aid payable in 1998 and thereafter, the total aids paid under section 477A.0121 are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3.

(c)(i) For aids payable in 1998 and thereafter, the total aids paid to counties under section 477A.0122 are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3.

(ii) Aid payments to counties under section 477A.0122 in 2000 are further increased by an additional \$20,000,000 in 2000.

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(d) Aid payments to cities in 2002 under section 477A.013, subdivision 9, are limited to the amounts certified to be paid in the previous year, adjusted for inflation as provided in subdivision 3, and increased by \$140,000,000. For aids payable in 2003, the total aids paid under section 477A.013, subdivision 9, are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3. For aids payable in 2004, the total aids paid under section 477A.013, subdivision 9, are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3, and increased by the amount certified to be paid in 2003 under section 477A.06. For aids payable in 2005 and thereafter, the total aids paid under section 477A.013, subdivision 9, are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3. The additional amount authorized under subdivision 4 is not included when calculating the appropriation limits under this paragraph.

(e) Reimbursements made to counties under section 477A.0123 in calendar year 2005 and thereafter are limited to an amount equal to the maximum allowed appropriation under this section in the previous year, multiplied by a percent to be established by law. If no percent is established by law, the appropriation is limited to the total amount appropriated for this purpose in the previous year.

EFFECTIVE DATE. This section is effective for aids payable in 2004 and thereafter.

Sec. 10. Minnesota Statutes 2002, section 477A.03, is amended by adding a subdivision to read:

Subd. 2a. CITIES. For aids payable in 2004, the total aids paid under section 477A.013, subdivision 9, are limited to \$429,000,000. For aids payable in 2005 and thereafter, the total aids paid under section 477A.013, subdivision 9, are increased to \$437,052,000.

EFFECTIVE DATE. This section is effective for aids payable in 2004 and thereafter.

Sec. 11. **DEFINITIONS.**

(a) For purposes of sections 11 to 13, the following terms have the meanings given them in this section.

(b) The 2003 and 2004 "levy plus aid revenue base" for a city is the sum of that city's certified property tax levy for taxes payable in 2003, plus the sum of the amounts the city was certified to receive in 2003 as:

- (1) local government aid under Minnesota Statutes, section 477A.013;
- (2) existing low-income housing aid under Minnesota Statutes, section 477A.06;
- (3) new construction low-income housing aid under Minnesota Statutes, section 477A.065; and

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(4) taconite aids under Minnesota Statutes, sections 298.28 and 298.282, including any aid which was required to be placed in a special fund for expenditure in the next succeeding year.

(c) "Total revenue" for a city for calendar year 2003 is the total revenue amount for that city, as reported by the state auditor for calendar year 2000, excluding grants between political subdivisions and amounts borrowed by the city but including net transfers from an enterprise fund.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 12. 2003 CITY AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for each city for 2003 equal to 9.3 percent of the city's levy plus aid revenue base for 2003.

The reduction amount is limited to 3.7 percent of the city's total revenues for 2003 if a city has a population under 1,000 or if the city has a three-year levy plus aid revenue base increase average of less than two percent. For all other cities, the reduction amount is limited to 5.25 percent of the city's total revenues for 2003.

The reduction is further limited to the sum of the city's payable 2003 distribution pursuant to Minnesota Statutes, section 477A.013, and related sections, and the city's payable 2003 reimbursement under Minnesota Statutes, section 273.1384.

The reduction is applied first to the city's distribution pursuant to Minnesota Statutes, section 477A.013, and then if necessary to the city's reimbursements pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each successive payment date within the year, the commissioner of revenue shall pay any remaining 2003 distribution or reimbursement amount reduced under this section in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 13. 2004 CITY AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for 2004 for each city as provided in this section.

The initial aid reduction amount for each city is the amount by which the city's aid distribution under Minnesota Statutes, section 477A.013, and related provisions payable in 2003 exceeds the city's 2004 distribution under those provisions.

The minimum aid reduction amount for a city is the amount of its reduction in 2003 under section 12. If a city receives an increase to its city aid base under Minnesota Statutes, section 477A.011, subdivision 36, its minimum aid reduction is reduced by an equal amount.

The maximum aid reduction amount for a city is an amount equal to 14 percent of the city's total 2004 levy plus aid revenue base, except that if the city has a city net

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tax capacity for aids payable in 2004, as defined in Minnesota Statutes, section 477A.011, subdivision 20, of \$700 per capita or less, the maximum aid reduction shall not exceed an amount equal to 13 percent of the city's total 2004 levy plus aid revenue base.

If the initial aid reduction amount for a city is less than the minimum aid reduction amount for that city, the final aid reduction amount for the city is the sum of the initial aid reduction amount and the lesser of the amount of the city's payable 2004 reimbursement under Minnesota Statutes, section 273.1384, or the difference between the minimum and initial aid reduction amounts for the city.

If the initial aid reduction amount for a city is greater than the maximum aid reduction amount for the city, the city receives an additional distribution under this section equal to the result of subtracting the maximum aid reduction amount from the initial aid reduction amount. This distribution shall be paid in equal installments in 2004 on the dates specified in Minnesota Statutes, section 477A.015. The amount necessary for these additional distributions is appropriated to the commissioner of revenue from the general fund in fiscal year 2005.

The initial aid reduction is applied to the city's distribution pursuant to Minnesota Statutes, section 477A.013, and any aid reduction in excess of the initial aid reduction is applied to the city's reimbursements pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each payment date in 2004, the commissioner of revenue shall pay the reimbursements reduced under this section in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 14. REPEALER.

Minnesota Statutes 2002, sections 477A.011, subdivision 37; 477A.0132; 477A.03, subdivisions 3 and 4; 477A.06; and 477A.07, are repealed effective for aids payable in 2004 and thereafter.

ARTICLE 6

OTHER INTERGOVERNMENTAL AIDS

Section 1. Minnesota Statutes 2002, section 273.1398, subdivision 4a, is amended to read:

Subd. 4a. **TEMPORARY AID OFFSET FOR COURT COSTS.** (a) In calendar years 2004 and 2005, the commissioner of revenue shall pay the amounts determined

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in paragraph (d) to the eligible counties on the dates specified in subdivision 6. By July 15 of the year preceding the year in which the state assumes the cost of court administration in the judicial district as specified under section 480.183, 2003, the supreme court shall determine and certify to the commissioner of revenue for each county the county's share of the costs to be assumed in the judicial districts specified under section 480.183, subdivision 1, during each of the succeeding fiscal year years.

(b) The amount certified in paragraph (a) shall be equal to the following:

(1) 103 percent of the required court administration expenditures as defined under section 480.183, subdivision 3, for calendar year 2003, as determined under subdivision 4b, paragraph (a); plus

(2) an adjustment for any cumulative percentage increase in salary expenditures as defined under section 480.183, subdivision 2, in excess of a maintenance of effort increase of six percent; less

(3) an amount equal to the county's share of transferred fines collected by the district courts in the county during the calendar year preceding certification 2002, increased by two percent for counties in districts one and three, and by 4.04 percent for counties in districts six and ten.

The court and the county may, if both parties agree, negotiate and certify an amount higher than the amount calculated under this paragraph.

(c) For purposes of this subdivision, the adjustment in paragraph (b), clause (2), shall be equal to:

(1) the sum of the court administration expenditures as defined under section 480.183, subdivision 3, required under subdivision 4b, paragraph (a), plus the temporary aid payment under subdivision 4c; multiplied by

(2) the difference between (i) the cumulative percentage increase in actual and anticipated salary settlements for court employees from July 1, 2001, until the date of the court transfer and (ii) the percentage specified in subdivision 4b, paragraph (a).

(d) Payments to a county under subdivision 2 or section 273.166 for the calendar year in which the state assumes the cost of court administration as defined under section 480.183, subdivision 3, in the judicial district must be permanently reduced by an amount equal to 75 percent of the net cost to the state for assumption of district court costs as certified in paragraph (a). For calendar year 2004, each county in judicial districts one and three shall receive an amount equal to 25 percent of the amount certified under paragraph (b), and each county in judicial districts six and ten shall receive an amount equal to the amount certified under paragraph (b). For calendar year 2005, each county in judicial districts six and ten shall receive an amount equal to 25 percent of the amount certified under paragraph (b), and each county in judicial districts one and three receives zero.

(e) Payments to a county under subdivision 2 or section 273.166 for the calendar year after the calendar year in which the state assumes the cost of court administration

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as defined under section 480.183, subdivision 3, in the judicial district must be permanently reduced by an amount equal to 25 percent of the net cost to the state for assumption of district court costs as certified in paragraph (a), provided that this amount must be increased or decreased by an amount equal to the positive or negative difference between the amount of fee and fine revenue certified under paragraph (b), clause (3), and the actual amount of fee and fine revenue of the county for the calendar year when certification takes place.

(f) Payments to a county under subdivision 2 for calendar year 2001 are permanently increased by an amount equal to 7.5 percent of the county's share of transferred fines collected by the district courts in the county during calendar year 1998, as determined under paragraph (a). If the amount determined in paragraph (a) exceeds the amount of aid a county is scheduled to be paid under subdivision 2 in 2000, then the county shall not receive an aid increase under this paragraph.

(g) Payments to a county under subdivision 2 or section 273.166, for the cost of mandated services, as defined in section 480.183, subdivision 4, in the judicial district, must be permanently reduced in 2002 by an amount equal to the cost to the state for assumption of mandated court services as defined in section 480.183, subdivision 4. The supreme court shall determine the amount for each county and certify it to the commissioner of revenue by July 15, 2001.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and 2005.

Sec. 2. Minnesota Statutes 2002, section 273.1398, subdivision 4c, is amended to read:

Subd. 4c. **TEMPORARY AID; COURT ADMINISTRATION COSTS.** For calendar years 2004 and 2005, each county in a judicial district that has not been transferred to the state by January 1 of that year shall receive additional homestead and agricultural credit temporary court maintenance of effort cost aid. This amount is in addition to the amount calculated under subdivision 2 and must not be included in the definition of homestead and agricultural credit base under subdivision 1, paragraph (j). The amount of additional aid is equal to the difference between (1) the amount budgeted for court administration costs in 2001 as determined under subdivision 4b, paragraph (b), multiplied by the maintenance of effort percent for the calendar year as determined under subdivision 4b, paragraph (a), and (2) the amount calculated under subdivision 4b, paragraph (a), for calendar year 2003, except that the payment under this section is reduced by 50 percent in the calendar year in which the district is transferred to the state. This additional aid must be used only to fund court administration expenditures as defined in section 480.183, subdivision 3. This amount must be added to the state court's base budget in the year when the court in that judicial district in which the county is located is transferred to the state.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and 2005 for counties in judicial districts one, three, six, and ten.

Sec. 3. Minnesota Statutes 2002, section 273.1398, subdivision 6, is amended to read:

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Subd. 6. **PAYMENT.** The commissioner shall certify the aids provided in subdivisions 2, 2b, 3, and 5 subdivision 3 before September 1 of the year preceding the distribution year to the county auditor of the affected local government. The aids provided in subdivisions 2, 2b, 3, 4a, and 5 4c must be paid to local governments other than school districts at the times provided in section 477A.015 for payment of local government aid to taxing jurisdictions, except that the first one-half payment of disparity reduction aid provided in subdivision 3 must be paid on or before August 31. The disparity reduction credit provided in subdivision 4 must be paid to taxing jurisdictions other than school districts at the time provided in section 473H.10, subdivision 3. Aids and credit reimbursements to school districts must be certified to the commissioner of children, families, and learning and paid under section 273.1392. Payment shall not be made to any taxing jurisdiction that has ceased to levy a property tax.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 4. Minnesota Statutes 2002, section 273.1398, subdivision 8, is amended to read:

Subd. 8. **APPROPRIATION.** (a) An amount sufficient to pay the aids and credits provided under this section for school districts, intermediate school districts, or any group of school districts levying as a single taxing entity, is annually appropriated from the general fund to the commissioner of children, families, and learning. An amount sufficient to pay the aids and credits provided under this section for counties, cities, towns, and special taxing districts is annually appropriated from the general fund to the commissioner of revenue. A jurisdiction's aid amount may be increased or decreased based on any prior year adjustments for homestead credit or other property tax credit or aid programs.

(b) The commissioner of finance shall bill the commissioner of revenue for the cost of preparation of local impact notes as required by section 3.987 only to the extent to which those costs exceed those costs incurred in fiscal year 1997 and for any other new costs attributable to the local impact note function required by section 3.987, not to exceed \$100,000 in fiscal years 1998 and 1999 and \$200,000 in fiscal year 2000 and thereafter.

The commissioner of revenue shall deduct the amount billed under this paragraph from aid payments to be made to cities and counties under subdivision 2 on a pro rata basis. The amount deducted under this paragraph is appropriated to the commissioner of finance for the preparation of local impact notes.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 5. [477A.0124] **COUNTY PROGRAM AID.**

Subdivision 1. **CALENDAR YEAR 2004.** In 2004, each county shall receive program aid in an amount equal to the sum of:

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(1) the amount of county attached machinery aid computed for the county for payment in 2003 under section 273.138 prior to any reduction under laws enacted in 2003;

(2) the amount of county homestead and agricultural credit aid computed for the county for payment in 2003 under section 273.1398, subdivision 2, prior to any reduction under laws enacted in 2003, minus the amount certified under section 273.1398, subdivision 4a, paragraph (b), for counties in judicial districts one, three, six, and ten, and by 25 percent of the amount certified under section 273.1398, subdivision 4a, paragraph (b), for counties located in judicial districts two and four;

(3) the amount of county manufactured home homestead and agricultural credit aid computed for the county for payment in 2003 under section 273.166 prior to any reduction under laws enacted in 2003;

(4) the amount of county criminal justice aid computed for the county for payment in 2003 under section 477A.0121 prior to any reduction under laws enacted in 2003; and

(5) the amount of county family preservation aid computed for the county for payment in 2003 under section 477A.0122 prior to any reduction under laws enacted in 2003.

Subd. 2. DEFINITIONS. (a) For the purposes of this section, the following terms have the meanings given them.

(b) "County program aid" means the sum of "county need aid," "county tax base equalization aid," and "county transition aid."

(c) "Age-adjusted population" means a county's population multiplied by the county age index.

(d) "County age index" means the percentage of the population over age 65 within the county divided by the percentage of the population over age 65 within the state, except that the age index for any county may not be greater than 1.8 nor less than 0.8.

(e) "Population over age 65" means the population over age 65 established as of July 1 in an aid calculation year by the most recent federal census, by a special census conducted under contract with the United States Bureau of the Census, by a population estimate made by the metropolitan council, or by a population estimate of the state demographer made pursuant to section 4A.02, whichever is the most recent as to the stated date of the count or estimate for the preceding calendar year.

(f) "Part I crimes" means the three-year average annual number of Part I crimes reported for each county by the department of public safety for the most recent years available. By July 1 of each year, the commissioner of public safety shall certify to the commissioner of revenue the number of Part I crimes reported for each county for the three most recent calendar years available.

(g) "Households receiving food stamps" means the average monthly number of households receiving food stamps for the three most recent years for which data is

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available. By July 1 of each year, the commissioner of human services must certify to the commissioner of revenue the average monthly number of households in the state and in each county that receive food stamps, for the three most recent calendar years available.

(h) "County net tax capacity" means the net tax capacity of the county, computed analogously to city net tax capacity under section 477A.011, subdivision 20.

Subd. 3. COUNTY NEED AID. For 2005 and subsequent years, the money appropriated to county need aid each calendar year shall be allocated as follows: 40 percent based on each county's share of age-adjusted population, 40 percent based on each county's share of the state total of households receiving food stamps, and 20 percent based on each county's share of the state total of Part I crimes.

Subd. 4. COUNTY TAX-BASE EQUALIZATION AID. (a) For 2005 and subsequent years, the money appropriated to county tax-base equalization aid each calendar year shall be apportioned among the counties according to each county's tax-base equalization aid factor.

(b) A county's tax-base equalization aid factor is equal to the amount by which (i) \$185 times the county's population, exceeds (ii) 9.45 percent of the county's net tax capacity.

(c) In the case of a county with a population less than 10,000, the factor determined in paragraph (b) shall be multiplied by a factor of three.

(d) In the case of a county with a population greater than or equal to 10,000, but less than 12,500, the factor determined in paragraph (b) shall be multiplied by a factor of two.

(e) In the case of a county with a population greater than 500,000, the factor determined in paragraph (b) shall be multiplied by a factor of 0.25.

Subd. 5. COUNTY TRANSITION AID. (a) For 2005, a county is eligible for transition aid equal to the amount, if any, by which:

(1) the difference between:

(i) the aid the county received under subdivision 1 in 2004, divided by the total aid paid to all counties under subdivision 1, multiplied by \$205,000,000; and

(ii) the amount of aid the county is certified to receive in 2005 under subdivisions 3 and 4;

exceeds:

(2) three percent of the county's adjusted net tax capacity.

A county's aid under this paragraph may not be less than zero.

(b) In 2006, a county is eligible to receive two-thirds of the transition aid it received in 2005.

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(c) In 2007, a county is eligible to receive one-third of the transition aid it received in 2005.

(d) No county shall receive aid under this subdivision after 2007.

EFFECTIVE DATE. This section is effective for aids payable in 2004 and subsequent years.

Sec. 6. Minnesota Statutes 2002, section 477A.03, is amended by adding a subdivision to read:

Subd. 2b. COUNTIES. (a) For aids payable in calendar year 2005 and thereafter, the total aids paid to counties under section 477A.0124, subdivision 3, are limited to \$100,500,000. Each calendar year, \$500,000 shall be retained by the commissioner of revenue to make reimbursements to the commissioner of finance for payments made under section 611.27. For calendar year 2004, the amount shall be in addition to the payments authorized under section 477A.0124, subdivision 1. For calendar year 2005 and subsequent years, the amount shall be deducted from the appropriation under this paragraph. The reimbursements shall be to defray the additional costs associated with court-ordered counsel under section 611.27. Any retained amounts not used for reimbursement in a year shall be included in the next distribution of county need aid that is certified to the county auditors for the purpose of property tax reduction for the next taxes payable year.

(b) For aids payable in 2005 and thereafter, the total aids under section 477A.0124, subdivision 4, are limited to \$105,000,000. The commissioner of finance shall bill the commissioner of revenue for the cost of preparation of local impact notes as required by section 3.987, not to exceed \$207,000 in fiscal year 2004 and thereafter. The commissioner of children, families, and learning shall bill the commissioner of revenue for the cost of preparation of local impact notes for school districts as required by section 3.987, not to exceed \$7,000 in fiscal year 2004 and thereafter. The commissioner of revenue shall deduct the amounts billed under this paragraph from the appropriation under this paragraph. The amounts deducted are appropriated to the commissioner of finance and the commissioner of children, families, and learning for the preparation of local impact notes.

EFFECTIVE DATE. This section is effective for aid payable in 2004 and thereafter.

Sec. 7. Minnesota Statutes 2002, section 611.27, subdivision 13, is amended to read:

Subd. 13. PUBLIC DEFENSE SERVICES; CORRECTIONAL FACILITY INMATES. All billings for services rendered and ordered under subdivision 7 shall require the approval of the chief district public defender before being forwarded on a monthly basis to the state public defender. In cases where adequate representation cannot be provided by the district public defender and where counsel has been appointed under a court order, the state public defender shall forward to the commissioner of finance all billings for services rendered under the court order. The

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commissioner shall pay for services from county criminal justice aid retained by the commissioner of revenue for that purpose under section 477A.0121, subdivision 4, or from county program aid retained by the commissioner of revenue for that purpose under section 477A.0124, subdivision 1, clause (4), or 477A.03, subdivision 2b, paragraph (a).

The costs of appointed counsel and associated services in cases arising from new criminal charges brought against indigent inmates who are incarcerated in a Minnesota state correctional facility are the responsibility of the state board of public defense. In such cases the state public defender may follow the procedures outlined in this section for obtaining court-ordered counsel.

EFFECTIVE DATE. This section is effective for payments in 2004 and subsequent years.

Sec. 8. Minnesota Statutes 2002, section 611.27, subdivision 15, is amended to read:

Subd. 15. **COSTS OF TRANSCRIPTS.** In appeal cases and postconviction cases where the state public defender's office does not have sufficient funds to pay for transcripts and other necessary expenses because it has spent or committed all of the transcript funds in its annual budget, the state public defender may forward to the commissioner of finance all billings for transcripts and other necessary expenses. The commissioner shall pay for these transcripts and other necessary expenses from county criminal justice aid retained by the commissioner of revenue under section 477A.0121, subdivision 4, or from county program aid retained by the commissioner of revenue for that purpose under section 477A.0124, subdivision 1, clause (4), or 477A.03, subdivision 2, paragraph (c).

EFFECTIVE DATE. This section is effective for payments in 2004 and subsequent years.

Sec. 9. **DEFINITIONS.**

(a) For purposes of sections 9 to 15, the following terms have the meanings given them in this section.

(b) The 2003 and 2004 "levy plus aid revenue base" for a county is the sum of that county's certified property tax levy for taxes payable in 2003, plus the sum of the amounts the county was certified to receive in the designated calendar year as:

(1) homestead and agricultural credit aid under Minnesota Statutes, section 273.1398, subdivision 2, plus any additional aid under section 16, minus the amount calculated under section 273.1398, subdivision 4a, paragraph (b), for counties in judicial districts one, three, six, and ten, and 25 percent of the amount calculated under section 273.1398, subdivision 4a, paragraph (b), for counties in judicial districts two and four;

(2) the amount of county manufactured home homestead and agricultural credit aid computed for the county for payment in 2003 under section 273.166;

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- (3) criminal justice aid under Minnesota Statutes, section 477A.0121;
(4) family preservation aid under Minnesota Statutes, section 477A.0122;
(5) taconite aids under Minnesota Statutes, sections 298.28 and 298.282, including any aid which was required to be placed in a special fund for expenditure in the next succeeding year; and
(6) county program aid under section 477A.0124.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 10. 2003 COUNTY AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for each county for 2003 equal to 3.21 percent of the county's levy plus aid revenue base for 2003.

The reduction is limited to the sum of the county's payable 2003 distributions pursuant to Minnesota Statutes, sections 273.138; 273.1384; 273.1398, subdivision 2; 273.166; 477A.0121; and 477A.0122.

The aid reduction is applied first to reduce the county's 2003 distribution pursuant to Minnesota Statutes, section 273.138, then to reduce, in this sequence, the aid payable in 2003 under Minnesota Statutes, sections 273.1398, subdivision 2; 273.166; 477A.0121; and 477A.0122. Then, if necessary, the county's reimbursements pursuant to Minnesota Statutes, section 273.1384, are to be reduced.

To the extent that sufficient information is available on each successive payment date within the year, the commissioner of revenue shall pay any remaining 2003 distribution or reimbursement amount reduced under this section in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 11. 2003 TOWNSHIP AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for each township for 2003 equal to two percent of the town's certified levy for taxes payable in 2003.

The reduction is limited to the amount of the town's payable 2003 reimbursement pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each successive payment date within the year, the commissioner of revenue shall pay any remaining 2003 reimbursement amount for the town in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

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Sec. 12. 2003 SPECIAL TAXING DISTRICT AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for each special taxing district for 2003 equal to 1.5 percent of the district's certified levy for taxes payable in 2003.

The reduction is limited to the amount of the district's payable 2003 reimbursement pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each successive payment date within the year, the commissioner of revenue shall pay any remaining 2003 reimbursement amount for the district in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 13. 2004 COUNTY AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for 2004 for each county as provided in this section.

The commissioner of revenue shall compute an aid reduction amount for each county for 2004 equal to 5.689 percent of the county's levy plus aid revenue base for 2004.

The reduction is further limited to the sum of the county's payable 2004 distributions under Minnesota Statutes, sections 477A.0124 and 273.1384.

The aid reduction is applied first to the county's distributions pursuant to Minnesota Statutes, section 477A.0124, and then, if necessary, to reduce the county's reimbursements pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each payment date in 2004, the commissioner of revenue shall pay any remaining 2004 distribution or reimbursement amount reduced under this section in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 14. 2004 TOWNSHIP AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for each township for 2004 equal to three percent of the town's certified levy for taxes payable in 2003.

The reduction is limited to the amount of the town's payable 2004 reimbursement pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each successive payment date within the year, the commissioner of revenue shall pay any remaining 2004 reimbursement amount for the town in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

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Sec. 15. 2004 SPECIAL TAXING DISTRICT AID REDUCTIONS.

The commissioner of revenue shall compute an aid reduction amount for each special taxing district for 2004 equal to two percent of the district's certified levy for taxes payable in 2003.

The reduction is limited to the amount of the district's payable 2004 reimbursement pursuant to Minnesota Statutes, section 273.1384.

To the extent that sufficient information is available on each successive payment date within the year, the commissioner of revenue shall pay any remaining 2004 reimbursement amount for the district in equal installments on the payment dates provided in law.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 16. HACA ADJUSTMENT; COURT TAKEOVER ERROR.

In calendar years 2003 and 2004, any county whose 2002 aid reduction, related to the state assumption of funding for mandated court services, was based on costs not assumed by the state shall receive the following aid adjustments;

(1) in calendar year 2003, a permanent increase of \$50,000 in its aid payment under Minnesota Statutes, section 273.1398, subdivision 2, above its certified 2003 aid amount; and

(2) in calendar year 2004, a permanent increase of an additional \$50,000 in its county program aid payment under Minnesota Statutes, section 477A.0124, subdivision 1, clause (2).

EFFECTIVE DATE. This section is effective for aids payable in 2003 and 2004.

Sec. 17. REPEALER.

(a) Minnesota Statutes 2002, sections 273.138, subdivision 2, and the parts of subdivisions 5 and 7 relating to counties; 273.1398, subdivisions 2, 2c, and 4d; 273.166; 477A.0121; 477A.0122; 477A.0123; 477A.0132; 477A.03, subdivision 3; and 477A.07, are repealed effective for aid payable in 2004 and thereafter.

(b) Minnesota Statutes 2002, section 273.138, subdivisions 3 and 6, and the parts of subdivisions 5 and 7 relating to school districts are repealed effective for calendar year 2003.

ARTICLE 7**LEVY LIMITS**

Section 1. Minnesota Statutes 2002, section 275.70, subdivision 5, is amended to read:

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Subd. 5. **SPECIAL LEVIES.** "Special levies" means those portions of ad valorem taxes levied by a local governmental unit for the following purposes or in the following manner:

(1) to pay the costs of the principal and interest on bonded indebtedness or to reimburse for the amount of liquor store revenues used to pay the principal and interest due on municipal liquor store bonds in the year preceding the year for which the levy limit is calculated;

(2) to pay the costs of principal and interest on certificates of indebtedness issued for any corporate purpose except for the following:

(i) tax anticipation or aid anticipation certificates of indebtedness;

(ii) certificates of indebtedness issued under sections 298.28 and 298.282;

(iii) certificates of indebtedness used to fund current expenses or to pay the costs of extraordinary expenditures that result from a public emergency; or

(iv) certificates of indebtedness used to fund an insufficiency in tax receipts or an insufficiency in other revenue sources;

(3) to provide for the bonded indebtedness portion of payments made to another political subdivision of the state of Minnesota;

(4) to fund payments made to the Minnesota state armory building commission under section 193.145, subdivision 2, to retire the principal and interest on armory construction bonds;

(5) property taxes approved by voters which are levied against the referendum market value as provided under section 275.61;

(6) to fund matching requirements needed to qualify for federal or state grants or programs to the extent that either (i) the matching requirement exceeds the matching requirement in calendar year 2001, or (ii) it is a new matching requirement that did not exist prior to 2002;

(7) to pay the expenses reasonably and necessarily incurred in preparing for or repairing the effects of natural disaster including the occurrence or threat of widespread or severe damage, injury, or loss of life or property resulting from natural causes, in accordance with standards formulated by the emergency services division of the state department of public safety, as allowed by the commissioner of revenue under section 275.74, subdivision 2;

(8) pay amounts required to correct an error in the levy certified to the county auditor by a city or county in a levy year, but only to the extent that when added to the preceding year's levy it is not in excess of an applicable statutory, special law or charter limitation, or the limitation imposed on the governmental subdivision by sections 275.70 to 275.74 in the preceding levy year;

(9) to pay an abatement under section 469.1815;

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(10) to pay any costs attributable to increases in the employer contribution rates under chapter 353 that are effective after June 30, 2001;

(11) to pay the operating or maintenance costs of a county jail as authorized in section 641.01 or 641.262, or of a correctional facility as defined in section 241.021, subdivision 1, paragraph (5), to the extent that the county can demonstrate to the commissioner of revenue that the amount has been included in the county budget as a direct result of a rule, minimum requirement, minimum standard, or directive of the department of corrections, or to pay the operating or maintenance costs of a regional jail as authorized in section 641.262. For purposes of this clause, a district court order is not a rule, minimum requirement, minimum standard, or directive of the department of corrections. If the county utilizes this special levy, except to pay operating or maintenance costs of a new regional jail facility under sections 641.262 to 641.264 which will not replace an existing jail facility, any amount levied by the county in the previous levy year for the purposes specified under this clause and included in the county's previous year's levy limitation computed under section 275.71, shall be deducted from the levy limit base under section 275.71, subdivision 2, when determining the county's current year levy limitation. The county shall provide the necessary information to the commissioner of revenue for making this determination;

(12) to pay for operation of a lake improvement district, as authorized under section 103B.555. If the county utilizes this special levy, any amount levied by the county in the previous levy year for the purposes specified under this clause and included in the county's previous year's levy limitation computed under section 275.71 shall be deducted from the levy limit base under section 275.71, subdivision 2, when determining the county's current year levy limitation. The county shall provide the necessary information to the commissioner of revenue for making this determination;

(13) to repay a state or federal loan used to fund the direct or indirect required spending by the local government due to a state or federal transportation project or other state or federal capital project. This authority may only be used if the project is not a local government initiative;

(14) for counties only, to pay the costs reasonably expected to be incurred in 2002 related to the redistricting of election districts and establishment of election precincts under sections 204B.135 and 204B.14, the notice required by section 204B.14, subdivision 4, and the reassignment of voters in the statewide registration system, not to exceed \$1 per capita, provided that the county shall distribute a portion of the amount levied under this clause equal to 25 cents times the population of the city to all cities in the county with a population of 30,000 or more;

(15) to pay for court administration costs as required under section 273.1398, subdivision 4b, less the (i) county's share of transferred fines and fees collected by the district courts in the county for calendar year 2001 and (ii) the aid amount certified to be paid to the county in 2004 under section 273.1398, subdivision 4c; however, for taxes levied to pay for these costs in the year in which the court financing is transferred to the state, the amount under this section clause is limited to one-third of the aid

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reduction the amount of aid the county is certified to receive under section 273.1398, subdivision 4a; and

~~(16)~~ (15) to fund a police or firefighters relief association as required under section 69.77 to the extent that the required amount exceeds the amount levied for this purpose in 2001.

EFFECTIVE DATE. This section is effective for taxes payable in 2004 and thereafter.

Sec. 2. Minnesota Statutes 2002, section 275.71, subdivision 2, is amended to read:

Subd. 2. **LEVY LIMIT BASE.** (a) The levy limit base for a local governmental unit for taxes levied in 2001 is equal to the greater of:

(1) the sum of its adjusted levy limit base for taxes levied in 1999 plus the amount it levied in 1999 under Minnesota Statutes 1999 Supplement, section 275.70, subdivision 5, clauses (8) and (13), multiplied by:

(i) one plus the percentage growth in the implicit price deflator for the 12-month period ending March 30, 2000;

(ii) one plus a percentage equal to the annual percentage increase in the estimated number of households, if any, for the most recent 12-month period that was available on July 1, 2000; and

(iii) one plus a percentage equal to 50 percent of the percentage increase in the taxable market value of the jurisdiction due to new construction of class 3 property, as defined in section 273.13, subdivision 24, except for state-assessed utility and railroad operating property, for the most recent year for which data was available as of July 1, 2000; or

(2) an amount equal to:

(i) the sum of the amount it levied in 2000 plus the amount of aids it was certified to receive in calendar year 2001 under sections 273.1398, 298.282, 477A.011 to 477A.03, prior to any aid reductions under section 273.1399, subdivision 5, 477A.06, and 477A.065; less

(ii) the amount it levied in 2000 that would qualify as special levies under section 275.70, subdivision 6, for taxes levied in 2001. The local governmental unit shall provide the commissioner of revenue with sufficient information to make this calculation.

(b) If the governmental unit was not subject to levy limits for taxes levied in 1999, its levy limit base for taxes levied in 2001 is equal to the amount calculated under paragraph (a), clause (2).

(c) The levy limit base for a local governmental unit for taxes levied in ~~2002~~ 2003 is equal to its adjusted levy limit base in the previous year, plus the amount of tree

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growth tax it received in calendar year 2001 under sections 270.31 to 270.39, and plus, in the case of a city, the amount it was certified to receive in calendar year 2001 under section 273.166, subject to any adjustments under section 275.72, plus any aid amounts received in 2003 under section 273.138 or 273.166, minus the difference between its levy limit under subdivision 5 for taxes levied in 2002 and the amount it actually levied under that subdivision in that year, and (3) certified property tax replacement aid payable in 2003 under section 174.242.

EFFECTIVE DATE. This section is effective for taxes levied in 2003.

Sec. 3. Minnesota Statutes 2002, section 275.71, subdivision 4, is amended to read:

Subd. 4. **ADJUSTED LEVY LIMIT BASE.** (a) For taxes levied in ~~2001~~ and 2002 2003, the adjusted levy limit base is equal to the levy limit base computed under subdivisions 2 and 3 or section 275.72, multiplied reduced by:

(1) one plus a percentage equal to the percentage growth in the implicit price deflator;

(2) one plus a percentage equal to the percentage increase in number of households, if any, for the most recent 12-month period for which data is available; and

(3) one plus a percentage equal to 50 percent of the percentage increase in the taxable market value of the jurisdiction due to new construction of class 3 property, as defined in section 273.13, subdivision 24, except for state-assessed utility and railroad operating property, for the most recent year for which data is available 40 percent of the difference between (1) the sum of 2003 certified aid payments, under sections 273.138, 273.1398 except for amounts certified under subdivision 4a, paragraph (b), 273.166, 477A.011 to 477A.03, 477A.06, and 477A.07, before any reduction under articles 5 and 6, and (2) the sum of the aids paid in 2004 under those same sections, after any reductions in 2004 under articles 5 and 6.

(b) For counties only, for taxes levied in 2001 and 2002, the adjusted levy limit base is also reduced by any amount of levy reduction required under section 275.07, subdivision 1, paragraph (b), clause (ii). For taxes levied in 2003 only, the adjusted levy limit base is increased by 60 percent of the difference between a jurisdiction's market value credit in 2003 before any reductions under articles 5 and 6, and its market value credit in 2004 after reductions in articles 5 and 6.

EFFECTIVE DATE. This section is effective for taxes payable in 2004.

Sec. 4. Minnesota Statutes 2002, section 275.71, subdivision 5, is amended to read:

Subd. 5. **PROPERTY TAX LEVY LIMIT.** Notwithstanding any other provision of a municipal charter which limits ad valorem taxes to a lesser amount, or which would require a separate voter approval for any increase, For taxes levied in 2001 and ~~2002~~ 2003, the property tax levy limit for a local governmental unit is equal to its adjusted levy limit base determined under subdivision 4 plus any additional levy

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authorized under section 275.73, which is levied against net tax capacity, reduced by the sum of (i) the total amount of aids and reimbursements that the local governmental unit is certified to receive under sections 477A.011 to 477A.014, except for the increases in city aid bases in calendar year 2002 under section 477A.011, subdivision 36, paragraphs ~~(n)~~, ~~(p)~~, and ~~(q)~~ (l), (n), and (o), (ii) homestead and agricultural aids it is certified to receive under section 273.1398, (iii) taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year, (iv) ~~low-income housing aid under sections 477A.06 and 477A.065 temporary court aid under section 273.1398, subdivision 4a, and (v) property tax replacement aids under section 174.242~~ estimated payments to the local governmental unit under section 272.029, adjusted for any error in estimation in the preceding year.

EFFECTIVE DATE. This section is effective for taxes payable in 2004.

Sec. 5. Minnesota Statutes 2002, section 275.71, subdivision 6, is amended to read:

Subd. 6. **LEVIES IN EXCESS OF LEVY LIMITS.** ~~(a)~~ If the levy made by a city or county exceeds the levy limit provided in sections 275.70 to 275.74, except when the excess levy is due to the rounding of the rate in accordance with section 275.28, the county auditor shall only extend the amount of taxes permitted under sections 275.70 to 275.74, as provided for in section 275.16.

~~(b)~~ For taxes levied in 2002, payable in 2003 only, if an error was made in calculating the levy limit adjustment related to a special levy for jails authorized under section 275.70, subdivision 5, clause (11), in the previous year, the following adjustments must be made:

(1) the county's levy limit base for taxes levied in 2002 must be based on the corrected adjusted levy limit base for taxes levied in 2001; and

(2) the county's final levy limit for taxes levied in 2002, payable in 2003, must also be temporarily reduced by an amount equal to the amount of county levy spread in the previous year in excess of the total recalculated levy limit plus authorized special levies for taxes levied in 2001, payable in 2002.

~~(c)~~ The commissioner of revenue shall inform counties affected by paragraph (b) of the levy error and levy adjustments required under this provision by June 15, 2002. The county may provide additional information to the commissioner indicating why these adjustments may be in error by July 15, 2002. The commissioner shall certify the final levy adjustment to the affected counties by August 1, 2002. The levy reduction imposed under paragraph (b), clause (2), may be spread over a period not to exceed three years, upon agreement between the county and the commissioner.

EFFECTIVE DATE. This section is effective for taxes payable in 2004.

Sec. 6. Minnesota Statutes 2002, section 275.72, subdivision 3, is amended to read:

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Subd. 3. **ADJUSTMENTS FOR CHANGES IN SERVICE LEVELS.** If a local governmental unit, as a result of an annexation agreement prior to January 1, 1999, has different tax rates in various parts of the jurisdiction due to different service levels, it may petition the commissioner of revenue to adjust its levy limits established under section 275.71. The commissioner shall adjust the levy limits to reflect scheduled changes in tax rates related to increasing service levels in areas currently receiving less city services. The local governmental unit shall provide the commissioner with any information the commissioner deems necessary in making the levy limit adjustment.

EFFECTIVE DATE. This section is effective for taxes levied in 2003, payable in 2004.

Sec. 7. Minnesota Statutes 2002, section 275.73, subdivision 2, is amended to read:

Subd. 2. **LEVY EFFECTIVE DATE.** An additional levy approved under subdivision 1 at a general or special election held prior to ~~September 1~~ on or before the first Tuesday after the first Monday in November in any levy year may be levied in that same levy year and subsequent levy years. An additional levy approved under subdivision 1 at a general or special election held after ~~August 31~~ the first Tuesday after the first Monday in November in any levy year shall not be levied in that same levy but may be levied in subsequent levy years.

EFFECTIVE DATE. This section is effective for taxes payable in 2004.

Sec. 8. Minnesota Statutes 2002, section 275.74, subdivision 3, is amended to read:

Subd. 3. **INFORMATION NECESSARY TO CALCULATE THE 2001 LEVY LIMIT BASE.** A local governmental unit must provide the commissioner with the information required to calculate the ~~alternative 2001 levy limit base~~ amount under section 275.71, subdivision 2, ~~paragraph (a), clause (2),~~ by July 20, 2001 of the levy year. If the information is not received by the commissioner by that date, or is not deemed sufficient to make the calculation under that clause, the commissioner has the discretion to set the local governmental unit's 2001 levy limit for all purposes including those purposes for which special levies may be made, base equal to the amount calculated under section 275.71, subdivision 2, paragraph (a), clause (1) of the local governmental unit's certified levy for the prior year.

EFFECTIVE DATE. This section is effective for taxes payable in 2004.

ARTICLE 8

SALES AND USE TAX

Section 1. Minnesota Statutes 2002, section 168.27, subdivision 4a, is amended to read:

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Subd. 4a. **LIMITED USED VEHICLE LICENSE.** (a) A limited used vehicle license shall be provided to a nonprofit charitable organization that qualifies for tax exemption under section 501(c)(3) of the Internal Revenue Code whose primary business in the transfer of vehicles is to raise funds for the corporation, who acquires vehicles for sale through donation, and who uses a licensed motor vehicle auctioneer to sell vehicles to retail customers individuals, or who sells and reassigns vehicles to a licensed motor vehicle dealer. This license does not apply to educational institutions whose primary purpose is to train students in the repair, maintenance, and sale of motor vehicles. A limited used vehicle license allows the organization to accept assignment of vehicles without the requirement to transfer title as provided in section 168A.10 until sold or donated to a retail customer an individual. Limited used vehicle license holders are not entitled to dealer plates, and shall report all vehicles held for resale to the department of public safety in a manner and time prescribed by the department.

(b) A nonprofit charitable organization with a limited used vehicle license shall, within 90 days after a vehicle donation, send a donor a receipt for the donated vehicle which states its model; age; level of use, including, but not limited to, the mileage; its condition, and whether a visual inspection disclosed any readily apparent defects that would materially reduce the value of the property. The receipt must include the date of the donation and must state whether the vehicle was operable or inoperable at the time of the donation.

EFFECTIVE DATE. This section is effective for sales and transfers made after June 30, 2003.

Sec. 2. Minnesota Statutes 2002, section 289A.20, subdivision 4, is amended to read:

Subd. 4. **SALES AND USE TAX.** (a) The taxes imposed by chapter 297A are due and payable to the commissioner monthly on or before the 20th day of the month following the month in which the taxable event occurred, or following another reporting period as the commissioner prescribes or as allowed under section 289A.18, subdivision 4, paragraph (f) or (g), except that use taxes due on an annual use tax return as provided under section 289A.11, subdivision 1, are payable by April 15 following the close of the calendar year.

(b) ~~For a fiscal year ending before July 1, 2002,~~ A vendor having a liability of \$120,000 or more during a fiscal year ending June 30 must remit the June liability for the next year in the following manner:

(1) Two business days before June 30 of the year, the vendor must remit ~~75~~ 85 percent of the estimated June liability to the commissioner.

(2) On or before August 20 of the year, the vendor must pay any additional amount of tax not remitted in June.

(c) A vendor having a liability of \$120,000 or more during a fiscal year ending June 30 must remit all liabilities on returns due for periods beginning in the subsequent calendar year by electronic means on or before the 20th day of the month following the

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month in which the taxable event occurred, or on or before the 20th day of the month following the month in which the sale is reported under section 289A.18, subdivision 4, except for ~~75~~ 85 percent of the estimated June liability, which is due two business days before June 30. The remaining amount of the June liability is due on August 20.

EFFECTIVE DATE. This section, paragraph (a), is effective for sales and purchases made on or after January 1, 2004. The rest of this section is effective for payments made after December 31, 2003.

Sec. 3. Minnesota Statutes 2002, section 289A.31, subdivision 7, is amended to read:

Subd. 7. **SALES AND USE TAX.** (a) The sales and use tax required to be collected by the retailer under chapter 297A constitutes a debt owed by the retailer to Minnesota, and the sums collected must be held as a special fund in trust for the state of Minnesota.

A retailer who does not maintain a place of business within this state as defined by section 297A.66, subdivision 1, shall not be indebted to Minnesota for amounts of tax that it was required to collect but did not collect unless the retailer knew or had been advised by the commissioner of its obligation to collect the tax.

(b) The use tax required to be paid by a purchaser is a debt owed by the purchaser to Minnesota.

(c) The tax imposed by chapter 297A, and interest and penalties, is a personal debt of the individual required to file a return from the time the liability arises, irrespective of when the time for payment of that liability occurs. The debt is, in the case of the executor or administrator of the estate of a decedent and in the case of a fiduciary, that of the individual in an official or fiduciary capacity unless the individual has voluntarily distributed the assets held in that capacity without reserving sufficient assets to pay the tax, interest, and penalties, in which case the individual is personally liable for the deficiency.

(d) Liability for payment of sales and use taxes includes any responsible person or entity described in the personal liability provisions of section 270.101.

(e) Any amounts collected, even if erroneously or illegally collected, from a purchaser under a representation that they are taxes imposed under chapter 297A are state funds from the time of collection and must be reported on a return filed with the commissioner.

~~(f) The tax imposed under chapter 297A on sales of tickets to the premises of or events sponsored by the state agricultural society and conducted on the state fairgrounds during the period of the annual state fair may be retained by the state agricultural society if the funds are used and matched as required under section 37.13, subdivision 2.~~

EFFECTIVE DATE. This section is effective for sales taxes collected on sales occurring after June 30, 2003.

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Sec. 4. Minnesota Statutes 2002, section 289A.60, subdivision 15, as amended by Laws 2003, chapter 127, article 6, section 2, if enacted, is amended to read:

Subd. 15. **ACCELERATED PAYMENT OF JUNE SALES TAX LIABILITY; PENALTY FOR UNDERPAYMENT.** (a) For payments made after December 31, 2002, and before January 1, 2004, if a vendor is required by law to submit an estimation of June sales tax liabilities and 75 percent payment by a certain date, the vendor shall pay a penalty equal to ten percent of the amount of actual June liability required to be paid in June less the amount remitted in June. The penalty must not be imposed, however, if the amount remitted in June equals the lesser of 75 percent of the preceding May's liability or 75 percent of the average monthly liability for the previous calendar year.

(b) For payments made after December 31, 2003, if a vendor is required by law to submit an estimation of June sales tax liabilities and 85 percent payment by a certain date, the vendor shall pay a penalty equal to ten percent of the amount of actual June liability required to be paid in June less the amount remitted in June. The penalty must not be imposed, however, if the amount remitted in June equals the lesser of 85 percent of the preceding May's liability or 85 percent of the average monthly liability for the previous calendar year.

EFFECTIVE DATE. Paragraph (a) of this section is effective for payments made after December 31, 2002, and before January 1, 2004. Paragraph (b) of this section is effective for payments made after December 31, 2003.

Sec. 5. Minnesota Statutes 2002, section 297A.70, subdivision 8, is amended to read:

Subd. 8. **REGIONWIDE PUBLIC SAFETY RADIO COMMUNICATION SYSTEM; PRODUCTS AND SERVICES.** Products and services including, but not limited to, end user equipment used for construction, ownership, operation, maintenance, and enhancement of the backbone system of the regionwide public safety radio communication system established under sections 473.891 to 473.905, are exempt. For purposes of this subdivision, backbone system is defined in section 473.891, subdivision 9. This subdivision is effective for purchases, sales, storage, use, or consumption occurring before August 1, ~~2003~~ 2005, in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 6. Minnesota Statutes 2002, section 297A.70, subdivision 10, is amended to read:

Subd. 10. **NONPROFIT TICKETS OR ADMISSIONS.** (a) Tickets or admissions to an event are exempt if all the gross receipts are recorded as such, in accordance with generally accepted accounting principles, on the books of one or more organizations ~~that whose primary mission is to provide an opportunity for citizens of the state to participate in the creation, performance, or appreciation of the arts, and provided that each organization is:~~

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(1) an organization described in section 501(c)(3) of the Internal Revenue Code in which voluntary contributions make up at least the following percent of the organization's annual revenue in its most recently completed 12-month fiscal year, or in the current year if the organization has not completed a 12-month fiscal year:

(i) for sales made after July 31, 2001, and before July 1, 2002, for the organization's fiscal year completed in calendar year 2000, three percent;

(ii) for sales made on or after July 1, 2002, and on or before June 30, 2003, for the organization's fiscal year completed in calendar year 2001, three percent;

(iii) for sales made on or after July 1, 2003, and on or before June 30, 2004, for the organization's fiscal year completed in calendar year 2002, four percent; and

(iv) for sales made in each 12-month period, beginning on July 1, 2004, and each subsequent year, for the organization's fiscal year completed in the preceding calendar year, five percent;

(2) a municipal board that promotes cultural and arts activities; or

(3) the University of Minnesota, provided that the event is held at a university-owned facility.

The exemption only applies if the entire proceeds, after reasonable expenses, are used solely to provide opportunities for citizens of the state to participate in the creation, performance, or appreciation of the arts.

(b) Tickets or admissions to the premises of the Minnesota zoological garden are exempt, provided that the exemption under this paragraph does not apply to tickets or admissions to performances or events held on the premises unless the performance or event is sponsored and conducted exclusively by the Minnesota zoological board or employees of the Minnesota zoological garden.

Sec. 7. Minnesota Statutes 2002, section 297A.70, subdivision 14, is amended to read:

Subd. 14. **FUND-RAISING EVENTS SPONSORED BY NONPROFIT GROUPS.** (a) Sales of tangible personal property at, and admission charges for fund-raising events sponsored by, a nonprofit organization are exempt if:

(1) all gross receipts are recorded as such, in accordance with generally accepted accounting practices, on the books of the nonprofit organization; and

(2) the entire proceeds, less the necessary expenses for the event, will be used solely and exclusively for charitable, religious, or educational purposes. Exempt sales include the sale of food, meals, and drinks at the fund-raising event.

(b) This exemption is limited in the following manner:

(1) it does not apply to admission charges for events involving bingo or other gambling activities or to charges for use of amusement devices involving bingo or other gambling activities;

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(2) all gross receipts are taxable if the profits are not used solely and exclusively for charitable, religious, or educational purposes;

(3) it does not apply unless the organization keeps a separate accounting record, including receipts and disbursements from each fund-raising event that documents all deductions from gross receipts with receipts and other records;

(4) it does not apply to any sale made by or in the name of a nonprofit corporation as the active or passive agent of a person that is not a nonprofit corporation;

(5) all gross receipts are taxable if fund-raising events exceed 24 days per year; and

(6) it does not apply to fund-raising events conducted on premises leased for more than five days but less than 30 days; and

(7) it does not apply if the risk of the event is not borne by the nonprofit organization and the benefit to the nonprofit organization is less than the total amount of the state and local tax revenues foregone by this exemption.

(c) For purposes of this subdivision, a "nonprofit organization" means any unit of government, corporation, society, association, foundation, or institution organized and operated for charitable, religious, educational, civic, fraternal, and senior citizens' or veterans' purposes, no part of the net earnings of which inures to the benefit of a private individual.

Sec. 8. Minnesota Statutes 2002, section 297A.70, subdivision 16, is amended to read:

Subd. 16. **CAMP FEES.** Camp Fees to camps or other recreation facilities are exempt for:

(1) services primarily for children, adults accompanying children, or persons with disabilities; or

(2) educational or religious activities;

and the camp or facilities are owned and operated by an exempt organization under section 501(c)(3) of the Internal Revenue Code are exempt if the camps or facilities provide educational and social activities for young people primarily age 18 and under.

Sec. 9. Minnesota Statutes 2002, section 297A.71, is amended by adding a subdivision to read:

Subd. 32. **WALKER ART CENTER.** Materials, equipment, and supplies used or consumed in construction of the Walker Art Center are exempt if more than \$70,000,000 is raised from private sources to pay for a portion of the costs of the project.

EFFECTIVE DATE. This section is effective for purchases made on or after June 1, 2003.

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Sec. 10. Minnesota Statutes 2002, section 297B.01, subdivision 7, is amended to read:

Subd. 7. **SALE, SELLS, SELLING, PURCHASE, PURCHASED, OR ACQUIRED.** (a) "Sale," "sells," "selling," "purchase," "purchased," or "acquired" means any transfer of title of any motor vehicle, whether absolutely or conditionally, for a consideration in money or by exchange or barter for any purpose other than resale in the regular course of business.

(b) Any motor vehicle utilized by the owner only by leasing such vehicle to others or by holding it in an effort to so lease it, and which is put to no other use by the owner other than resale after such lease or effort to lease, shall be considered property purchased for resale.

(c) The terms also shall include any transfer of title or ownership of a motor vehicle by other means, for or without consideration, except that these terms shall not include:

(1) the acquisition of a motor vehicle by inheritance from or by bequest of, a decedent who owned it;

(2) the transfer of a motor vehicle which was previously licensed in the names of two or more joint tenants and subsequently transferred without monetary consideration to one or more of the joint tenants;

(3) the transfer of a motor vehicle by way of gift between individuals, or gift from a limited used vehicle dealer licensed under section 168.27, subdivision 4a, to an individual, when the transfer is with no monetary or other consideration or expectation of consideration and the parties to the transfer submit an affidavit to that effect at the time the title transfer is recorded;

(4) the voluntary or involuntary transfer of a motor vehicle between a husband and wife in a divorce proceeding; or

(5) the transfer of a motor vehicle by way of a gift to an organization that is exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code, as amended through December 31, 1996, when the motor vehicle will be used exclusively for religious, charitable, or educational purposes.

EFFECTIVE DATE. This section is effective for sales made after June 30, 2007.

Sec. 11. Laws 1980, chapter 511, section 1, subdivision 2, as amended by Laws 1991, chapter 291, article 8, section 22, and Laws 1998, chapter 389, article 8, section 25, is amended to read:

Subd. 2. Notwithstanding Minnesota Statutes, Section 477A.016, or any other law, ordinance, or city charter provision to the contrary, the city of Duluth may, by ordinance, impose an additional sales tax of up to one and one-half percent on sales transactions which are described in Minnesota Statutes 2000, Section 297A.01, Subdivision 3, Clause (c). When the city council determines that the taxes imposed

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under this subdivision and under section 26 at a rate of one-half of one percent have produced revenue sufficient to pay (1) the debt service on bonds in a principal amount of \$8,000,000 issued for capital improvements to the Duluth Entertainment and Convention Center, and (2) debt service on outstanding bonds originally issued in the principal amount of \$4,970,000 to finance capital improvements to the Great Lakes Aquarium since the imposition of the taxes at the rate of one and one-half percent, the rate of the tax under this subdivision is reduced to one percent. The imposition of this tax shall not be subject to voter referendum under either state law or city charter provisions.

EFFECTIVE DATE. This section is effective the day after the governing body of the city of Duluth and its chief clerical officer comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 12. Laws 1980, chapter 511, section 2, as amended by Laws 1998, chapter 389, article 8, section 26, is amended to read:

Sec. 2. CITY OF DULUTH; TAX ON RECEIPTS BY HOTELS AND MOTELS.

Notwithstanding Minnesota Statutes, Section 477A.016, or any other law, or ordinance, or city charter provision to the contrary, the city of Duluth may, by ordinance, impose an additional tax of one and one-half percent upon the gross receipts from the sale of lodging for periods of less than 30 days in hotels and motels located in the city. When the city council determines that the taxes imposed under this section and section 25 at a rate of one-half of one percent have produced revenue sufficient to pay (1) the debt service on bonds in a principal amount of \$8,000,000 issued for capital improvements for the Duluth Entertainment and Convention Center, and (2) the debt service on outstanding bonds originally issued in the principal amount of \$4,970,000 to finance capital improvements to the Great Lakes Aquarium since the imposition of the taxes at the rate of one and one-half percent, the rate of the tax under this section is reduced to one percent. The tax shall be collected in the same manner as the tax set forth in the Duluth city charter, section 54(d), paragraph one. The imposition of this tax shall not be subject to voter referendum under either state law or city charter provisions.

EFFECTIVE DATE. This section is effective the day after the governing body of the city of Duluth and its chief clerical officer comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 13. Laws 1993, chapter 375, article 9, section 46, subdivision 2, as amended by Laws 1997, chapter 231, article 7, section 40, and Laws 1998, chapter 389, article 8, section 30, is amended to read:

Subd. 2. USE OF REVENUES. Revenues received from the tax authorized by subdivision 1 may only be used by the city to pay the cost of collecting the tax, and to pay for the following projects or to secure or pay any principal, premium, or interest on bonds issued in accordance with subdivision 3 for the following projects.

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(a) To pay all or a portion of the capital expenses of construction, equipment and acquisition costs for the expansion and remodeling of the St. Paul Civic Center complex, including the demolition of the existing arena and the construction and equipping of a new arena.

(b) The remainder of the funds must be spent for:

(1) capital projects to further residential, cultural, commercial, and economic development in both downtown St. Paul and St. Paul neighborhoods. ~~The amount apportioned under this paragraph shall be no less than 60 percent of the revenues derived from the tax each year, except to the extent that a portion of that amount is required to pay debt service on (1) bonds issued for the purposes of paragraph (a) prior to March 1, 1998; or (2) bonds issued for the purposes of paragraph (a) after March 1, 1998, but only if the city council determines that 40 percent of the revenues derived from the tax together with other revenues pledged to the payment of the bonds, including the proceeds of definitive bonds, is expected to exceed the annual debt service on the bonds; and~~

(2) the capital and operating expenses of cultural organizations in the city, provided that the amount spent under this clause may not exceed must equal ten percent of the total amount spent under this paragraph in any year.

(c) The amount apportioned under paragraph (b) shall be no less than 60 percent of the revenues derived from the tax each year, except to the extent that a portion of that amount is required to pay debt service on (1) bonds issued for the purposes of paragraph (a) prior to March 1, 1998; or (2) bonds issued for the purposes of paragraph (a) after March 1, 1998, but only if the city council determines that 40 percent of the revenues derived from the tax together with other revenues pledged to the payment of the bonds, including the proceeds of definitive bonds, is expected to exceed the annual debt service on the bonds.

(d) If in any year more than 40 percent of the revenue derived from the tax authorized by subdivision 1 is used to pay debt service on the bonds issued for the purposes of paragraph (a) and to fund a reserve for the bonds, the amount of the debt service payment that exceeds 40 percent of the revenue must be determined for that year. In any year when 40 percent of the revenue produced by the sales tax exceeds the amount required to pay debt service on the bonds and to fund a reserve for the bonds under paragraph (a), the amount of the excess must be made available for capital projects to further residential, cultural, commercial, and economic development in the neighborhoods and downtown until the cumulative amounts determined for all years under the preceding sentence have been made available under this sentence. The amount made available as reimbursement in the preceding sentence is not included in the 60 percent determined under paragraph ~~(b)~~ (c).

~~(d)~~ (e) By January 15 of each odd-numbered year, the mayor and the city council must report to the legislature on the use of sales tax revenues during the preceding two-year period.

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EFFECTIVE DATE. This section is effective for distributions after April 30, 2003.

Sec. 14. Laws 1999, chapter 243, article 4, section 19, as amended by Laws 2001, First Special Session chapter 5, article 12, section 88, is amended to read:

Sec. 19. EFFECTIVE DATES.

Sections 1, 2, 5, 7, 9, and 11 are effective for sales and purchases made after June 30, 1999.

Section 3 is effective for amended returns and refund claims filed on or after July 1, 1999.

Section 4 is effective the day following final enactment and applies retroactively to all open tax years and to assessments and appeals under Minnesota Statutes, sections 289A.38 and 289A.65, for which the time limits have not expired on the date of final enactment of this act. The provisions of Minnesota Statutes, section 289A.50, apply to refunds claimed under section 4. Refunds claimed under section 4 must be filed by the later of December 31, 1999, or the time limit under Minnesota Statutes, section 289A.40, subdivision 1.

Section 6 is effective retroactively for sales and purchases made after June 30, 1998.

Section 8 is effective for purchases and sales made after the date of final enactment.

Section 10 is effective for purchases made after the date of final enactment and before July 1, ~~2003~~ 2005.

Section 12 is effective the day after final enactment. Section 12, paragraphs (a) to (c), apply to all local sales taxes enacted after July 1, 1999. Section 12, paragraph (d), applies to all local sales taxes in effect at the time of, or imposed after the day of, the enactment of this section.

Section 13 is effective the day following final enactment.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 15. Laws 2001, First Special Session chapter 5, article 12, section 95, as amended by Laws 2002, chapter 377, article 3, section 24, is amended to read:

Sec. 95. REPEALER.

(a) Minnesota Statutes 2000, sections 297A.61, subdivision 16; 297A.68, subdivision 21; and 297A.71, subdivision 2, are repealed effective for sales and purchases occurring after June 30, 2001, except that the repeal of section 297A.61, subdivision 16, paragraph (d), is effective for sales and purchases occurring after July 31, 2001.

(b) Minnesota Statutes 2000, sections 297A.62, subdivision 2, and 297A.64, subdivision 1, are repealed effective for sales and purchases made after December 31, 2005.

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(c) Minnesota Statutes 2000, section 297A.71, subdivision 15, is repealed effective for sales and purchases made after June 30, 2002.

(d) ~~Minnesota Statutes 2000, section 289A.60, subdivision 15, is repealed effective for liabilities after January 1, 2004.~~

(e) Minnesota Statutes 2000, section 297A.71, subdivision 16, is repealed effective for sales and purchases occurring after December 31, 2002.

Sec. 16. Laws 2002, chapter 377, article 3, section 15, the effective date, is amended to read:

EFFECTIVE DATE. This section is effective for sales made after August 31, 2002, and on or before December 31, ~~2003~~ 2004.

Sec. 17. STATE CONVENTION CENTER.

Subdivision 1. EXEMPTION. Building materials, supplies, or equipment used or consumed in constructing or equipping improvements to a state convention center located in a city outside the metropolitan area as defined in section 473.121, subdivision 2, and governed by an 11-person board of which four are appointed by the governor are exempt if the improvements are financed in whole or in part by nonstate resources including, but not limited to, revenue or general obligations issued by the state convention center board of the city in which the center is located. This exemption applies regardless of whether the items are purchased by the owner or by a contractor, subcontractor, or builder.

Subd. 2. LEGISLATIVE INTENT. This section is intended to clarify the original intent of Minnesota Statutes, section 297A.71, subdivision 2.

EFFECTIVE DATE. This section is effective the day following final enactment and applies retroactively to sales and purchases made after June 30, 1995, and before July 1, 2001.

Sec. 18. LODGING TAX; ITASCA COUNTY AUTHORITY.

Notwithstanding Minnesota Statutes, section 469.190, subdivisions 1 and 4, no town located in Itasca county may impose the local lodging tax authorized in Minnesota Statutes, section 469.190, but the county of Itasca may impose the local lodging tax authorized in that section in all towns and unorganized territories within the county. Any existing taxes imposed by a town in that county will expire the day that a county tax is imposed under this section.

If the county board exercises the authority under this section, it must determine by resolution that imposition of the tax is in the county's interest. The resolution is subject to the same notice and reverse referendum requirements that would apply under Minnesota Statutes, section 469.190, subdivision 5, if the county was only imposing the tax in an unorganized territory. The provisions of Minnesota Statutes, section 469.190, subdivisions 2, 3, 6, and 7, also apply to a tax imposed under this section.

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EFFECTIVE DATE. This section is effective the day after the governing body of Itasca county and its chief clerical officer comply with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 19. STUDY OF LOCAL SALES TAX.

(a) The commissioner of revenue shall study the local sales taxes in Minnesota and provide a written report and recommendations to the legislature, in compliance with Minnesota Statutes, sections 3.195 and 3.197, by February 1, 2004. The study must report on:

(1) the authorized uses of revenue from local sales taxes in effect, and the proposed uses of revenue from local sales taxes recently proposed but not enacted;

(2) the local approval requirements for local sales taxes;

(3) the duration of local sales taxes and whether the full duration authorized in law was necessary to provide sufficient revenue for the authorized uses of the local sales tax;

(4) if the authorized uses of the local sales tax revenues are regional in nature or limited in benefit to the jurisdiction in which the tax is imposed;

(5) the estimated portion of revenue raised through the local sales taxes that comes from (i) residents of the jurisdiction in which the tax is imposed; (ii) Minnesota residents who live outside the jurisdiction; and (iii) non-Minnesota residents;

(6) the ability of jurisdictions to raise revenue by other means, including the local property tax, and the extent to which the jurisdictions assess property taxes in comparison to other similar jurisdictions, and the state average, expressed in terms of levy as a percent of adjusted net tax capacity;

(7) how jurisdictions that do not impose local sales taxes raise revenue to fund projects similar to those funded through local sales taxes; and

(8) the compatibility of local sales taxes with the policies underlying the streamlined sales tax project.

(b) The study must make recommendations on:

(1) the appropriate role of local sales taxes as a part of Minnesota's state and local revenue system, including:

(i) the appropriate uses of local sales taxes; and

(ii) whether local sales taxes should be limited to jurisdictions that do not meet minimum thresholds of raising revenue through other means, including local property tax;

(2) criteria to be used in evaluating local sales tax proposals, designed to direct the use of local sales taxes toward:

(i) projects that are regional in nature;

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(ii) projects that require capital expenditures; and

(iii) projects in jurisdictions with inadequate fiscal capacity to fund the projects through other means; and

(3) the feasibility of authorizing the commissioner of revenue to approve or deny local sales taxes proposals based on a uniform set of criteria, including the advisability of requiring local approval by referendum or revocation by reverse referendum, and if the referendum should be a criterion necessary for a proposal to be considered for authorization or should occur after authorization but as a condition of the tax being implemented.

Sec. 20. REPEALER.

(a) Minnesota Statutes 2002, section 37.13, subdivision 2, is repealed effective July 1, 2003, but the repealer does not apply to sales taxes retained on sales occurring before July 1, 2003.

(b) Minnesota Statutes 2002, section 325E.112, subdivision 2a, is repealed effective July 1, 2003.

ARTICLE 9

SPECIAL TAXES

Section 1. Minnesota Statutes 2002, section 62J.692, subdivision 4, is amended to read:

Subd. 4. **DISTRIBUTION OF FUNDS.** (a) The commissioner shall annually distribute medical education funds to all qualifying applicants based on the following criteria:

(1) total medical education funds available for distribution;

(2) total number of eligible trainee FTEs in each clinical medical education program; and

(3) the statewide average cost per trainee as determined by the application information provided in the first year of the biennium, by type of trainee, in each clinical medical education program.

(b) Funds distributed shall not be used to displace current funding appropriations from federal or state sources.

(c) Funds shall be distributed to the sponsoring institutions indicating the amount to be distributed to each of the sponsor's clinical medical education programs based on the criteria in this subdivision and in accordance with the commissioner's approval

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letter. Each clinical medical education program must distribute funds to the training sites as specified in the commissioner's approval letter. Sponsoring institutions, which are accredited through an organization recognized by the department of education or the Centers for Medicare and Medicaid Services, may contract directly with training sites to provide clinical training. To ensure the quality of clinical training, those accredited sponsoring institutions must:

(1) develop contracts specifying the terms, expectations, and outcomes of the clinical training conducted at sites; and

(2) take necessary action if the contract requirements are not met. Action may include the withholding of payments under this section or the removal of students from the site.

(d) Any funds not distributed in accordance with the commissioner's approval letter must be returned to the medical education and research fund within 30 days of receiving notice from the commissioner. The commissioner shall distribute returned funds to the appropriate training sites in accordance with the commissioner's approval letter.

(e) The commissioner shall distribute by June 30 of each year an amount equal to the funds transferred under section 62J.694, subdivision 2a, paragraph (b) subdivision 10, plus five percent interest to the University of Minnesota board of regents for the costs of the academic health center as specified under section 62J.694, subdivision 2a, paragraph (a) instructional costs of health professional programs at the academic health center and for interdisciplinary academic initiatives within the academic health center.

(f) A maximum of \$150,000 of the funds dedicated to the commissioner under section 297F.10, subdivision 1, paragraph (b), clause (2), may be used by the commissioner for administrative expenses associated with implementing this section.

Sec. 2. Minnesota Statutes 2002, section 62J.692, is amended by adding a subdivision to read:

Subd. 10. TRANSFERS FROM UNIVERSITY OF MINNESOTA. Of the funds dedicated to the academic health center under section 297F.10, subdivision 1, paragraph (b), clause (1), \$4,850,000 shall be transferred annually to the commissioner of health no later than April 15 of each year for distribution under subdivision 4, paragraph (e).

Sec. 3. Minnesota Statutes 2002, section 270.60, subdivision 4, is amended to read:

Subd. 4. PAYMENTS TO COUNTIES. (a) The commissioner shall pay to a county in which an Indian gaming casino is located:

(1) ten percent of the state share of all taxes generated from activities on reservations and collected under a tax agreement under this section with the tribal government for the reservation located in the county; or

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(2) five percent of excise taxes collected by the state that are determined by the department of revenue to have been generated from activities on a reservation located in the county, the tribal government of which does not have a tax agreement under this section and did not have a tax agreement on June 30, 2003.

If the tribe has casinos located in more than one county, the payment must be divided equally among the counties in which the casinos are located.

(b) The commissioner shall make the payments required under this subdivision by February 28 of the year following the year the taxes are collected.

(c) An amount sufficient to make the payments authorized by this subdivision is annually appropriated from the general fund to the commissioner.

EFFECTIVE DATE. This section is effective for taxes collected after June 30, 2003.

Sec. 4. Minnesota Statutes 2002, section 287.12, is amended to read:

287.12 TAXES, HOW APPORTIONED.

(a) All taxes paid to the county treasurer under the provisions of sections 287.01 to 287.12 must be apportioned, 97 percent to the general fund of the state, and three percent to the county revenue fund.

(b) On or before the 20th day of each month the county treasurer shall determine and pay to the commissioner of revenue for deposit in the state treasury and credit to the general fund the state's portion of the receipts from the mortgage registry tax during the preceding month subject to the electronic payment requirements of section 270.771. The county treasurer shall provide any related reports requested by the commissioner of revenue.

(c) Counties must remit the state's portion of the June receipts collected through June 25 and the estimated state's portion of the receipts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30 of each year. The remaining amount of the June receipts is due on August 20.

EFFECTIVE DATE. This section is effective January 1, 2004.

Sec. 5. Minnesota Statutes 2002, section 287.29, subdivision 1, is amended to read:

Subdivision 1. **APPOINTMENT AND PAYMENT OF TAX PROCEEDS.** (a) The proceeds of the taxes levied and collected under sections 287.21 to 287.39 must be apportioned, 97 percent to the general fund of the state, and three percent to the county revenue fund.

(b) On or before the 20th day of each month, the county treasurer shall determine and pay to the commissioner of revenue for deposit in the state treasury and credit to the general fund the state's portion of the receipts for deed tax from the preceding month subject to the electronic transfer requirements of section 270.771. The county

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treasurer shall provide any related reports requested by the commissioner of revenue.

(c) Counties must remit the state's portion of the June receipts collected through June 25 and the estimated state's portion of the receipts to be collected during the remainder of the month to the commissioner of revenue two business days before June 30 of each year. The remaining amount of the June receipts is due on August 20.

EFFECTIVE DATE. This section is effective January 1, 2004.

Sec. 6. Minnesota Statutes 2002, section 287.31, is amended by adding a subdivision to read:

Subd. 3. UNDERPAYMENTS OF ACCELERATED PAYMENT OF JUNE TAX RECEIPTS. If a county fails to timely remit the state portion of the actual June tax receipts at the time required by section 287.12 or 287.29, the county shall pay a penalty equal to ten percent of the state portion of actual June receipts less the amount remitted to the commissioner of revenue in June. The penalty must not be imposed, however, if the amount remitted in June equals either:

- (1) 90 percent of the state's portion of the preceding May's receipts; or
- (2) 90 percent of the average monthly amount of the state's portion for the previous calendar year.

EFFECTIVE DATE. This section is effective January 1, 2004.

Sec. 7. Minnesota Statutes 2002, section 297F.09, subdivision 1, is amended to read:

Subdivision 1. MONTHLY RETURN; CIGARETTE DISTRIBUTOR. On or before the 18th day of each calendar month, a distributor with a place of business in this state shall file a return with the commissioner showing the quantity of cigarettes manufactured or brought in from outside the state or purchased during the preceding calendar month and the quantity of cigarettes sold or otherwise disposed of in this state and outside this state during that month. A licensed distributor outside this state shall in like manner file a return showing the quantity of cigarettes shipped or transported into this state during the preceding calendar month. Returns must be made in the form and manner prescribed by the commissioner and must contain any other information required by the commissioner. The return must be accompanied by a remittance for the full unpaid tax liability shown by it. The return for the May liability and 85 percent of the estimated June liability is due on the date payment of the tax is due.

EFFECTIVE DATE. This section is effective January 1, 2004.

Sec. 8. Minnesota Statutes 2002, section 297F.09, subdivision 2, is amended to read:

Subd. 2. MONTHLY RETURN; TOBACCO PRODUCTS DISTRIBUTOR. On or before the 18th day of each calendar month, a distributor with a place of business in this state shall file a return with the commissioner showing the quantity and wholesale sales price of each tobacco product:

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(1) brought, or caused to be brought, into this state for sale; and

(2) made, manufactured, or fabricated in this state for sale in this state, during the preceding calendar month.

Every licensed distributor outside this state shall in like manner file a return showing the quantity and wholesale sales price of each tobacco product shipped or transported to retailers in this state to be sold by those retailers, during the preceding calendar month. Returns must be made in the form and manner prescribed by the commissioner and must contain any other information required by the commissioner. The return must be accompanied by a remittance for the full tax liability shown, ~~less 1.5 percent of the liability as compensation to reimburse the distributor for expenses incurred in the administration of this chapter.~~ The return for the May liability and 85 percent of the estimated June liability is due on the date payment of the tax is due.

EFFECTIVE DATE. The part of this section abolishing the 1.5 percent reimbursement is effective for sales made after June 30, 2003. The rest of this section is effective January 1, 2004.

Sec. 9. Minnesota Statutes 2002, section 297F.09, is amended by adding a subdivision to read:

Subd. 10. ACCELERATED TAX PAYMENT; CIGARETTE OR TOBACCO PRODUCTS DISTRIBUTOR. A cigarette or tobacco products distributor having a liability of \$120,000 or more during a fiscal year ending June 30, shall remit the June liability for the next year in the following manner:

(a) Two business days before June 30 of the year, the distributor shall remit the actual May liability and 85 percent of the estimated June liability to the commissioner and file the return in the form and manner prescribed by the commissioner.

(b) On or before August 18 of the year, the distributor shall submit a return showing the actual June liability and pay any additional amount of tax not remitted in June. A penalty is imposed equal to ten percent of the amount of June liability required to be paid in June, less the amount remitted in June. However, the penalty is not imposed if the amount remitted in June equals the lesser of:

(1) 85 percent of the actual June liability; or

(2) 85 percent of the preceding May's liability.

EFFECTIVE DATE. This section is effective for taxpayers having a liability of \$120,000 or more during the fiscal year ending June 30, 2003, and each fiscal year thereafter, and for accelerated payments becoming due in 2004 and thereafter.

Sec. 10. Minnesota Statutes 2002, section 297F.10, subdivision 1, as amended by Laws 2003, chapter 128, article 1, section 155, if enacted, is amended to read:

Subdivision 1. **TAX AND USE TAX ON CIGARETTES.** Revenue received from cigarette taxes, as well as related penalties, interest, license fees, and miscella-

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neous sources of revenue shall be deposited by the commissioner in the state treasury and credited as follows:

(a) ~~first to the general obligation special tax bond debt service account in each fiscal year the amount required to increase the balance on hand in the account on each December 1 to an amount equal to the full amount of principal and interest to come due on all outstanding bonds whose debt service is payable primarily from the proceeds of the tax to and including the second following July 1; and~~

~~(b) after the requirements of paragraph (a) have been met,~~

(1) the revenue produced by 3.25 mills of the tax on cigarettes weighing not more than three pounds a thousand and 6.5 mills of the tax on cigarettes weighing more than three pounds a thousand must be credited to the academic health center special revenue fund hereby created and is annually appropriated to the board of regents at the University of Minnesota for academic health center funding at the University of Minnesota; and

(2) the revenue produced by 1.25 mills of the tax on cigarettes weighing not more than three pounds a thousand and 2.5 mills of the tax on cigarettes weighing more than three pounds a thousand must be credited to the medical education and research costs account hereby created in the special revenue fund and is annually appropriated to the commissioner of health for distribution under section 62J.692, subdivision 4; and

(3) the balance of the revenues derived from taxes, penalties, and interest (under this chapter) and from license fees and miscellaneous sources of revenue shall be credited to the general fund.

EFFECTIVE DATE. This section is effective for all revenues received after June 30, 2003.

Sec. 11. Minnesota Statutes 2002, section 297G.01, is amended by adding a subdivision to read:

Subd. 21. LOW-ALCOHOL DAIRY COCKTAIL. “Low-alcohol dairy cocktail” means a premixed cocktail, or any other product except liqueur-filled candy, that:

- (1) consists primarily of milk products;
- (2) contains distilled spirits;
- (3) is drinkable as a beverage or is promoted as an alcoholic product; and
- (4) contains less than 3.2 percent alcohol by volume.

EFFECTIVE DATE. This section is effective for sales made after June 30, 2003.

Sec. 12. Minnesota Statutes 2002, section 297G.03, subdivision 1, is amended to read:

Subdivision 1. **GENERAL RATE; DISTILLED SPIRITS AND WINE.** The following excise tax is imposed on all distilled spirits and wine manufactured,

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imported, sold, or possessed in this state:

	Standard	Metric
(a) Distilled spirits, liqueurs, cordials, and specialties regardless of alcohol content (excluding ethyl alcohol)	\$5.03 per gallon	\$1.33 per liter
(b) Wine containing 14 percent or less alcohol by volume (except cider as defined in section 297G.01, subdivision 3a)	\$.30 per gallon	\$.08 per liter
(c) Wine containing more than 14 percent but not more than 21 percent alcohol by volume	\$.95 per gallon	\$.25 per liter
(d) Wine containing more than 21 percent but not more than 24 percent alcohol by volume	\$1.82 per gallon	\$.48 per liter
(e) Wine containing more than 24 percent alcohol by volume	\$3.52 per gallon	\$.93 per liter
(f) Natural and artificial sparkling wines containing alcohol	\$1.82 per gallon	\$.48 per liter
(g) Cider as defined in section 297G.01, subdivision 3a	\$.15 per gallon	\$.04 per liter
(h) <u>Low alcohol dairy cocktails</u>	<u>\$.08 per gallon</u>	<u>\$.02 per liter</u>

In computing the tax on a package of distilled spirits or wine, a proportional tax at a like rate on all fractional parts of a gallon or liter must be paid, except that the tax on a fractional part of a gallon less than 1/16 of a gallon is the same as for 1/16 of a gallon.

EFFECTIVE DATE. This section is effective for sales made after June 30, 2003.

Sec. 13. Minnesota Statutes 2002, section 297G.09, is amended by adding a subdivision to read:

Subd. 9. ACCELERATED TAX PAYMENT; PENALTY. A person liable for tax under this chapter having a liability of \$120,000 or more during a fiscal year ending June 30, shall remit the June liability for the next year in the following manner:

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(a) Two business days before June 30 of the year, the taxpayer shall remit the actual May liability and 85 percent of the estimated June liability to the commissioner and file the return in the form and manner prescribed by the commissioner.

(b) On or before August 18 of the year, the taxpayer shall submit a return showing the actual June liability and pay any additional amount of tax not remitted in June. A penalty is imposed equal to ten percent of the amount of June liability required to be paid in June less the amount remitted in June. However, the penalty is not imposed if the amount remitted in June equals the lesser of:

- (1) 85 percent of the actual June liability; or
- (2) 85 percent of the preceding May liability.

EFFECTIVE DATE. This section is effective for taxpayers having a liability of \$120,000 or more during the fiscal year ending June 30, 2003, and each fiscal year thereafter, and for accelerated payments becoming due in 2004 and thereafter.

Sec. 14. Minnesota Statutes 2002, section 349.16, is amended by adding a subdivision to read:

Subd. 11. AGREEMENT TO PAY TAXES. An organization which is recognized by federal law, regulation, or other ruling as a quasi-governmental organization that would otherwise be exempt from one or more taxes under chapter 297E must agree to pay all taxes under chapter 297E on lawful gambling conducted by the organization as a condition of receiving or renewing a license or premises permit.

ARTICLE 10

LOCAL ECONOMIC DEVELOPMENT

Section 1. Minnesota Statutes 2002, section 469.169, is amended by adding a subdivision to read:

Subd. 16. ADDITIONAL BORDER CITY ALLOCATIONS. (a) In addition to tax reductions authorized in subdivisions 7 to 15, the commissioner shall allocate \$750,000 for tax reductions to border city enterprise zones in cities located on the western border of the state. The commissioner shall make allocations to zones in cities on the western border on a per capita basis. Allocations made under this subdivision may be used for tax reductions as provided in section 469.171, or for other offsets of taxes imposed on or remitted by businesses located in the enterprise zone, but only if the municipality determines that the granting of the tax reduction or offset is necessary in order to retain a business within or attract a business to the zone. Any portion of the allocation provided in this paragraph may alternatively be used for tax reductions under section 469.1732 or 469.1734.

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(b) The commissioner shall allocate \$750,000 for tax reductions under section 469.1732 or 469.1734 to cities with border city enterprise zones located on the western border of the state. The commissioner shall allocate this amount among the cities on a per capita basis. Any portion of the allocation provided in this paragraph may alternatively be used for tax reductions as provided in section 469.171.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 2. Minnesota Statutes 2002, section 469.174, subdivision 6, as amended by Laws 2003, chapter 127, article 10, section 2, is amended to read:

Subd. 6. **MUNICIPALITY.** "Municipality" means the city, however organized, in which the district is located, with the following exceptions:

(1) for a project undertaken pursuant to sections 469.152 to 469.165, "municipality" has the meaning given in sections 469.152 to 469.165; and

(2) for a project undertaken pursuant to sections 469.142 to 469.151, or a county or multicounty project undertaken pursuant to sections 469.004 to 469.008 or special law, "municipality" means the county in which the district is located.

EFFECTIVE DATE. This section is effective for districts for which the request for certification was made after July 31, 1979.

Sec. 3. Minnesota Statutes 2002, section 469.174, subdivision 10, is amended to read:

Subd. 10. **REDEVELOPMENT DISTRICT.** (a) "Redevelopment district" means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one or more of the following conditions, reasonably distributed throughout the district, exists:

(1) parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance; or

(2) the property consists of vacant, unused, underused, inappropriately used, or infrequently used railyards, rail storage facilities, or excessive or vacated railroad rights-of-way; or

(3) tank facilities, or property whose immediately previous use was for tank facilities, as defined in section 115C.02, subdivision 15, if the tank facilities:

(i) have or had a capacity of more than 1,000,000 gallons;

(ii) are located adjacent to rail facilities; and

(iii) have been removed or are unused, underused, inappropriately used, or infrequently used; or

(4) a qualifying disaster area, as defined in subdivision 10b.

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(b) For purposes of this subdivision, "structurally substandard" shall mean containing defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection including adequate egress, layout and condition of interior partitions, or similar factors, which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

(c) A building is not structurally substandard if it is in compliance with the building code applicable to new buildings or could be modified to satisfy the building code at a cost of less than 15 percent of the cost of constructing a new structure of the same square footage and type on the site. The municipality may find that a building is not disqualified as structurally substandard under the preceding sentence on the basis of reasonably available evidence, such as the size, type, and age of the building, the average cost of plumbing, electrical, or structural repairs, or other similar reliable evidence. The municipality may not make such a determination without an interior inspection of the property, but need not have an independent, expert appraisal prepared of the cost of repair and rehabilitation of the building. An interior inspection of the property is not required, if the municipality finds that (1) the municipality or authority is unable to gain access to the property after using its best efforts to obtain permission from the party that owns or controls the property; and (2) the evidence otherwise supports a reasonable conclusion that the building is structurally substandard. Items of evidence that support such a conclusion include recent fire or police inspections, on-site property tax appraisals or housing inspections, exterior evidence of deterioration, or other similar reliable evidence. Written documentation of the findings and reasons why an interior inspection was not conducted must be made and retained under section 469.175, subdivision 3, clause (1).

(d) A parcel is deemed to be occupied by a structurally substandard building for purposes of the finding under paragraph (a) if all of the following conditions are met:

(1) the parcel was occupied by a substandard building within three years of the filing of the request for certification of the parcel as part of the district with the county auditor;

(2) the substandard building was demolished or removed by the authority or the demolition or removal was financed by the authority or was done by a developer under a development agreement with the authority;

(3) the authority found by resolution before the demolition or removal that the parcel was occupied by a structurally substandard building and that after demolition and clearance the authority intended to include the parcel within a district; and

(4) upon filing the request for certification of the tax capacity of the parcel as part of a district, the authority notifies the county auditor that the original tax capacity of the parcel must be adjusted as provided by section 469.177, subdivision 1, paragraph (h).

(e) For purposes of this subdivision, a parcel is not occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures unless 15 percent of

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the area of the parcel contains buildings, streets, utilities, paved or gravel parking lots, or other similar structures.

(f) For districts consisting of two or more noncontiguous areas, each area must qualify as a redevelopment district under paragraph (a) to be included in the district, and the entire area of the district must satisfy paragraph (a).

EFFECTIVE DATE. This section is effective for districts for which the request for certification is made after the day following final enactment.

Sec. 4. Minnesota Statutes 2002, section 469.174, is amended by adding a subdivision to read:

Subd. 10b. QUALIFIED DISASTER AREA. A "qualified disaster area" is an area that meets the following requirements:

(1) parcels consisting of 70 percent of the area of the district were occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures immediately before the disaster or emergency;

(2) the area of the district was subject to a disaster or emergency, as defined in section 273.123, subdivision 1, within the 18-month period ending on the day the request for certification of the district is made; and

(3) 50 percent or more of the buildings in the area have suffered substantial damage as a result of the disaster or emergency.

EFFECTIVE DATE. This section is effective for districts for which the request for certification is made after the day following final enactment.

Sec. 5. Minnesota Statutes 2002, section 469.1763, subdivision 2, is amended to read:

Subd. 2. EXPENDITURES OUTSIDE DISTRICT. (a) For each tax increment financing district, an amount equal to at least 75 percent of the total revenue derived from tax increments paid by properties in the district must be expended on activities in the district or to pay bonds, to the extent that the proceeds of the bonds were used to finance activities in the district or to pay, or secure payment of, debt service on credit enhanced bonds. For districts, other than redevelopment districts for which the request for certification was made after June 30, 1995, the in-district percentage for purposes of the preceding sentence is 80 percent. Not more than 25 percent of the total revenue derived from tax increments paid by properties in the district may be expended, through a development fund or otherwise, on activities outside of the district but within the defined geographic area of the project except to pay, or secure payment of, debt service on credit enhanced bonds. For districts, other than redevelopment districts for which the request for certification was made after June 30, 1995, the pooling percentage for purposes of the preceding sentence is 20 percent. The revenue derived from tax increments for the district that are expended on costs under section 469.176, subdivision 4h, paragraph (b), may be deducted first before calculating the percentages that must be expended within and without the district.

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(b) In the case of a housing district, a housing project, as defined in section 469.174, subdivision 11, is an activity in the district.

(c) All administrative expenses are for activities outside of the district, except that if the only expenses for activities outside of the district under this subdivision are for the purposes described in paragraph (d), administrative expenses will be considered as expenditures for activities in the district.

(d) The authority may elect, in the tax increment financing plan for the district, to increase by up to ten percentage points the permitted amount of expenditures for activities located outside the geographic area of the district under paragraph (a). As permitted by section 469.176, subdivision 4k, the expenditures, including the permitted expenditures under paragraph (a), need not be made within the geographic area of the project. Expenditures that meet the requirements of this paragraph are legally permitted expenditures of the district, notwithstanding section 469.176, subdivisions 4b, 4c, and 4j. To qualify for the increase under this paragraph, the expenditures must:

(1) be used exclusively to assist housing that meets the requirement for a qualified low-income building, as that term is used in section 42 of the Internal Revenue Code;

(2) not exceed the qualified basis of the housing, as defined under section 42(c) of the Internal Revenue Code, less the amount of any credit allowed under section 42 of the Internal Revenue Code; and

(3) be used to:

(i) acquire and prepare the site of the housing;

(ii) acquire, construct, or rehabilitate the housing; or

(iii) make public improvements directly related to the housing.

EFFECTIVE DATE. This section is effective for districts for which the request for certification was made after April 30, 1990.

Sec. 6. Minnesota Statutes 2002, section 469.1763, subdivision 4, is amended to read:

Subd. 4. USE OF REVENUES FOR DECERTIFICATION. (a) In each year beginning with the sixth year following certification of the district, if the applicable in-district percent of the revenues derived from tax increments paid by properties in the district that remain after exceeds the amount of expenditures that have been made for costs permitted under subdivision 3, an amount equal to the difference between the in-district percent of the revenues derived from tax increments paid by properties in the district and the amount of expenditures that have been made for costs permitted under subdivision 3 must be used and only used to pay or defease the following or be set aside to pay the following:

(1) outstanding bonds, as defined in subdivision 3, paragraphs (a), clause (2), and (b);

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(2) contracts, as defined in subdivision 3, paragraph (a), clauses (3) and (4); or

(3) credit enhanced bonds to which the revenues derived from tax increments are pledged, but only to the extent that revenues of the district for which the credit enhanced bonds were issued are insufficient to pay the bonds and to the extent that the increments from the applicable pooling percent share for the district are insufficient.

(b) When the outstanding bonds have been defeased and when sufficient money has been set aside to pay contractual obligations as defined in subdivision 3, paragraph (a), clauses (3) and (4), the district must be decertified and the pledge of tax increment discharged.

Sec. 7. Minnesota Statutes 2002, section 469.177, subdivision 1, is amended to read:

Subdivision 1. **ORIGINAL NET TAX CAPACITY.** (a) Upon or after adoption of a tax increment financing plan, the auditor of any county in which the district is situated shall, upon request of the authority, certify the original net tax capacity of the tax increment financing district and that portion of the district overlying any subdistrict as described in the tax increment financing plan and shall certify in each year thereafter the amount by which the original net tax capacity has increased or decreased as a result of a change in tax exempt status of property within the district and any subdistrict, reduction or enlargement of the district or changes pursuant to subdivision 4.

(b) For districts approved under section 469.175, subdivision 3, or parcels added to existing districts after May 1, 1988, if the classification under section 273.13 of property located in a district changes to a classification that has a different assessment ratio, the original net tax capacity of that property must be redetermined at the time when its use is changed as if the property had originally been classified in the same class in which it is classified after its use is changed.

(c) The amount to be added to the original net tax capacity of the district as a result of previously tax exempt real property within the district becoming taxable equals the net tax capacity of the real property as most recently assessed pursuant to section 273.18 or, if that assessment was made more than one year prior to the date of title transfer rendering the property taxable, the net tax capacity assessed by the assessor at the time of the transfer. If improvements are made to tax exempt property after certification of the district and before the parcel becomes taxable, the assessor shall, at the request of the authority, separately assess the estimated market value of the improvements. If the property becomes taxable, the county auditor shall add to original net tax capacity, the net tax capacity of the parcel, excluding the separately assessed improvements. If substantial taxable improvements were made to a parcel after certification of the district and if the property later becomes tax exempt, in whole or part, as a result of the authority acquiring the property through foreclosure or exercise of remedies under a lease or other revenue agreement or as a result of tax forfeiture, the amount to be added to the original net tax capacity of the district as a result of the property again becoming taxable is the amount of the parcel's value that was included

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in original net tax capacity when the parcel was first certified. The amount to be added to the original net tax capacity of the district as a result of enlargements equals the net tax capacity of the added real property as most recently certified by the commissioner of revenue as of the date of modification of the tax increment financing plan pursuant to section 469.175, subdivision 4.

(d) For districts approved under section 469.175, subdivision 3, or parcels added to existing districts after May 1, 1988, if the net tax capacity of a property increases because the property no longer qualifies under the Minnesota Agricultural Property Tax Law, section 273.111; the Minnesota Open Space Property Tax Law, section 273.112; or the Metropolitan Agricultural Preserves Act, chapter 473H, or because platted, unimproved property is improved or three years pass after approval of the plat under section 273.11, subdivision 1, the increase in net tax capacity must be added to the original net tax capacity.

(e) The amount to be subtracted from the original net tax capacity of the district as a result of previously taxable real property within the district becoming tax exempt, or a reduction in the geographic area of the district, shall be the amount of original net tax capacity initially attributed to the property becoming tax exempt or being removed from the district. If the net tax capacity of property located within the tax increment financing district is reduced by reason of a court-ordered abatement, stipulation agreement, voluntary abatement made by the assessor or auditor or by order of the commissioner of revenue, the reduction shall be applied to the original net tax capacity of the district when the property upon which the abatement is made has not been improved since the date of certification of the district and to the captured net tax capacity of the district in each year thereafter when the abatement relates to improvements made after the date of certification. The county auditor may specify reasonable form and content of the request for certification of the authority and any modification thereof pursuant to section 469.175, subdivision 4.

(f) If a parcel of property contained a substandard building that was demolished or removed and if the authority elects to treat the parcel as occupied by a substandard building under section 469.174, subdivision 10, paragraph (b), the auditor shall certify the original net tax capacity of the parcel using the greater of (1) the current net tax capacity of the parcel, or (2) the estimated market value of the parcel for the year in which the building was demolished or removed, but applying the class rates for the current year.

(g) For a redevelopment district qualifying under section 469.174, subdivision 10, paragraph (a), clause (4), as a qualified disaster area, the auditor shall certify the value of the land as the original tax capacity for any parcel in the district that contains a building that suffered substantial damage as a result of the disaster or emergency.

EFFECTIVE DATE. This section is effective for districts for which the request for certification is made after the day following final enactment.

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Sec. 8. [469.1794] DURATION EXTENSION TO OFFSET DEFICITS.

Subdivision 1. AUTHORITY. Subject to the conditions and limitations imposed by this section, an authority may, by resolution, extend the duration limit under section 469.176, subdivision 1b, 1c, 1e, or 1g, that applies to a preexisting district by up to the maximum number of years permitted under subdivision 5, plus any amount authorized by the commissioner of revenue under subdivision 6.

Subd. 2. DEFINITIONS. (a) For purposes of this section, the following terms have the meanings given.

(b) "Extended district" means a tax increment financing district whose duration limit is extended under this section.

(c) "Preexisting district" has the meaning given in section 469.1792, subdivision 2.

(d) "Preexisting obligation" has the meaning given in section 469.1792, subdivision 2.

(e) "Qualifying obligation" means:

(1) a preexisting obligation that is:

(i) a general obligation bond of the municipality;

(ii) a general obligation bond of the authority;

(iii) a revenue bond of the authority to which other revenues or money of the authority in addition to tax increments are pledged to pay;

(iv) an interfund loan, including an advance or payment made by the municipality or authority after June 1, 2002, to pay an obligation listed in items (i) to (iii);

(v) an obligation assumed by a developer before January 1, 2001, to repay a general obligation bond issued by a municipality to fund cleanup and development activities, if the developer assumed the obligation more than five years after the issuance of the bonds; or

(2) a bond issued to refinance a preexisting obligation under clause (1).

Subd. 3. PRECONDITIONS. Before an authority may extend the duration of district under this section, the following conditions must be met with regard to the district:

(1) the original local tax rate under section 469.177, subdivision 1a, does not apply under an election made under section 469.1792, subdivision 3, or under other operation of law;

(2) for a district in the metropolitan area or taconite tax relief area, the fiscal disparities contribution is computed under section 469.177, subdivision 3, paragraph (a);

(3) the municipality has transferred any available increments in other districts to pay qualified obligations of the district or other districts in the municipality under section 469.1763, subdivision 6; and

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(4) the authority finds that, taking into account all of the increments that are available to pay qualifying obligations for the district, the increments from the district will be insufficient to pay the amount of qualifying obligations and that the insufficiency is a result of (i) the changes in the class rates and (ii) elimination of the state-determined general education property tax levy under Laws 2001, First Special Session chapter 5.

Subd. 4. NOTICE; HEARING; AND APPROVALS. The authority may extend the duration of a district under this section only after the municipality has approved the extension after providing public notice and holding a hearing in the manner provided under section 469.175, subdivision 3.

Subd. 5. MAXIMUM EXTENSION. (a) The maximum extension for a district under this subdivision equals the lesser of:

(1) four years; or

(2) the tax reform percentage for the district, determined under paragraph (b), multiplied by the remaining duration of the district rounded to the nearest whole number. Fractions in excess of one-third are rounded up.

(b) The tax reform percentage for the district, as estimated by the county auditor, equals:

(1)(i) the total taxes paid by the original tax capacity for the district for taxes payable in 2001, minus

(ii) the average of the total taxes paid by the original tax capacity for the district for taxes payable in 2002 and in 2003, divided by

(2) the total taxes paid by the original tax capacity for the district for taxes payable in 2001.

(c) In the resolution approving the extension, the municipality may elect to treat all preexisting obligations as qualified obligations for purposes of this section. If the municipality makes an election under this paragraph, the maximum duration is reduced by one-half of the amount otherwise permitted under paragraph (a).

(d) The remaining duration of a district is the number of calendar years, beginning after December 31, 2001, in which the district may collect increment under its duration limit under section 469.176, subdivision 1b, 1c, 1e, or 1g, or a special law approved before January 1, 2002, as applicable.

(e) For purposes of this subdivision, "taxes" exclude taxes levied against market value, rather than tax capacity, and the state general tax under section 275.025.

Subd. 6. COMMISSIONER AUTHORITY. (a) If the municipality determines that the extension permitted under subdivision 5 will not provide sufficient revenue to pay in full the amount of qualifying obligations, the municipality may apply to the commissioner of revenue for an additional duration extension. The commissioner may

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authorize an extension of the duration of the district of up to two years after determining that:

(1) the insufficiency of revenues to pay the qualifying obligations, which will be offset by the additional extension of the duration limit, result from (i) the changes in the class rates and (ii) elimination of the state-determined general education property tax levy under Laws 2001, First Special Session chapter 5;

(2) the municipality has or is transferring all available increments from other preexisting districts and after August 1, 2001, has not entered into new obligations or authorized new spending that reduced the amount of those increments that are available for transfer to pay qualifying obligations; and

(3) increases in increments over the term of the district are unlikely to eliminate the insufficiency.

(b) The commissioner may:

(1) establish the form of and time for applications under this subdivision; and

(2) require the municipality to provide the information that the commissioner determines is necessary or useful in evaluating the application.

(c) This subdivision does not apply to a district if the authority has made an election under subdivision 5, paragraph (c).

Subd. 7. LIMITS ON USE OF INCREMENTS. (a) Tax increments of an extended district may only be used to pay preexisting obligations of the district and administrative expenses, effective upon the final required approval of the extension under this section. All tax increments that are attributable to an extension of the duration of a district under this section must be used only to pay qualified obligations of the district. If increments from a district subject to this subdivision are pledged to pay preexisting obligations that are not qualified obligations, increments received under the duration limit, determined without regard to this section, must be used to pay qualified obligations and preexisting obligations that are not qualified obligations in proportion to their relative shares of all payments due on all preexisting obligations.

(b) If the authority elects to extend the duration of a district under this section and if increments from one or more other districts are pledged to pay preexisting obligations of the extended district, increments from all of the districts may only be used to pay preexisting obligations and administrative expenses.

Subd. 8. DECERTIFICATION. An extended district must be decertified at the end of the first calendar year when sufficient increments have been received to pay the qualified obligations of the extended district. Any remaining unspent increments must be distributed as excess increments under section 469.176, subdivision 2, clause (4).

EFFECTIVE DATE. This section is effective the day following final enactment and applies to districts for which the request for certification was made on, before, or after August 1, 1979, and before August 1, 2001.

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Sec. 9. Minnesota Statutes 2002, section 474A.061, subdivision 1, as amended by Laws 2003, chapter 127, article 12, section 22, is amended to read:

Subdivision 1. **ALLOCATION APPLICATION.** (a) An issuer may apply for an allocation under this section by submitting to the department an application on forms provided by the department, accompanied by (1) a preliminary resolution, (2) a statement of bond counsel that the proposed issue of obligations requires an allocation under this chapter and the Internal Revenue Code, (3) the type of qualified bonds to be issued, (4) an application deposit in the amount of one percent of the requested allocation before the last Monday in July, or in the amount of two percent of the requested allocation on or after the last Monday in July, (5) a public purpose scoring worksheet for manufacturing project and enterprise zone facility project applications, and (6) for residential rental projects, a statement from the applicant or bond counsel as to whether the project preserves existing federally subsidized housing for residential rental project applications and whether the project is restricted to persons who are 55 years of age or older. The issuer must pay the application deposit by a check made payable to the department of finance. The Minnesota housing finance agency, the Minnesota rural finance authority, and the Minnesota higher education services office may apply for and receive an allocation under this section without submitting an application deposit.

(b) An entitlement issuer may not apply for an allocation from the public facilities pool unless it has either permanently issued bonds equal to the amount of its entitlement allocation for the current year plus any amount of bonding authority carried forward from previous years or returned for reallocation all of its unused entitlement allocation. An entitlement issuer may not apply for an allocation from the housing pool unless it either has permanently issued bonds equal to any amount of bonding authority carried forward from a previous year or has returned for reallocation all of its unused entitlement allocation any unused bonding authority carried forward from a previous year. For purposes of this subdivision, its entitlement allocation includes an amount obtained under section 474A.04, subdivision 6. This paragraph does not apply to an application from the Minnesota housing finance agency for an allocation under subdivision 2a for cities who choose to have the agency issue bonds on their behalf.

(c) If an application is rejected under this section, the commissioner must notify the applicant and return the application deposit to the applicant within 30 days unless the applicant requests in writing that the application be resubmitted. The granting of an allocation of bonding authority under this section must be evidenced by a certificate of allocation.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 10. **CITY OF NEW HOPE; TAX INCREMENT FINANCING DISTRICT.**

Subdivision 1. **SPECIAL RULES.** (a) At the election of the city, upon adoption of the tax increment financing plan for a district or districts described in this section,

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the rules provided under this section apply to each such district.

For purposes of this section, "district" means a redevelopment or soils condition tax increment financing district established by the city of New Hope or the economic development authority of the city within the following area: beginning at the intersection of Winnetka Avenue N. and the westerly extension of 58th Avenue N., east on the westerly extension of 58th Avenue N. to Sumter Avenue N., south on Sumter Avenue N. to Bass Lake Road, east on Bass Lake Road to the city boundaries of New Hope and Crystal, MN, south along that city boundary to St. Raphael Drive, west on St. Raphael Drive to Sumter Avenue N., south on Sumter Avenue N. to 53rd Avenue N., west on 53rd Avenue N. to Winnetka Avenue N., north on Winnetka Avenue N. to 55th Avenue N., west on 55th Avenue N. to Zealand Avenue N., north on Zealand Avenue N. to Bass Lake Road, east on Bass Lake Road to Yukon Avenue N., north on Yukon Avenue N. to Meadow Lake Road E., east on Meadow Lake Road E. to the intersection with the west property line of New Hope golf course, south along the west property line of New Hope golf course to Bass Lake Road, east on Bass Lake Road to Winnetka Avenue N., north on Winnetka Avenue N. to the point of beginning. The total number of parcels that may be included within all such redevelopment or soils condition tax increment financing districts must not exceed 131 and the total acreage, including roads, easements, and rights-of-way, must not exceed 130 acres.

(b) The five-year rule under Minnesota Statutes, section 469.1763, subdivision 3, applies as if the limit is nine years.

(c) The limitations on expenditure of increment outside of the district under Minnesota Statutes, section 469.1763, subdivision 2, apply as follows:

(1) administrative expenses are treated as expenditures for activities within the district;

(2) the percentage of increments that may be spent on activities outside of the district under Minnesota Statutes, section 469.1763, subdivision 2, is increased by 15 percentage points;

(3) increments spent outside of the district may only be spent on costs, such as property acquisition and public improvements, that are fairly apportioned to parcels on which the ultimate use is planned for housing; and

(4) increments may only be expended on improvements within the area identified in paragraph (a).

(d) The requirements for qualifying a redevelopment district under Minnesota Statutes, section 469.174, subdivision 10, do not apply to the parcels identified as 08-118-21-22-0001, 08-118-21-33-0008, 08-118-21-33-0009, 08-118-21-33-0010, 08-118-21-33-0011, 08-118-21-33-0013, 08-118-21-33-0018, 08-118-21-33-0019, 08-118-21-33-0025, 08-118-21-33-0027, 08-118-21-33-0029, 08-118-21-33-0082, and 08-118-21-33-0087, which are deemed substandard for the purpose of qualifying the district as a redevelopment district.

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Subd. 2. **EXPIRATION.** (a) The exception under subdivision 1, paragraph (c), from the limitations of Minnesota Statutes, section 469.1763, subdivision 2, expires 20 years after the receipt of the first increment from a district for which the city has elected that this section applies.

(b) The authority to approve tax increment financing plans to establish a tax increment financing district subject to this section expires on December 31, 2013.

Subd. 3. **EFFECTIVE DATE.** This section is effective upon approval by the governing bodies of the city of New Hope and Hennepin county and upon compliance by the city with Minnesota Statutes, section 645.021, subdivision 3.

Sec. 11. **EFFECTIVE DATE.**

Unless specifically provided otherwise in that article, Laws 2003, chapter 127, article 12, is effective the day following the final enactment of Laws 2003, chapter 127.

ARTICLE 11

MISCELLANEOUS

Section 1. Minnesota Statutes 2002, section 3.986, subdivision 4, is amended to read:

Subd. 4. **POLITICAL SUBDIVISION.** A "political subdivision" is a school district, county, or home rule charter or statutory city.

EFFECTIVE DATE. This section is effective July 1, 2003.

Sec. 2. Minnesota Statutes 2002, section 16A.152, subdivision 1, is amended to read:

Subdivision 1. **CASH FLOW ACCOUNT ESTABLISHED.** ~~(a)~~ A cash flow account is created in the general fund in the state treasury. Beginning July 1, 2003, the commissioner of finance shall restrict part or all of the balance before reserves in the general fund as may be necessary to fund the cash flow account, up to \$350,000,000.

~~(b)~~ The Amounts restricted are transferred to in the cash flow account and shall remain in the account until drawn down and used to meet cash flow deficiencies resulting from uneven distribution of revenue collections and required expenditures during a fiscal year.

Sec. 3. Minnesota Statutes 2002, section 16A.152, subdivision 1b, is amended to read:

Subd. 1b. **BUDGET RESERVE INCREASE.** ~~On June 30~~ July 1, 2003, the commissioner of finance shall transfer \$3,900,000 \$300,000,000 to the budget reserve

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account in the general fund. On ~~June 30~~ July 1, 2004, the commissioner of finance shall transfer ~~\$12,300,000~~ \$296,000,000 to the budget reserve account in the general fund. ~~On June 30, 2005, the commissioner of finance shall transfer \$12,000,000 to the budget reserve account in the general fund.~~ The amounts necessary for this purpose are appropriated from the general fund.

Sec. 4. Minnesota Statutes 2002, section 16A.152, subdivision 2, is amended to read:

Subd. 2. **ADDITIONAL REVENUES; PRIORITY.** If on the basis of a forecast of general fund revenues and expenditures, the commissioner of finance determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of finance must allocate money to the budget reserve until the total amount in the account equals ~~\$653,000,000~~ the following accounts and purposes in priority order:

(1) the cash flow account established in subdivision 1 until that account reaches \$350,000,000; and

(2) the budget reserve account established in subdivision 1a until that account reaches \$653,000,000.

The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released.

Sec. 5. Minnesota Statutes 2002, section 18B.07, subdivision 2, as amended by Laws 2003, chapter 127, article 13, section 1, is amended to read:

Subd. 2. **PROHIBITED PESTICIDE USE.** (a) A person may not use, store, handle, distribute, or dispose of a pesticide, rinsate, pesticide container, or pesticide application equipment in a manner:

(1) that is inconsistent with a label or labeling as defined by FIFRA;

(2) that endangers humans, damages agricultural products, food, livestock, fish, or wildlife; or

(3) that will cause unreasonable adverse effects on the environment.

(b) A person may not direct a pesticide onto property beyond the boundaries of the target site. A person may not apply a pesticide resulting in damage to adjacent property.

(c) A person may not directly apply a pesticide on a human by overspray or target site spray, except when:

(1) the pesticide is intended for use on a human;

(2) the pesticide application is for mosquito control operations;

(3) the pesticide application is for control of gypsy moth, forest tent caterpillar, or other pest species, as determined by the commissioner, and the pesticide used is a biological agent; or

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(4) the pesticide application is for a public health risk, as determined by the commissioner of health, and the commissioner of health, in consultation with the commissioner of agriculture, determines that the application is warranted based on the commissioner's balancing of the public health risk with the risk that the pesticide application poses to the health of the general population, with special attention to the health of children.

(d) For pesticide applications under paragraph (c), clause (2), the following conditions apply:

(1) no practicable and effective alternative method of control exists;

(2) the pesticide is among the least toxic available for control of the target pest;
and

(3) notification to residents in the area to be treated is provided at least 24 hours before application through direct notification, posting daily on the treating organization's Web site, if any, and by sending a broadcast e-mail to those persons who request notification of such, of those areas to be treated by adult mosquito control techniques during the next calendar day. For control operations related to human disease, notice under this paragraph may be given less than 24 hours in advance.

(e) For pesticide applications under paragraph (c), clauses (3) and (4), the following conditions apply:

(1) no practicable and effective alternative method of control exists;

(2) the pesticide is among the least toxic available for control of the target pest;
and

(3) notification of residents in the area to be treated is provided by direct notification and through publication in a newspaper of general circulation within the affected area.

(f) For purposes of this subdivision, "direct notification" may include mailings, public meetings, posted placards, neighborhood newsletters, or other means of contact designed to reach as many residents as possible.

(g) A person may not apply a pesticide in a manner so as to expose a worker in an immediately adjacent, open field.

Sec. 6. [270.30] TAX PREPARATION SERVICES.

Subdivision 1. SCOPE. (a) This section applies to a person who offers, provides, or facilitates the provision of refund anticipation loans, as part of or in connection with the provision of tax preparation services.

(b) This section does not apply to:

(1) a tax preparer who provides tax preparation services for fewer than six clients in a calendar year;

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(2) the provision by a person of tax preparation services to a spouse, parent, grandparent, child, or sibling; and

(3) the provision of services by an employee for an employer.

Subd. 2. **DEFINITIONS.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Client" means an individual for whom a tax preparer performs or agrees to perform tax preparation services.

(c) "Person" means an individual, corporation, partnership, limited liability company, association, trustee, or other legal entity.

(d) "Refund anticipation loan" means a loan, whether provided by the tax preparer or another entity such as a financial institution, in anticipation of, and whose payment is secured by, a client's federal or state income tax refund or both.

(e) "Tax preparation services" means services provided for a fee or other consideration to a client to:

(1) assist with preparing or filing state or federal individual income tax returns;

(2) assume final responsibility for completed work on an individual income tax return on which preliminary work has been done by another; or

(3) offer or facilitate the provision of refund anticipation loans.

(f) "Tax preparer" or "preparer" means a person providing tax preparation services subject to this section.

Subd. 3. **STANDARDS OF CONDUCT.** No tax preparer shall:

(1) without good cause fail to promptly, diligently, and without unreasonable delay complete a client's tax return;

(2) obtain the signature of a client to a tax return or authorizing document that contains blank spaces to be filled in after it has been signed;

(3) fail to sign a client's tax return when payment for services rendered has been made;

(4) fail or refuse to give a client a copy of any document requiring the client's signature within a reasonable time after the client signs the document;

(5) fail to retain for at least four years a copy of individual income tax returns;

(6) fail to maintain a confidential relationship between themselves and their clients or former clients;

(7) fail to take commercially reasonable measures to safeguard a client's nonpublic personal information;

(8) make, authorize, publish, disseminate, circulate, or cause to make, either directly or indirectly, any false, deceptive, or misleading statement or representation

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relating to or in connection with the offering or provision of tax preparation services;

(9) require a client to enter into a loan arrangement in order to complete a tax return;

(10) claim credits or deductions on a client's tax return for which the tax preparer knows or reasonably should know the taxpayer does not qualify;

(11) charge, offer to accept, or accept a fee based upon a percentage of an anticipated refund for tax preparation services;

(12) under any circumstances, withhold or fail to return to a client a document provided by the client for use in preparing the client's tax return.

Subd. 4. REQUIRED DISCLOSURES; REFUND ANTICIPATION LOANS.

(a) If a tax preparer offers to make or facilitate a refund anticipation loan to the client, the preparer must make the disclosures in this subdivision. The disclosures must be made before or at the same time the preparer offers the refund anticipation loan to the client.

(b) The tax preparer must provide to a client a written notice on a single sheet of paper, separate from any other document or writing, containing:

(1) a legend, centered at the top on the single sheet of paper, in bold, capital letters, and in 28-point type stating "NOTICE";

(2) the following verbatim statements:

(i) "This a loan. The annual percentage rate (APR), based on the estimated payment period, is (fill in the estimated APR)."

(ii) "Your refund will be used to repay the loan. As a result, the amount of your refund will be reduced by (fill in appropriate dollar amount) for fees, interest, and other charges."

(iii) "You can get your refund in about two weeks if you file your return electronically and have the Internal Revenue Service send your refund to your own bank account." and

(3) if the client is subject to additional interest when a refund is delayed, the following verbatim statement must also be included in the notice: "If you choose to take this loan and your refund is delayed, you may have to pay additional interest."

(c) All required statements must be in capital and small font type fonts, in a minimum of 14-point type, with at least a double space between each line in the statement and four spaces between each statement.

(d) The notice must be signed and dated by the tax preparer and the client.

Subd. 5. ITEMIZED BILL REQUIRED. A tax preparer must provide an itemized statement of the charges for services, at least separately stating the charges for:

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- (1) return preparation;
- (2) electronic filing; and
- (3) providing or facilitating a refund anticipation loan.

Subd. 6. **ENFORCEMENT; PENALTIES.** The commissioner may impose an administrative penalty of not more than \$1,000 per violation of subdivision 3, 4, or 5. The commissioner may terminate a tax preparer's authority to transmit returns electronically to the state, if the commissioner determines the tax preparer engaged in a pattern and practice of violating this section. Imposition of a penalty under this subdivision is subject to the contested case procedure under chapter 14. The commissioner shall collect the penalty in the same manner as the income tax.

Subd. 7. **ENFORCEMENT; CIVIL ACTIONS.** (a) Any violation of this section is an unfair, deceptive, and unlawful trade practice within the meaning of section 8.31.

(b) A client may bring a civil action seeking redress for a violation of this section in the conciliation or the district court of the county in which unlawful action is alleged to have been committed or where the respondent resides or has a principal place of business.

(c) A district court finding for the plaintiff must award actual damages, including incidental and consequential damages, reasonable attorney fees, court costs, and any other equitable relief as the court considers appropriate.

Subd. 8. **EXEMPTIONS; ENFORCEMENT PROVISIONS.** The provisions of subdivisions 6 and 7 do not apply to:

- (1) an attorney admitted to practice under section 481.01;
- (2) a certified public accountant holding a certificate under section 326A.04 or a person issued a permit to practice under section 326A.05;
- (3) a person designated as a registered accounting practitioner under Minnesota Rules, part 1105.6600, or a registered accounting practitioner firm issued a permit under Minnesota Rules, part 1105.7100;
- (4) an enrolled agent who has passed the special enrollment examination administered by the Internal Revenue Service; and
- (5) any fiduciary, or the regular employees of a fiduciary, while acting on behalf of the fiduciary estate, the testator, trustor, grantor, or beneficiaries of them.

Sec. 7. Minnesota Statutes 2002, section 270A.03, subdivision 2, is amended to read:

Subd. 2. **CLAIMANT AGENCY.** "Claimant agency" means any state agency, as defined by section 14.02, subdivision 2, the regents of the University of Minnesota, any district court of the state, any county, any statutory or home rule charter city presenting a claim for a municipal hospital or a public library or a municipal ambulance service, a hospital district, a private nonprofit hospital that leases its building from the county

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in which it is located, any public agency responsible for child support enforcement, any public agency responsible for the collection of court-ordered restitution, and any public agency established by general or special law that is responsible for the administration of a low-income housing program. A county may act as a claimant agency on behalf of an ambulance service licensed under chapter 144E if the ambulance service's primary service area is located at least in part within the county, but more than one county may not act as a claimant agency for a licensed ambulance service with respect to the same debt.

Sec. 8. Minnesota Statutes 2002, section 270A.07, subdivision 1, is amended to read:

Subdivision 1. **NOTIFICATION REQUIREMENT.** (a) Any claimant agency, seeking collection of a debt through setoff against a refund due, shall submit to the commissioner information indicating the amount of each debt and information identifying the debtor, as required by section 270A.04, subdivision 3.

(b) For each setoff of a debt against a refund due, the commissioner shall charge a fee of \$10. The proceeds of fees shall be allocated by depositing \$2.55 of each \$10 fee collected into a department of revenue recapture revolving fund and depositing the remaining balance into the general fund. The sums deposited into the revolving fund are appropriated to the commissioner for the purpose of administering the Revenue Recapture Act.

(c) For each debt for which a county acts as claimant agency on behalf of a licensed ambulance service, the county may charge the ambulance service a fee not to exceed the cost of administering the claim.

(d) The claimant agency shall notify the commissioner when a debt has been satisfied or reduced by at least \$200 within 30 days after satisfaction or reduction.

Sec. 9. Minnesota Statutes 2002, section 270A.07, subdivision 2, is amended to read:

Subd. 2. **SETOFF PROCEDURES.** (a) The commissioner, upon receipt of notification, shall initiate procedures to detect any refunds otherwise payable to the debtor. When the commissioner determines that a refund is due to a debtor whose debt was submitted by a claimant agency, the commissioner shall first deduct the fee in subdivision 1, paragraph (b), and then remit the refund or the amount claimed, whichever is less, to the agency. In transferring or remitting moneys to the claimant agency, the commissioner shall provide information indicating the amount applied against each debtor's obligation and the debtor's address listed on the tax return.

(b) The commissioner shall remit to the debtor the amount of any refund due in excess of the debt submitted for setoff by the claimant agency. Notice of the amount setoff and address of the claimant agency shall accompany any disbursement to the debtor of the balance of a refund, or shall be sent to the debtor at the time of setoff if the entire refund is set off. The notice shall also advise the debtor of the right to contest the validity of the claim, other than a claim based upon child support under section

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518.171, 518.54, 518.551, or chapter 518C at a hearing, subject to the restrictions in this paragraph. The debtor must assert this right by written request to the claimant agency, which request the claimant agency must receive within 45 days of the date of the notice. This right does not apply to (1) issues relating to the validity of the claim that have been previously raised at a hearing under this section or section 270A.09; (2) issues relating to the validity of the claim that were not timely raised by the debtor under section 270A.08, subdivision 2; (3) issues relating to the validity of the claim that have been previously raised at a hearing conducted under rules promulgated by the United States Department of Housing and Urban Development or any public agency that is responsible for the administration of a low-income housing program, or that were not timely raised by the debtor under those rules; or (4) issues relating to the validity of the claim for which a hearing is discretionary under section 270A.09. The notice shall include an explanation of the right of the spouse who does not owe the debt to request the claimant agency to repay the spouse's portion of a joint refund.

Sec. 10. Minnesota Statutes 2002, section 273.1341, as added by Laws 2003, chapter 127, article 11, section 2, is amended to read:

273.1341 TACONITE ASSISTANCE AREA.

A "taconite assistance area" means the geographic area that falls within the boundaries of a school district that contains:

(1) a municipality in which the assessed valuation of unmined iron ore on May 1, 1941, was not less than 40 percent of the assessed valuation of all real property; or

(2) a municipality in which on January 1, 1977, or the applicable assessment date, there is a taconite concentrating plant or where taconite is mined or quarried or where there is located an electric generating plant which qualifies as a taconite facility.

EFFECTIVE DATE. This section is effective for taxes payable in 2004 and thereafter.

Sec. 11. Minnesota Statutes 2002, section 276A.01, subdivision 2, is amended to read:

Subd. 2. **AREA.** "Area" means the territory included within all tax relief taconite assistance areas defined in section ~~273.134~~, paragraph (b) 273.1341.

Sec. 12. Minnesota Statutes 2002, section 289A.08, subdivision 16, as amended by Laws 2003, First Special Session chapter 1, article 2, section 81, is amended to read:

Subd. 16. **TAX REFUND OR RETURN PREPARERS; ELECTRONIC FILING; PAPER FILING FEE IMPOSED.** (a) A "tax refund or return preparer," as defined in section 289A.60, subdivision 13, paragraph (g), who prepared more than 500 Minnesota individual income tax returns for the prior calendar year must file all Minnesota individual income tax returns prepared for the current calendar year by electronic means.

(b) For tax returns prepared for the tax year beginning in 2001, the "500" in paragraph (a) is reduced to 250.

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(c) For tax returns prepared for tax years beginning after December 31, 2001, the "500" in paragraph (a) is reduced to 100.

(d) Paragraph (a) does not apply to a return if the taxpayer has indicated on the return that the taxpayer did not want the return filed by electronic means.

(e) For each return that is not filed electronically by a tax refund or return preparer under this subdivision, including returns filed under paragraph (d), a paper filing fee of \$5 is imposed upon the preparer. The fee is collected from the preparer in the same manner as income tax. The fee does not apply to returns that the commissioner requires to be filed in paper form.

EFFECTIVE DATE. This section is effective for returns filed for tax years beginning after December 31, 2002.

Sec. 13. Minnesota Statutes 2002, section 290.091, subdivision 2, is amended to read:

Subd. 2. **DEFINITIONS.** For purposes of the tax imposed by this section, the following terms have the meanings given:

(a) "Alternative minimum taxable income" means the sum of the following for the taxable year:

(1) the taxpayer's federal alternative minimum taxable income as defined in section 55(b)(2) of the Internal Revenue Code;

(2) the taxpayer's itemized deductions allowed in computing federal alternative minimum taxable income, but excluding:

(i) the charitable contribution deduction under section 170 of the Internal Revenue Code to the extent that the deduction exceeds ~~1.3~~ 1.0 percent of adjusted gross income, as defined in section 62 of the Internal Revenue Code;

(ii) the medical expense deduction;

(iii) the casualty, theft, and disaster loss deduction; and

(iv) the impairment-related work expenses of a disabled person;

(3) for depletion allowances computed under section 613A(c) of the Internal Revenue Code, with respect to each property (as defined in section 614 of the Internal Revenue Code), to the extent not included in federal alternative minimum taxable income, the excess of the deduction for depletion allowable under section 611 of the Internal Revenue Code for the taxable year over the adjusted basis of the property at the end of the taxable year (determined without regard to the depletion deduction for the taxable year);

(4) to the extent not included in federal alternative minimum taxable income, the amount of the tax preference for intangible drilling cost under section 57(a)(2) of the Internal Revenue Code determined without regard to subparagraph (E);

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(5) to the extent not included in federal alternative minimum taxable income, the amount of interest income as provided by section 290.01, subdivision 19a, clause (1); and

(6) the amount of addition required by section 290.01, subdivision 19a, clause (7); less the sum of the amounts determined under the following:

(1) interest income as defined in section 290.01, subdivision 19b, clause (1);

(2) an overpayment of state income tax as provided by section 290.01, subdivision 19b, clause (2), to the extent included in federal alternative minimum taxable income;

(3) the amount of investment interest paid or accrued within the taxable year on indebtedness to the extent that the amount does not exceed net investment income, as defined in section 163(d)(4) of the Internal Revenue Code. Interest does not include amounts deducted in computing federal adjusted gross income; and

(4) amounts subtracted from federal taxable income as provided by section 290.01, subdivision 19b, clause (12).

In the case of an estate or trust, alternative minimum taxable income must be computed as provided in section 59(c) of the Internal Revenue Code.

(b) "Investment interest" means investment interest as defined in section 163(d)(3) of the Internal Revenue Code.

(c) "Tentative minimum tax" equals 6.4 percent of alternative minimum taxable income after subtracting the exemption amount determined under subdivision 3.

(d) "Regular tax" means the tax that would be imposed under this chapter (without regard to this section and section 290.032), reduced by the sum of the nonrefundable credits allowed under this chapter.

(e) "Net minimum tax" means the minimum tax imposed by this section.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2002.

Sec. 14. Minnesota Statutes 2002, section 298.018, subdivision 1, is amended to read:

Subdivision 1. **WITHIN THE TACONITE TAX RELIEF ASSISTANCE AREA.** The proceeds of the tax paid under sections 298.015 to 298.017 on minerals and energy resources mined or extracted within the taconite tax relief assistance area defined in section ~~273.134, paragraph (b)~~ 273.1341, shall be allocated as follows:

(1) five percent to the city or town within which the minerals or energy resources are mined or extracted;

(2) ten percent to the taconite municipal aid account to be distributed as provided in section 298.282;

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(3) ten percent to the school district within which the minerals or energy resources are mined or extracted;

(4) 20 percent to a group of school districts comprised of those school districts wherein the mineral or energy resource was mined or extracted or in which there is a qualifying municipality as defined by section 273.134, paragraph (b), in direct proportion to school district indexes as follows: for each school district, its pupil units determined under section 126C.05 for the prior school year shall be multiplied by the ratio of the average adjusted net tax capacity per pupil unit for school districts receiving aid under this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year ending prior to distribution to the adjusted net tax capacity per pupil unit of the district. Each district shall receive that portion of the distribution which its index bears to the sum of the indices for all school districts that receive the distributions;

(5) 20 percent to the county within which the minerals or energy resources are mined or extracted;

(6) 20 percent to St. Louis county acting as the counties' fiscal agent to be distributed as provided in sections 273.134 to 273.136;

(7) five percent to the iron range resources and rehabilitation board for the purposes of section 298.22;

(8) five percent to the northeast Minnesota economic protection trust fund; and

(9) five percent to the taconite environmental protection fund.

The proceeds of the tax shall be distributed on July 15 each year.

Sec. 15. Minnesota Statutes 2002, section 298.018, subdivision 2, is amended to read:

Subd. 2. **OUTSIDE THE TACONITE TAX RELIEF ASSISTANCE AREA.** The proceeds of the tax paid under sections 298.015 to 298.017 on minerals and energy resources mined or extracted outside of the taconite ~~tax relief~~ assistance area defined in section ~~273.134, paragraph (b)~~ 273.1341, shall be deposited in the general fund.

Sec. 16. Minnesota Statutes 2002, section 298.22, subdivision 2, is amended to read:

Subd. 2. **IRON RANGE RESOURCES AND REHABILITATION BOARD.** There is hereby created the iron range resources and rehabilitation board, consisting of 13 members, five of whom are state senators appointed by the subcommittee on committees of the rules committee of the senate, and five of whom are representatives, appointed by the speaker of the house of representatives. The remaining members shall be appointed one each by the senate majority leader, the speaker of the house of representatives, and the governor and must be nonlegislators who reside in a ~~tax relief~~ taconite assistance area as defined in section ~~273.134, paragraph (b)~~ 273.1341. The members shall be appointed in January of every odd-numbered year, except that the

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initial nonlegislator members shall be appointed by July 1, 1999, and shall serve until January of the next odd-numbered year. Vacancies on the board shall be filled in the same manner as the original members were chosen. At least a majority of the legislative members of the board shall be elected from state senatorial or legislative districts in which over 50 percent of the residents reside within a tax relief taconite assistance area as defined in section 273.134, paragraph (b) 273.1341. All expenditures and projects made by the commissioner of iron range resources and rehabilitation shall be consistent with the priorities established in subdivision 8 and shall first be submitted to the iron range resources and rehabilitation board for approval by a majority of the board of expenditures and projects for rehabilitation purposes as provided by this section, and the method, manner, and time of payment of all funds proposed to be disbursed shall be first approved or disapproved by the board. The board shall biennially make its report to the governor and the legislature on or before November 15 of each even-numbered year. The expenses of the board shall be paid by the state from the funds raised pursuant to this section.

Sec. 17. Minnesota Statutes 2002, section 298.22, subdivision 8, is amended to read:

Subd. 8. **SPENDING PRIORITY.** In making or approving any expenditures on programs or projects, the commissioner and the board shall give the highest priority to programs and projects that target relief to those areas of the taconite tax relief taconite assistance area as defined in section 273.134, paragraph (b) 273.1341, that have the largest percentages of job losses and population losses directly attributable to the economic downturn in the taconite industry since the 1980s. The commissioner and the board shall compare the 1980 population and employment figures with the 2000 population and employment figures, and shall specifically consider the job losses in 2000 and 2001 resulting from the closure of LTV Steel Mining Company, in making or approving expenditures consistent with this subdivision, as well as the areas of residence of persons who suffered job loss for which relief is to be targeted under this subdivision. This subdivision supersedes any other conflicting provisions of law and does not preclude the commissioner and the board from making expenditures for programs and projects in other areas.

Sec. 18. Minnesota Statutes 2002, section 298.2211, subdivision 1, is amended to read:

Subdivision 1. **PURPOSE; GRANT OF AUTHORITY.** In order to accomplish the legislative purposes specified in sections 469.142 to 469.165 and chapter 462C, within tax relief areas the taconite assistance area as defined in section 273.134 273.1341, the commissioner of iron range resources and rehabilitation may exercise the following powers: (1) all powers conferred upon a rural development financing authority under sections 469.142 to 469.149; (2) all powers conferred upon a city under chapter 462C; (3) all powers conferred upon a municipality or a redevelopment agency under sections 469.152 to 469.165; (4) all powers provided by sections 469.142 to 469.151 to further any of the purposes and objectives of chapter 462C and sections 469.152 to 469.165; and (5) all powers conferred upon a municipality or an authority

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under sections 469.174 to 469.177, 469.178, except subdivision 2 thereof, and 469.179, subject to compliance with the provisions of section 469.175, subdivisions 1, 2, and 3; provided that any tax increments derived by the commissioner from the exercise of this authority may be used only to finance or pay premiums or fees for insurance, letters of credit, or other contracts guaranteeing the payment when due of net rentals under a project lease or the payment of principal and interest due on or repurchase of bonds issued to finance a project or program, to accumulate and maintain reserves securing the payment when due on bonds issued to finance a project or program, or to provide an interest rate reduction program pursuant to section 469.012, subdivision 7. Tax increments and earnings thereon remaining in any bond reserve account after payment or discharge of any bonds secured thereby shall be used within one year thereafter in furtherance of this section or returned to the county auditor of the county in which the tax increment financing district is located. If returned to the county auditor, the county auditor shall immediately allocate the amount among all government units which would have shared therein had the amount been received as part of the other ad valorem taxes on property in the district most recently paid, in the same proportions as other taxes were distributed, and shall immediately distribute it to the government units in accordance with the allocation.

Sec. 19. Minnesota Statutes 2002, section 298.2211, subdivision 2, is amended to read:

Subd. 2. **AREA OF OPERATION.** Projects undertaken, developed, or financed pursuant to this section shall be located within the tax relief taconite assistance area defined in section ~~273.134~~, paragraph (b) 273.1341.

Sec. 20. Minnesota Statutes 2002, section 298.2213, subdivision 3, is amended to read:

Subd. 3. **USE OF MONEY.** The money appropriated under this section may be used to provide loans, loan guarantees, interest buy-downs, and other forms of participation with private sources of financing, provided that a loan to a private enterprise must be for a principal amount not to exceed one-half of the cost of the project for which financing is sought, and the rate of interest on a loan must be no less than the lesser of eight percent or the rate of interest that is three percentage points less than a full faith and credit obligation of the United States government of comparable maturity, at the time that the loan is approved.

Money appropriated in this section must be expended only in or for the benefit of the tax relief taconite assistance area defined in section ~~273.134~~, paragraph (b) 273.1341, and as otherwise provided in this section.

Sec. 21. Minnesota Statutes 2002, section 298.2214, subdivision 1, is amended to read:

Subdivision 1. **CREATION OF COMMITTEE; PURPOSE.** A committee is created to advise the commissioner of iron range resources and rehabilitation on providing higher education programs in the taconite tax relief assistance area defined

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in section 273.134, paragraph (b) 273.1341. The committee is subject to section 15.059.

Sec. 22. Minnesota Statutes 2002, section 298.2214, subdivision 3, is amended to read:

Subd. 3. **ADVISORY FUNCTION.** The committee shall advise the commissioner regarding development of a contract with the state university system. The contract would require the system to provide courses within the taconite tax relief assistance area defined in section 273.1341.

Sec. 23. Minnesota Statutes 2002, section 298.223, subdivision 1, is amended to read:

Subdivision 1. **CREATION; PURPOSES.** A fund called the taconite environmental protection fund is created for the purpose of reclaiming, restoring and enhancing those areas of northeast Minnesota located within a tax relief the taconite assistance area defined in section 273.134, paragraph (b) 273.1341, that are adversely affected by the environmentally damaging operations involved in mining taconite and iron ore and producing iron ore concentrate and for the purpose of promoting the economic development of northeast Minnesota. The taconite environmental protection fund shall be used for the following purposes:

(a) to initiate investigations into matters the iron range resources and rehabilitation board determines are in need of study and which will determine the environmental problems requiring remedial action;

(b) reclamation, restoration, or reforestation of minelands not otherwise provided for by state law;

(c) local economic development projects including construction of sewer and water systems, and other public works located within a tax relief the taconite assistance area defined in section 273.134, paragraph (b) 273.1341;

(d) monitoring of mineral industry related health problems among mining employees.

Sec. 24. Minnesota Statutes 2002, section 298.28, subdivision 7, is amended to read:

Subd. 7. **IRON RANGE RESOURCES AND REHABILITATION BOARD.** For the 1998 distribution, 6.5 cents per taxable ton shall be paid to the iron range resources and rehabilitation board for the purposes of section 298.22. That amount shall be increased in 1999 and subsequent years in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1. The amount distributed pursuant to this subdivision shall be expended within or for the benefit of a tax relief the taconite assistance area defined in section 273.134, paragraph (b) 273.1341. No part of the fund provided in this subdivision may be used to provide loans for the operation of private business unless the loan is approved by the governor.

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Sec. 25. Minnesota Statutes 2002, section 298.28, subdivision 11, is amended to read:

Subd. 11. **REMAINDER.** (a) The proceeds of the tax imposed by section 298.24 which remain after the distributions and payments in subdivisions 2 to 10a, as certified by the commissioner of revenue, and paragraphs (b), (c), (d), and (e) have been made, together with interest earned on all money distributed under this section prior to distribution, shall be divided between the taconite environmental protection fund created in section 298.223 and the northeast Minnesota economic protection trust fund created in section 298.292 as follows: Two-thirds to the taconite environmental protection fund and one-third to the northeast Minnesota economic protection trust fund. The proceeds shall be placed in the respective special accounts.

(b) There shall be distributed to each city, town, and county the amount that it received under section 294.26 in calendar year 1977; provided, however, that the amount distributed in 1981 to the unorganized territory number 2 of Lake county and the town of Beaver Bay based on the between-terminal trackage of Erie Mining Company will be distributed in 1982 and subsequent years to the unorganized territory number 2 of Lake county and the towns of Beaver Bay and Stony River based on the miles of track of Erie Mining Company in each taxing district.

(c) There shall be distributed to the iron range resources and rehabilitation board the amounts it received in 1977 under section 298.22. The amount distributed under this paragraph shall be expended within or for the benefit of the ~~tax relief~~ taconite assistance area defined in section ~~273.134~~ 273.1341.

(d) There shall be distributed to each school district 62 percent of the amount that it received under section 294.26 in calendar year 1977.

(e) In 2003 only, \$100,000 must be distributed to a township located in a taconite tax relief area as defined in section 273.134, paragraph (a), that received \$119,259 of homestead and agricultural credit aid and \$182,014 in local government aid in 2001.

Sec. 26. Minnesota Statutes 2002, section 298.292, subdivision 2, is amended to read:

Subd. 2. **USE OF MONEY.** Money in the northeast Minnesota economic protection trust fund may be used for the following purposes:

(1) to provide loans, loan guarantees, interest buy-downs and other forms of participation with private sources of financing, but a loan to a private enterprise shall be for a principal amount not to exceed one-half of the cost of the project for which financing is sought, and the rate of interest on a loan shall be no less than the lesser of eight percent or an interest rate three percentage points less than a full faith and credit obligation of the United States government of comparable maturity, at the time that the loan is approved;

(2) to fund reserve accounts established to secure the payment when due of the principal of and interest on bonds issued pursuant to section 298.2211;

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(3) to pay in periodic payments or in a lump sum payment any or all of the interest on bonds issued pursuant to chapter 474 for the purpose of constructing, converting, or retrofitting heating facilities in connection with district heating systems or systems utilizing alternative energy sources; and

(4) to invest in a venture capital fund or enterprise that will provide capital to other entities that are engaging in, or that will engage in, projects or programs that have the purposes set forth in subdivision 1. No investments may be made in a venture capital fund or enterprise unless at least two other unrelated investors make investments of at least \$500,000 in the venture capital fund or enterprise, and the investment by the northeast Minnesota economic protection trust fund may not exceed the amount of the largest investment by an unrelated investor in the venture capital fund or enterprise. For purposes of this subdivision, an "unrelated investor" is a person or entity that is not related to the entity in which the investment is made or to any individual who owns more than 40 percent of the value of the entity, in any of the following relationships: spouse, parent, child, sibling, employee, or owner of an interest in the entity that exceeds ten percent of the value of all interests in it. For purposes of determining the limitations under this clause, the amount of investments made by an investor other than the northeast Minnesota economic protection trust fund is the sum of all investments made in the venture capital fund or enterprise during the period beginning one year before the date of the investment by the northeast Minnesota economic protection trust fund.

Money from the trust fund shall be expended only in or for the benefit of the ~~tax relief~~ taconite assistance area defined in section ~~273.134, paragraph (b)~~ 273.1341.

Sec. 27. Minnesota Statutes 2002, section 298.293, is amended to read:

298.293 EXPENDING FUNDS.

The funds provided by section 298.28, subdivision 11, relating to the northeast Minnesota economic protection trust fund, except money expended pursuant to Laws 1982, Second Special Session, chapter 2, sections 8 to 14, shall be expended only in an amount that does not exceed the sum of the net interest, dividends, and earnings arising from the investment of the trust for the preceding 12 calendar months from the date of the authorization plus, for fiscal year 1983, \$10,000,000 from the corpus of the fund. The funds may be spent only in or for the benefit of ~~those areas that are tax relief areas~~ the taconite assistance area as defined in section ~~273.134, paragraph (b)~~ 273.1341. If during any year the taconite property tax account under sections 273.134 to 273.136 does not contain sufficient funds to pay the property tax relief specified in Laws 1977, chapter 423, article X, section 4, there is appropriated from this trust fund to the relief account sufficient funds to pay the relief specified in Laws 1977, chapter 423, article X, section 4.

Sec. 28. Minnesota Statutes 2002, section 298.298, is amended to read:

298.298 LONG-RANGE PLAN.

Consistent with the policy established in sections 298.291 to 298.298, the iron range resources and rehabilitation board shall prepare and present to the governor and

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the legislature by January 1, 1984 a long-range plan for the use of the northeast Minnesota economic protection trust fund for the economic development and diversification of the ~~tax relief taconite assistance~~ area defined in section ~~273.134, paragraph (b) 273.1341.~~ The iron range resources and rehabilitation board shall, before November 15 of each even numbered year, prepare a report to the governor and legislature updating and revising this long-range plan and reporting on the iron range resources and rehabilitation board's progress on those matters assigned to it by law. After January 1, 1984, no project shall be approved by the iron range resources and rehabilitation board which is not consistent with the goals and objectives established in the long-range plan.

Sec. 29. Minnesota Statutes 2002, section 429.101, subdivision 1, is amended to read:

Subdivision 1. **ORDINANCES.** (a) In addition to any other method authorized by law or charter, the governing body of any municipality may provide for the collection of unpaid special charges for all or any part of the cost of:

- (1) snow, ice, or rubbish removal from sidewalks;
- (2) weed elimination from streets or private property;
- (3) removal or elimination of public health or safety hazards from private property, excluding any structure included under the provisions of sections 463.15 to 463.26;
- (4) installation or repair of water service lines, street sprinkling or other dust treatment of streets;
- (5) the trimming and care of trees and the removal of unsound trees from any street;
- (6) the treatment and removal of insect infested or diseased trees on private property, the repair of sidewalks and alleys;
- (7) the operation of a street lighting system, or;
- (8) the operation and maintenance of a fire protection or a pedestrian skyway system; or
- (9) reinspections which find noncompliance after the due date for compliance with an order to correct a municipal housing maintenance code violation;

as a special assessment against the property benefited.

(b) The council may by ordinance adopt regulations consistent with this section to make this authority effective, including, at the option of the council, provisions for placing primary responsibility upon the property owner or occupant to do the work personally (except in the case of street sprinkling or other dust treatment, alley repair, tree trimming, care, and removal or the operation of a street lighting system) upon notice before the work is undertaken, and for collection from the property owner or

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other person served of the charges when due before unpaid charges are made a special assessment.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 30. Minnesota Statutes 2002, section 473.704, subdivision 17, as amended by Laws 2003, chapter 127, article 13, section 4, is amended to read:

Subd. 17. **ENTRY TO PROPERTY.** (a) Members of the commission, its officers, and employees, while on the business of the commission, may enter upon any property within or outside the district at reasonable times to determine the need for control programs. They may take all necessary and proper steps for the control programs on property within the district as the director of the commission may designate. Subject to the paramount control of the county and state authorities, commission members and officers and employees of the commission may enter upon any property and clean up any stagnant pool of water, the shores of lakes and streams, and other breeding places for mosquitoes within the district. The commission may apply insecticides approved by the director to any area within or outside the district that is found to be a breeding place for mosquitoes. The commission shall give reasonable notification to the governing body of the local unit of government prior to applying insecticides outside of the district on land located within the jurisdiction of the local unit of government. The commission shall not enter upon private property if the owner objects except (1) to monitor for disease-bearing mosquitoes, ticks, or black gnats, or (2) for control of mosquito species capable of carrying a human disease in the local area of a human disease outbreak regardless of whether there has been an occurrence of the disease in a human being. The commission shall make a reasonable attempt to contact an objecting owner before entering on the owner's private property.

(b) The commissioner of natural resources must approve mosquito control plans or make modifications as the commissioner of natural resources deems necessary for the protection of public water, wild animals, and natural resources before control operations are started on state lands administered by the commissioner of natural resources.

Sec. 31. Laws 1998, chapter 389, article 16, section 35, subdivision 1, as amended by Laws 2001, First Special Session chapter 5, article 20, section 19, is amended to read:

Subdivision 1. **BAT STUDY.** \$100,000 is appropriated from the general fund for fiscal year 1999 to the legislative coordinating commission to study alternative methods of taxing business. The appropriations under this section and under Laws 1997, chapter 231, article 5, section 18, subdivision 3, are available in fiscal years 2000 and 2001. Any portion of this appropriation that cancels in 2001 is appropriated in 2002 and is available until June 30, 2003. The date for completion of this study is extended through December 31, 2004, and the portion of the appropriation encumbered by the contracts between the legislative coordinating commission and the department of revenue and between the department of revenue and the University of Minnesota may be spent during the 2004-2005 biennium to pay obligations under the contracts.

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Sec. 32. Laws 2001, First Special Session chapter 5, article 20, section 22, is amended to read:

Sec. 22. BUDGET RESERVE INCREASE.

The commissioner of finance shall transfer the amount necessary to increase the budget reserve account in the general fund to \$653,000,000 on July 1, 2001. ~~On July 1, 2003, the commissioner of finance shall transfer \$31,000,000 to the budget reserve account in the general fund.~~ The amounts necessary for this purpose are appropriated from the general fund.

Sec. 33. TRANSFER OF ENDOWMENT FUNDS.

On July 1, 2003, the commissioner of finance shall transfer the tobacco use prevention and local public health endowment fund and the medical education endowment fund to the general fund.

Sec. 34. BUDGET RESERVE ADJUSTMENT.

If, prior to July 1, 2003, on the basis of the February 2003 forecast and revenue and expenditure measures enacted into law in the 2003 regular and special legislative sessions, the commissioner of finance determines there will be a negative unrestricted budgetary balance in the general fund for the biennium ending June 30, 2005, the commissioner shall reduce the July 1, 2004, appropriation to the budget reserve account in Minnesota Statutes, section 16A.152, subdivision 1b, by the amount necessary to balance revenues and expenditures in the biennium ending June 30, 2005.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 35. TEMPORARY STATE FISCAL RELIEF.

Any temporary state fiscal relief received under Title VI of the Jobs Growth and Tax Relief Reconciliation Act of 2003 must be deposited in the state treasury and credited to the general fund.

EFFECTIVE DATE. This section is effective the day following final enactment.

Sec. 36. APPROPRIATION.

(a) \$100,000 in fiscal year 2004 and \$100,000 in fiscal year 2005 are appropriated from the general fund to the commissioner of revenue to make grants to one or more nonprofit organizations, qualifying under section 501(c)(3) of the Internal Revenue Code of 1986, to coordinate, facilitate, encourage, and aid in the provision of taxpayer assistance services. This appropriation does not become a part of the base.

(b) "Taxpayer assistance services" mean accounting and tax preparation services provided by volunteers to low-income and disadvantaged Minnesota residents to help them file federal and state income tax returns and Minnesota property tax refund claims and to provide personal representation before the department of revenue and Internal Revenue Service.

New language is indicated by underline, deletions by strikeout.

Sec. 37. APPROPRIATION; COST OF ADMINISTRATION.

\$200,000 in fiscal year 2004 is appropriated from the general fund to the commissioner of revenue for the cost of administering tax law changes enacted in 2003.

EFFECTIVE DATE. This section is effective the day following final enactment.

Presented to the governor May 30, 2003

Signed by the governor June 8, 2003, 7:00 p.m.

CHAPTER 22—H.F.No. 30

An act relating to highways; adding, modifying, vacating, or transferring state highways; amending Minnesota Statutes 2002, sections 161.114, subdivision 2; 161.115, by adding a subdivision; repealing Minnesota Statutes 2002, sections 161.115, subdivisions 197, 204, 233.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. Minnesota Statutes 2002, section 161.114, subdivision 2, is amended to read:

Subd. 2. **DESCRIPTIONS.** The constitutional routes are described as follows:

Route No. 1. Beginning at a point on the boundary line between the states of Minnesota and Iowa, southeasterly at Albert Lea and thence extending in a northwesterly direction to a point in Albert Lea and thence extending in a northerly direction to a point and on the southerly limits of the city of St. Paul and then beginning at a point on the northerly limits of the city of St. Paul and thence extending in a northerly direction to a point on the westerly limits of the city of Duluth and then beginning at a point on the northerly limits of the city of Duluth and thence extending in a northeasterly direction to a point on the boundary line between the state of Minnesota and the province of Ontario, affording Albert Lea, Owatonna, Faribault, Northfield, Farmington, St. Paul, White Bear, Forest Lake, Wyoming, Rush City, Pine City, Hinckley, Sandstone, Moose Lake, Carlton, Duluth, Two Harbors, Grand Marais and intervening and adjacent communities a reasonable means of communication, each with the other and other places within the state.

Route No. 2. Beginning at a point on Route No. 1 on the westerly limits of the city of Duluth and thence extending in a southwesterly direction along said Route No. 1 to a point on said route at Carlton and thence extending in a westerly direction to a point on the east bank of the Red River of the North at Moorhead, affording Duluth, Carlton, McGregor, Aitkin, Brainerd, Motley, Staples, Wadena, Detroit, Moorhead and intervening and adjacent communities a reasonable means of communication, each with the other and other places within the state.

New language is indicated by underline, deletions by ~~strikeout~~.