A bill for an act

relating to taxation; providing for state property tax system benchmarks, critical indicators, and principles; establishing a property tax working group; amending Minnesota Statutes 2008, section 477A.03, subdivision 2b; proposing coding for new law in Minnesota Statutes, chapter 270C.

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

Section 1. **[270C.991] PROPERTY TAX SYSTEM BENCHMARKS AND CRITICAL INDICATORS.**

Subdivision 1. **Purpose.** State policy makers should be provided with the tools to create a more accountable and efficient property tax system. This section provides the principles and available tools necessary to work toward achieving that goal and establishes a property tax working group that is charged with the responsibility of making advisory recommendations on various aspects of the property tax system.

Subd. 2. **Property tax principles.** To better evaluate the various property tax proposals that come before the legislature, the following basic property tax principles should be taken into consideration:

(1) transparent and understandable;

(2) simple and efficient;

(3) fair and equitable, on both horizontal and vertical equity;

(4) stable and predictable;

(5) compliance and accountability;

(6) competitive, both nationally and globally; and

(7) responsive to economic conditions.

Subd. 3. **Major indicators.** There are many different types of indicators available to legislators to evaluate tax legislation. Some are determined annually and are statutorily required. Although others are done on a less frequent basis and may be somewhat outdated, they are still useful to have available as benchmarks when legislators are contemplating changes. Each tool has its own limitation, and no one tool is perfect or should be used independently. Some of the tools measure the global characteristics of the entire tax system, while others are only a measure of the property tax impacts and its administration. The following is a list of the available major indicators:

(1) property tax principles scale, the components of which are listed in subdivision 2, are based on rankings as they relate to the various features of the property tax system;

(2) price of government report, as required under section 16A.102, which contains information on taxes and other revenue relative to personal income;

(3) tax incidence report, as required under section 270C.13, which measures the tax progressivity through the suits index;

(4) tax expenditure budget and report, as required under section 270C.11, which contains the numerous tax expenditure items and the amount of tax revenue for gone from each item;

(5) state tax rankings, prepared by various public and private organizations;

(6) property tax levy plus aid data, and market value and net tax capacity data, by taxing district for current and past years;

(7) effective tax rate (tax as a percent of market value) and the equalized effective tax rate (effective tax rate adjusted for assessment differences);

(8) assessment sales ratio study, as required under section 127A.48, measures assessment levels for most property types by comparing a property's sales price to the assessor's estimated market value;

(9) "Voss" database, which matches homeowner property taxes and household income;

(10) revenue estimates and state fiscal notes prepared on bill proposals; and

(11) local impact notes, with improved local analysis as described in subdivision 7.

Subd. 4. **Property tax working group.** (a) A property tax working group is established as provided in this subdivision. The goals of the working group are:

(1) to investigate ways to simplify the property tax system and make advisory recommendations on ways to make the system more understandable;

(2) to reexamine the property tax calendar to determine what changes could be made to shorten the two-year cycle from assessment through property tax collection; and

(3) to determine the cost versus the benefits of the various property tax components, including property classifications, credits, aids, exclusions, exemptions, and abatements, and to suggest ways to achieve some of the goals in simpler and more cost-efficient ways.

(b) The 12-member working group shall consist of the following members:

(1) two state representatives, both appointed by the chair of the house tax committee, one from the majority party and one from the minority party;

(2) two senators, both appointed by the chair of the senate tax committee, one from the majority party and one from the minority party;

(3) the commissioner of revenue, or designee;

(4) one person, appointed by the Association of Minnesota Counties;

(5) one person, appointed by the League of Minnesota Cities;

(6) one person, appointed by the Minnesota Association of Townships;

(7) one person, appointed by the Minnesota Chamber of Commerce;

(8) one person, appointed by the Minnesota Association of Assessing Officers; and

(9) two private citizens, one under 65 years of age, and one over the age of 65, both appointed by the commissioner of revenue.

The commissioner of revenue shall chair the initial meeting, and the working group shall elect a chair at that initial meeting. The working group will meet at the call of the chair. Members of the working group shall serve without compensation. Chapter 13D does not apply to meetings of the working group. Meetings of the working group must be open to the public and the working group must provide notice of a meeting to potentially interested persons at least seven days before the meeting. A meeting of the council occurs when a quorum is present.

(c) The working group shall make its advisory recommendations to the chairs of the house of representatives and senate tax committees on or before February 1, 2011, at which time the working group shall be finished and this subdivision expires.

Subd. 5. **Tax committee review and resolution.** On or before March 1, 2011, and every two years thereafter, the house and senate tax committees must review the major indicators as contained in subdivision 3, and any advisory recommendations from the property tax working group, and ascertain the accountability and efficiency of the property tax system. The house of representatives and senate tax committees shall prepare a resolution on targets and benchmarks for use during the current biennium.

Subd. 6. **Department of Revenue; revenue estimates.** As provided under section 270C.11, subdivision 5, the Department of Revenue is required to prepare an estimate of the effect on the state's tax revenues which result from the passage of a legislative bill establishing, extending, or restricting a tax expenditure. Beginning with the 2010 legislative session, those revenue estimates must also identify how the property tax principles, contained in subdivision 2, apply to the proposed tax changes. The commissioner of revenue shall develop a scale for measuring the appropriate principles for each proposed change. The department shall quantify the effects, if possible, or at a minimum, shall identify the relevant factors so that legislators are made aware of possible outcomes, including administrative difficulties and cost. The interaction of property tax shifting should be identified and quantified to the degree possible.

Subd. 7. **Local impact notes.** Local impact notes are statements that provide information about changes in local government responsibility, administration, and cost due to changes in state law.

The local impact note process seeks the participation of political subdivisions to gather information as needed by the legislature. The local impact network of political subdivisions shall consist of at least one representative association from Minnesota counties, cities, towns, and school districts, and other members as needed. They shall, among other things, work with the legislature and the commissioner of finance to analyze:

(1) changes in tax revenues for local governments;

(2) changes in expenditures for local governments, including program and administration costs; and

(3) incidences of tax shifting, including identifying the target audience (taxpayers who will benefit from the tax shift) and the impact audience (taxpayers who will bear the burden of the tax shift).

In addition, for tax bills, the local impact network of political subdivisions shall rate the impact on Minnesota's tax system using the tax principles contained in subdivision 2.

Some of the cost for preparing this information shall be distributed to the local impact network as provided under section 477A.03, subdivision 2b, paragraph (b).

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

Sec. 2. Minnesota Statutes 2008, section 477A.03, subdivision 2b, is amended to read:

Subd. 2b. **Counties.** (a) For aids payable in 2009 and thereafter, the total aid payable under section 477A.0124, subdivision 3, is $111,500,000 minus one-half of the total aid amount determined under section 477A.0124, subdivision 5, paragraph (b), subject to adjustment in subdivision 5. 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 2009 and thereafter, the total aid under section 477A.0124, subdivision 4, is $116,132,923 minus one-half of the total aid amount determined under section 477A.0124, subdivision 5, paragraph (b), subject to adjustment in subdivision 5. 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 education 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 education for the preparation of local impact notes. The commissioner of finance shall annually use at least $150,000 of the $207,000 appropriation to contract with the representative associations for counties, cities, and towns to establish a local impact network of political subdivisions for preparing local impact notes to provide information to the legislature.

EFFECTIVE DATE. This section is effective for fiscal year 2010 and thereafter.