

secondary facilities grant program according to Minnesota Statutes, section 124.494. This appropriation is in addition to the amount appropriated by Laws 1987, chapter 400, section 16, subdivision 4.

Sec. 27. **REPEALER.**

Minnesota Statutes 1986, section 124.435; Minnesota Statutes 1987 Supplement, sections 124.245, subdivisions 3, 3a, and 3b; and 275.125, subdivision 11c, are repealed effective for the 1989-1990 school year.

Sec. 28. **EFFECTIVE DATES.**

Sections 1 and 2 are effective the day following final enactment for projects that have not been submitted to the department for review and comment under Minnesota Statutes 1986, section 121.15. Sections 6 to 18, 20, 23, 24, and 26, are effective the day following final enactment. Sections 4, 5, and 19 are effective for revenue for the 1989-1990 school year and thereafter.

Approved May 6, 1988

CHAPTER 719—H.F.No. 2590

An act relating to the financing of government in Minnesota; changing tax rates and bases; modifying the administration, collection, and enforcement of taxes; imposing taxes; changing the computation, administration, and payment of aids, credits, and refunds; limiting taxing powers; transferring and imposing governmental powers and duties; making technical corrections and clarifications; providing bonding authority to Hennepin county, Ramsey county, the city of Little Falls, and the city of Shafer; authorizing establishment of special service districts in the cities of Robbinsdale, Minneapolis, and White Bear Lake; imposing penalties; appropriating money and reducing appropriations; amending Minnesota Statutes 1986, sections 62E.13, by adding a subdivision; 69.031, subdivision 3; 183.411, subdivisions 1, 3, and by adding a subdivision; 183.466; 183.51, subdivisions 4, 7, and 10; 237.075, subdivision 8; 256.72; 256.81; 256.82, subdivision 1; 256.863; 256.871, subdivision 6; 256.935, subdivision 1; 256.991; 256B.041, subdivisions 5 and 7; 256B.05, subdivision 1; 256B.19, subdivision 2; 256D.03, subdivision 6; 256D.04; 256D.36, subdivision 1; 270.075, subdivision 2; 270.41; 270.70, subdivision 1; 271.01, subdivision 5; 273.01; 273.05, subdivision 1; 273.061, subdivision 2; 273.112, subdivisions 3 and 6; 273.121; 273.124, subdivisions 1 and 6; 273.13, by adding a subdivision; 273.1315; 273.40; 275.07, by adding a subdivision; 275.08, by adding subdivisions; 275.51, subdivision 3f, and by adding a subdivision; 277.05; 277.06; 279.01, subdivision 3; 287.21, by adding a subdivision; 290.01, by adding subdivisions; 290.06, by adding a subdivision; 290.067, subdivision 1; 290.39, by adding a subdivision; 290.50, subdivision 3; 290.92, subdivision 21; 290.931, subdivision 1; 290.934, subdivisions 1, 3, and by adding a subdivision; 290A.03, subdivision 7; 290A.04, by adding a subdivision; 297.01, by adding a subdivision; 297.03, subdivision 12, and by adding a subdivision; 297.041, subdivision 1; 297.06, subdivisions 1, 2, 3, and by adding a subdivision; 297.08, subdivision 1; 297.12, subdivision 1; 297.35, by adding a subdivision; 297A.15, subdivisions 1 and 5;

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297A.16; 297A.17; 297A.21; 297A.25, subdivision 5, and by adding subdivisions; 297A.256; 297A.35, subdivision 1; 297C.02, subdivisions 3 and 4; 297C.03, by adding a subdivision; 297C.07; 297D.08; 298.223; 298.28, subdivisions 3 and 6; 299.01, subdivision 1; 303.03; 329.11; 349.12, subdivision 18, and by adding subdivisions; 349.2121, subdivisions 1, 2, 5, and by adding a subdivision; 349.22, subdivision 1, and by adding subdivisions; 373.40, subdivision 4; 375.192, subdivision 1; 387.212; 393.07, subdivision 2; 473.843, subdivision 2; 473F.02, by adding a subdivision; 473F.07, subdivisions 4 and 5; 473F.08, subdivisions 1, 3, 3a, 5, and 10; 473F.10; 477A.011, by adding subdivisions; 477A.015; and 507.235, subdivision 1; Minnesota Statutes 1987 Supplement, sections 16A.15, subdivision 6; 16A.1541; 60A.15, subdivision 1; 60E.04, subdivision 4; 69.021, subdivision 5; 69.54; 124.155, subdivision 2; 124.2131, subdivision 3; 124.2139; 124A.02, subdivisions 3a and 11; 256.01, subdivision 2; 256B.091, subdivision 8; 256B.15; 256B.19, subdivision 1; 256B.431, subdivision 2b; 256D.03, subdivision 2; 256G.01, subdivision 3; 256G.02, subdivision 4; 256G.04, subdivision 1; 256G.05; 256G.07; 256G.10; 256G.11; 270.485; 272.01, subdivision 2; 272.02, subdivision 1; 272.115, subdivision 4; 272.121; 273.061, subdivision 1; 273.1102, by adding a subdivision; 273.1195; 273.123, subdivisions 4 and 5; 273.124, subdivisions 8, 11, and 13; 273.13, subdivisions 15a, 22, 23, 24, 25, and 31; 273.135, subdivision 2; 273.1391, subdivision 2; 273.1392; 273.1393; 273.165, subdivision 2; 273.37, subdivision 2; 274.01, subdivision 1; 275.07, subdivision 1; 275.50, subdivisions 2 and 5; 275.51, subdivisions 3h and 3i; 276.04; 276.06; 279.01, subdivision 1; 290.01, subdivisions 3a, 4, 5, 7, 19, 19a, 19b, 19c, 19d, 19e, 20, and 29; 290.015, subdivisions 1, 2, 3, and 4; 290.032, subdivision 2; 290.06, subdivisions 1, 2c, and 21; 290.081; 290.092, subdivisions 3, 4, 5, and by adding a subdivision; 290.095, subdivisions 1, 2, 3, and by adding a subdivision; 290.10; 290.17, subdivisions 2 and 4; 290.191, subdivisions 1, 4, 5, 6, and 11; 290.21, subdivisions 3 and 4; 290.34, subdivision 2; 290.35, subdivision 2; 290.37, subdivision 1; 290.371, subdivisions 1, 3, 4, and 5; 290.38; 290.41, subdivision 2; 290.491; 290.92, subdivisions 7 and 15; 290.934, subdivision 2; 290.9725; 290A.03, subdivisions 3, 13, 14, and 15; 290A.04, subdivisions 2 and 2b; 290A.06; 295.32; 295.34, subdivision 1; 297.01, subdivisions 7 and 14; 297.03, subdivision 6; 297.11, subdivision 5; 297A.01, subdivision 3; 297A.212; 297A.25, subdivisions 3 and 11; 297B.03; 297C.04; 298.01, subdivisions 3 and 4; 298.22, subdivision 1; 298.2213, subdivision 3; 349.212, subdivisions 1 and 4; 349.2121, subdivisions 4a and 10; 349.2122; 349.2123; 393.07, subdivision 10; 469.170, by adding a subdivision; 469.174, subdivisions 2, 7, 10, 11, and by adding subdivisions; 469.175, subdivisions 1, 2, 3, 4, and by adding subdivisions; 469.176, subdivisions 1, 4, 5, and 6; 469.177, subdivisions 1, 3, 4, and by adding subdivisions; 469.179; 473.446, subdivision 1; 473F.02, subdivision 4; 473F.05; 473F.06; 473F.07, subdivision 1; 473F.08, subdivisions 2, 4, and 6; 475.53, subdivision 4; 475.61, subdivision 3; 477A.013, subdivisions 1, 2, and by adding subdivisions; and 508.25; Laws 1987, chapter 268, articles 3, section 12; 6, sections 53 and 54; Laws 1988, chapter 516, section 3; proposing coding for new law in Minnesota Statutes, chapters 256, 270, 273, 275, 290, 290A, 297, 297C, 298, 349, 375, and 424A; proposing coding for new law as Minnesota Statutes, chapter 428A; repealing Minnesota Statutes 1986, sections 13.58; 124.2131, subdivision 4; 124.2137; 124.2139; 124A.031, subdivision 4; 256.965; 272.64; 273.112, subdivision 9; 273.115; 273.116; 273.13, subdivisions 7a, 26, 27, 28, 29, and 30; 273.1311; 273.1315; 273.135, subdivision 5; 273.1391, subdivision 4; 275.035; 275.49; 275.50, subdivisions 3, 7, and 8; 290.07, subdivisions 3 and 6; 290.11; 290.12, as amended; 290.131, as amended; 290.132, as amended; 290.133, as amended; 290.134, as amended; 290.135, as amended; 290.136, as amended; 290.138, as amended; 290.934, subdivision 4; 297A.15, subdivision 2; 297C.03, subdivision 5; 298.401; 299.013;

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477A.011, subdivisions 4, 5, 6, 7a, 10, 11, 12, 13, and 14; Minnesota Statutes 1987 Supplement, sections 256D.22; 273.1102, subdivision 2; 273.1195; 273.13, subdivisions 9 and 15a; 273.1394; 273.1395; 273.1396; 273.1397; 275.081; 275.082; 275.125, subdivision 22; 290.06, subdivision 20; 290.077, subdivision 1; 290.14; 290.21, subdivision 8; 290.371, subdivision 2; 290A.04, subdivision 2a; 296.02, subdivisions 2a and 2b; 296.025, subdivisions 2a and 2b; and 477A.011, subdivision 7; Laws 1987, chapter 268, articles 3, section 11; and 6, section 19.

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

ARTICLE 1

INDIVIDUAL INCOME TAX

Section 1. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 3a, is amended to read:

Subd. 3a. **TRUST.** The term "trust" has the meaning ~~given in~~ provided under the Internal Revenue Code of 1986, as amended through December 31, ~~1986~~ 1987.

Sec. 2. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 7, is amended to read:

Subd. 7. **RESIDENT.** The term "resident" means (1) any individual domiciled in Minnesota, except that an individual is not a "resident" for the period of time that the individual is a "qualified individual" as defined in section 911(d)(1) of the Internal Revenue Code of 1986, as amended through December 31, 1986, unless, during that period, a Minnesota homestead application is filed for property in which the individual has an interest; and (2) any individual domiciled outside the state who maintains a place of abode in the state and spends in the aggregate more than one-half of the tax year in Minnesota, unless the individual or the spouse of the individual is in the armed forces of the United States, or the individual is covered under the reciprocity provisions in section 290.081.

For purposes of this subdivision, presence within the state for any part of a calendar day constitutes a day spent in the state. Individuals shall keep adequate records to substantiate the days spent outside the state.

Sec. 3. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19a, is amended to read:

Subd. 19a. **ADDITIONS TO FEDERAL TAXABLE INCOME.** For individuals, estates, and trusts, there shall be added to federal taxable income:

(1)(i) interest income on obligations of any state other than Minnesota or a political or governmental subdivision, municipality, or governmental agency or

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instrumentality of any state other than Minnesota exempt from federal income taxes under the Internal Revenue Code or any other federal statute, and

(ii) exempt-interest dividends as defined in section 852(b)(5)(A) of the Internal Revenue Code of 1986, except the portion of the exempt-interest dividends derived from interest income on obligations of the state of Minnesota or its political or governmental subdivisions, municipalities, governmental agencies or instrumentalities, but only if the portion of the exempt-interest dividends from such Minnesota sources paid to all shareholders represents 95 percent or more of the exempt-interest dividends that are paid by the ~~fund or series of funds~~ regulated investment company as defined in section 851(a) of the Internal Revenue Code of 1986, or the fund of the regulated investment company as defined in section 851(q) of the Internal Revenue Code of 1986, making the payment; and

(2) the amount of income taxes paid or accrued within the taxable year under this chapter and income taxes paid to any other state or to any province or territory of Canada, to the extent allowed as a deduction under section 63(d) of the Internal Revenue Code, but the addition may not be more than the amount by which the itemized deductions as allowed under section 63(d) of the Internal Revenue Code exceeds the amount of the standard deduction as defined in section 63(c) of the Internal Revenue Code; and

(3) the capital gain amount of a lump sum distribution to which the special tax under section 1122(h)(3)(B)(ii) of the Tax Reform Act of 1986, Public Law Number 99-514, applies.

Sec. 4. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19b, is amended to read:

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; ~~and~~

(3) the amount paid to others not to exceed \$650 for each dependent in grades kindergarten to six and \$1,000 for each dependent in grades seven to 12, for tuition, textbooks, and transportation of each dependent 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

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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. As used in this clause, "textbooks" includes books and other instructional materials and equipment used in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. "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. In order to qualify for the subtraction under this clause the taxpayer must elect to itemize deductions under section 63(e) of the Internal Revenue Code of 1986, as amended through December 31, 1986.

(4) to the extent included in federal taxable income, distributions from a qualified governmental pension plan, an individual retirement account, simplified employee pension, or qualified plan covering a self-employed person that represent a return of contributions that were included in Minnesota gross income in the taxable year for which the contributions were made but were deducted or were not included in the computation of federal adjusted gross income. The distribution shall be allocated first to return of contributions until the contributions included in Minnesota gross income have been exhausted. This subtraction applies only to contributions made in a taxable year prior to 1985;

(5) income as provided under section 10; and

(6) the amount of unrecovered accelerated cost recovery system deductions allowed under section 5.

Sec. 5. Minnesota Statutes 1986, section 290.01, is amended by adding a subdivision to read:

Subd. 19g. ACRS MODIFICATION FOR INDIVIDUALS. (a) An individual is allowed a subtraction from federal taxable income for the amount of accelerated cost recovery system deductions that were added to federal adjusted gross income in computing Minnesota gross income for taxable year 1981, 1982, 1983, or 1984 and that were not deducted in a later taxable year. The deduction is allowed beginning in the first taxable year after the entire allowable deduction for the property has been allowed under federal law or the first taxable year beginning after December 31, 1987, whichever is later. The amount of the deduction is computed by deducting the amount added to federal adjusted gross income in computing Minnesota gross income (less any deduction allowed under Minnesota Statutes 1986, section 290.01, subdivision 20f) in equal annual amounts over five years.

(b) In the event of a sale or exchange of the property, a deduction is allowed equal to the lesser of (1) the remaining amount that would be allowed as a deduction under paragraph (a) or (2) the amount of capital gain recognized and the amount of cost recovery deductions that were subject to recapture under

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sections 1245 and 1250 of the Internal Revenue Code of 1986 for the taxable year.

(c) In the case of a corporation electing S corporation status under section 1362 of the Internal Revenue Code, the amount of the corporation's cost recovery allowances that have been deducted in computing federal tax, but have been added to federal taxable income or not deducted in computing tax under this chapter as a result of the application of subdivision 19e, paragraphs (a) and (c) or Minnesota Statutes 1986, section 290.09, subdivision 7 is allowed as a deduction to the shareholders under the provisions of paragraph (a).

Sec. 6. Minnesota Statutes 1987 Supplement, section 290.032, subdivision 2, is amended to read:

Subd. 2. The amount of tax imposed by subdivision 1 shall be computed in the same way as the tax imposed under section 402(e) of the Internal Revenue Code of 1986, as amended through December 31, 1986, except that the initial separate tax shall be an amount equal to five times the tax which would be imposed by section 290.06, subdivision 2c, if the recipient was an unmarried individual, and the taxable net income was an amount equal to one-fifth of the excess of

(i) the total taxable amount of the lump sum distribution for the year, over

(ii) the minimum distribution allowance, and except that references in section 402(e) of the Internal Revenue Code of 1986, as amended through December 31, 1986, to paragraph (1)(A) thereof shall instead be references to subdivision 1, and the excess, if any, of the subtraction base amount over federal taxable income for a qualified individual as provided under section 290.0802, subdivision 2.

Sec. 7. Minnesota Statutes 1987 Supplement, 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 of 1986 as amended through December 31, 1987, must be computed by applying to their taxable net income the following schedule of rates:

<u>(1) For taxable years beginning after December 31, 1986,</u> if taxable income is:	the tax is:
not over \$4,000	4 percent
over \$4,000, but not over \$11,000	\$160 plus 6 percent of the excess over \$4,000
over \$11,000, but not over \$21,000	\$580 plus 8 percent of the excess over \$11,000
over \$21,000	\$1,380 plus 9 percent of the excess over \$21,000

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(2) For taxable years beginning after December 31, 1987
 if taxable income is: the tax is:
 not over \$19,000 6 percent
 over \$19,000 \$1,140 plus 8 percent of
 the excess over \$19,000;

plus an amount equal to ten percent of the tax paid by the taxpayer under section 1(g) of the Internal Revenue Code of 1986, as amended through December 31, 1986 computed using the following schedule of rates:

<u>if taxable income is:</u>	<u>the tax is:</u>
<u>over \$75,500, but not</u>	<u>0.5 percent of the</u>
<u>over \$165,000</u>	<u>excess over \$75,500</u>
<u>over \$165,000</u>	<u>\$447.50.</u>

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, married individuals filing separate returns, estates, and trusts must be computed by applying to taxable net income the following schedule of rates:

(1) For taxable years beginning after December 31, 1986, and before January 1, 1988

<u>if taxable income is:</u>	<u>the tax is:</u>
<u>not over \$3,000</u>	<u>4 percent</u>
<u>over \$3,000, but not</u>	<u>\$120 plus 6 percent</u>
<u>over \$9,000</u>	<u>of the excess over \$3,000</u>
<u>over \$9,000, but not</u>	<u>\$480 plus 8 percent</u>
<u>over \$16,000</u>	<u>of the excess over \$9,000</u>
<u>over \$16,000</u>	<u>\$1,040 plus 9 percent</u>
	<u>of the excess over \$16,000</u>

(2) For taxable years beginning after December 31, 1987
 if taxable income is: the tax is:
 not over \$13,000 6 percent
 over \$13,000 \$780 plus 8 percent
 of the excess over \$13,000;

plus an amount equal to ten percent of the tax paid by the taxpayer under section 1(g) of the Internal Revenue Code of 1986, as amended through December 31, 1986 computed using the following schedule of rates:

<u>if taxable income is:</u>	<u>the tax is:</u>
<u>over \$42,700, but not</u>	<u>0.5 percent of the</u>
<u>over \$93,000</u>	<u>excess over \$42,700</u>
<u>over \$93,000</u>	<u>\$251.50.</u>

(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

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Revenue Code of 1986, as amended through December 31, ~~1986~~ 1987, must be computed by applying to taxable net income the following schedule of rates:

(1) For taxable years beginning after December 31, ~~1986~~, and before January 1, ~~1988~~

if taxable income is:	the tax is:
not over \$3,500	4 percent
over \$3,500, but not over \$10,000	\$140 plus 6 percent of the excess over \$3,500
over \$10,000, but not over \$18,500	\$530 plus 8 percent of the excess over \$10,000
over \$18,500	\$1,210 plus 9 percent of the excess over \$18,500

(2) For taxable years beginning after December 31, ~~1987~~

if taxable income is:	the tax is:
not over \$16,000	6 percent
over \$16,000	\$960 plus 8 percent of the excess over \$16,000;

plus an amount equal to ten percent of the tax paid by the taxpayer under section 4(g) of the Internal Revenue Code of 1986, as amended through December 31, ~~1986~~ computed using the following schedule of rates:

if taxable income is:	the tax is:
over \$64,300, but not over \$135,000	0.5 percent of the excess over \$64,300
over \$135,000	\$353.50.

(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~~ source federal adjusted gross income as defined in section 62 of the Internal Revenue Code of 1986, as amended through December 31, 1986, 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, as amended through

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December 31, 1986 1987, increased by the addition required for interest income from non-Minnesota state and municipal bonds under section 290.01, subdivision 19a, clause (1).

(f) Any individual who has income which is included in the computation of federal adjusted gross income but is not subject to tax by Minnesota other than income specifically allowed as a subtraction under section 290.01, subdivision 19b, shall compute the tax in the same manner described in paragraph (e). The numerator of the fraction under paragraph (e) is the individual's Minnesota source federal adjusted gross income reduced by the income not subject to Minnesota tax and the denominator is the federal adjusted gross income.

Sec. 8. Minnesota Statutes 1986, section 290.06, is amended by adding a subdivision to read:

Subd. 22. CREDIT FOR TAXES PAID TO ANOTHER STATE. (a) A taxpayer who is liable for taxes on or measured by net income to another state or province or territory of Canada, as provided in paragraphs (b) through (f), upon income allocated or apportioned to Minnesota, is entitled to a credit for the tax paid to another state or province or territory of Canada if the tax is actually paid in the taxable year or a subsequent taxable year. A taxpayer who is a resident of this state pursuant to section 290.01, subdivision 7a, clause (b) and who is subject to income tax as a resident in the state of the individual's domicile is not allowed this credit unless the state of domicile does not allow a similar credit.

(b) For an individual, estate, or trust, the credit is determined by multiplying the tax payable under this chapter by the ratio derived by dividing the income subject to tax in the other state or province or territory of Canada that is also subject to tax in Minnesota while a resident of Minnesota by the taxpayer's federal adjusted gross income, as defined in section 62 of the Internal Revenue Code of 1986, as amended through December 31, 1987, to the extent the income is allocated or assigned to Minnesota under sections 290.081 and 290.17.

(c) If the taxpayer is an athletic team that apportions all of its income under section 290.17, subdivision 5, paragraph (a), the credit is determined by multiplying the tax payable under this chapter by the ratio derived from dividing the total net income subject to tax in the other state or province or territory of Canada by the taxpayer's Minnesota taxable income.

(d) The credit determined under paragraph (b) or (c) shall not exceed the amount of tax so paid to the other state or province or territory of Canada on the gross income earned within the other state or province or territory of Canada subject to tax under this chapter, nor shall the allowance of the credit reduce the taxes paid under this chapter to an amount less than what would be assessed if such income amount was excluded from taxable net income.

(e) In the case of the tax assessed on a lump sum distribution under section

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290.032, the credit allowed under paragraph (a) is the tax assessed by the other state or province or territory of Canada on the lump sum distribution that is also subject to tax under section 290.032, and shall not exceed the tax assessed under section 290.032.

(f) If a Minnesota resident reported an item of income to Minnesota and is assessed tax in such other state or province or territory of Canada on that same income after the Minnesota statute of limitations has expired, the taxpayer shall receive a credit for that year under paragraph (a), notwithstanding any statute of limitations to the contrary. The claim for the credit must be submitted within one year from the date the taxes were paid to the other state or province or territory of Canada. The taxpayer must submit sufficient proof to show entitlement to a credit.

Sec. 9. Minnesota Statutes 1986, section 290.067, subdivision 1, is amended to read:

Subdivision 1. **AMOUNT OF CREDIT.** 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.

In the case of nonresident or part-year resident, the credit determined under section 21 of 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.

Sec. 10. **[290.0802] SUBTRACTION FOR THE ELDERLY AND DISABLED.**

Subdivision 1. DEFINITIONS. For purposes of this section, the following terms have the meanings given.

(a) "Adjusted gross income" means federal adjusted gross income as used in section 22(d) of the Internal Revenue Code for the taxable year plus the ordinary income portion of a lump sum distribution as defined in section 407(e) of the Internal Revenue Code.

(b) "Disability income" means disability income as defined in section 22(c)(2)(B)(iii) of the Internal Revenue Code.

(c) "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, 1987.

(d) "Nontaxable retirement and disability benefits" means the amount of pension, annuity, or disability benefits that would be included in the reduction under section 22(c)(3) of the Internal Revenue Code, but excluding tier one railroad retirement benefits.

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(e) "Qualified individual" means a qualified individual as defined in section 22(b) of the Internal Revenue Code.

Subd. 2. SUBTRACTION. (a) A qualified individual is allowed a subtraction from federal taxable income equal to the lesser of federal taxable income or the individual's subtraction base amount. The excess of the subtraction base amount over federal taxable income may be used to reduce the amount of a lump sum distribution subject to tax under section 290.032.

(b)(1) The initial subtraction base amount equals

(i) \$10,000 for a married taxpayer filing a joint return if a spouse is a qualified individual,

(ii) \$8,000 for a single taxpayer, and

(iii) \$5,000 for a married taxpayer filing a separate federal return.

(2) The qualified individual's initial subtraction base amount, then, must be reduced by the sum of nontaxable retirement and disability benefits and one-half of the amount of adjusted gross income in excess of the following thresholds:

(i) \$15,000 for a married taxpayer filing a joint return if both spouses are qualified individuals,

(ii) \$12,000 for a single taxpayer or for a married couple filing a joint return if only one spouse is a qualified individual, and

(iii) \$7,500 for a married taxpayer filing a separate federal return.

(3) In the case of a qualified individual who is under the age of 65, the maximum amount of the subtraction base may not exceed the taxpayer's disability income.

(4) The resulting amount is the subtraction base amount.

Subd. 3. RESTRICTIONS; MARRIED COUPLES. Except in the case of a husband and wife who live apart at all times during the taxable year, if the taxpayer is married at the close of the taxable year, the subtraction under subdivision 2 is allowable only if the taxpayers file joint federal and state income tax returns for the taxable year.

Sec. 11. Minnesota Statutes 1987 Supplement, section 290.081, is amended to read:

290.081 INCOME OF NONRESIDENTS, RECIPROCITY; CREDIT FOR TAXES PAID TO ANOTHER STATE.

(a) The compensation received for the performance of personal or professional services within this state by an individual whose residence, place of abode, and place customarily returned to at least once a month is in another

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state, shall be excluded from gross income to the extent such compensation is subject to an income tax imposed by the state of residence; provided that such state allows a similar exclusion of compensation received by residents of Minnesota for services performed therein; or.

(b) If any taxpayer who is a resident of this state, or a domestic corporation or corporation commercially domiciled therein, has become liable for taxes on or measured by net income to another state or a province or territory of Canada upon, if the taxpayer is an individual, or if the taxpayer is an athletic team and all of the team's income is apportioned to Minnesota, any income, or if it is a corporation, estate, or trust, upon income derived from the performance of personal or professional services within such other state or province or territory of Canada and subject to taxation under this chapter the taxpayer shall be entitled to a credit against the amount of taxes payable under this chapter, of such proportion thereof, as such gross income subject to taxation in such state or province or territory of Canada bears to the taxpayer's entire gross income subject to taxation under this chapter, provided (1) that such credit shall in no event exceed the amount of tax so paid to such other state or province or territory of Canada on the gross income earned within such other state or province or territory of Canada and subject to taxation under this chapter, and (2) the allowance of such credit shall not operate to reduce the taxes payable under this chapter to an amount less than would have been payable if the gross income earned in such other state or province or territory of Canada had been excluded in computing net income under this chapter. A taxpayer who is a resident of this state pursuant to section 290.01, subdivision 7a, clause (2), and is subject to income tax as a resident in the state of the individual's domicile is not allowed this credit unless the state of domicile does not allow a similar credit.

(c) The commissioner shall by rule determine with respect to gross income earned in any other state the applicable clause of this section. When it is deemed to be in the best interests of the people of this state, the commissioner may determine that the provisions of clause (a) shall not apply. As long as the provisions of clause (a) apply between Minnesota and Wisconsin, the provisions of clause (a) shall apply to any individual who is domiciled in Wisconsin.

(d) "Tax So Paid" as used in this section means taxes on or measured by net income payable to another state or province or territory of Canada on income earned within the taxable year for which the credit is claimed, provided that such tax is actually paid in that taxable year, or subsequent taxable years.

For purposes of clause (b), where a Minnesota resident reported an item of income to Minnesota and is assessed tax in another state or a province or territory of Canada on that same item of income after the Minnesota statute of limitations has expired, the taxpayer shall be allowed to receive a credit for that year based on clause (b), notwithstanding the provisions of sections 290.49, 290.50, and 290.56. For purposes of the preceding sentence, the burden of proof shall be on the taxpayer to show entitlement to a credit.

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(e) (c) For the purposes of clause (a), whenever the Wisconsin tax on Minnesota residents which would have been paid Wisconsin without clause (a) exceeds the Minnesota tax on Wisconsin residents which would have been paid Minnesota without clause (a), or vice versa, then the state with the net revenue loss resulting from clause (a) shall receive from the other state the amount of such loss. This provision shall be effective for all years beginning after December 31, 1972. The data used for computing the loss to either state shall be determined on or before September 30 of the year following the close of the previous calendar year.

Interest shall be payable on all delinquent balances relating to taxable years beginning after December 31, 1977. The commissioner of revenue is authorized to enter into agreements with the state of Wisconsin specifying the reciprocity payment due date, conditions constituting delinquency, interest rates, and a method for computing interest due on any delinquent amounts.

If an agreement cannot be reached as to the amount of the loss, the commissioner of revenue and the taxing official of the state of Wisconsin shall each appoint a member of a board of arbitration and these members shall appoint the third member of the board. The board shall select one of its members as chair. Such board may administer oaths, take testimony, subpoena witnesses, and require their attendance, require the production of books, papers and documents, and hold hearings at such places as are deemed necessary. The board shall then make a determination as to the amount to be paid the other state which determination shall be final and conclusive.

Notwithstanding the provisions of section 290.61, the commissioner may furnish copies of returns, reports, or other information to the taxing official of the state of Wisconsin, a member of the board of arbitration, or a consultant under joint contract with the states of Minnesota and Wisconsin for the purpose of making a determination as to the amount to be paid the other state under the provisions of this section. Prior to the release of any information under the provisions of this section, the person to whom the information is to be released shall sign an agreement which provides that the person will protect the confidentiality of the returns and information revealed thereby to the extent that it is protected under the laws of the state of Minnesota.

Sec. 12. Minnesota Statutes 1987 Supplement, section 290.17, subdivision 2, is amended to read:

Subd. 2. **INCOME NOT DERIVED FROM CONDUCT OF A TRADE OR BUSINESS.** The income of a taxpayer subject to the allocation rules that is not derived from the conduct of a trade or business must be assigned in accordance with paragraphs (a) to (f):

(a)(1) Subject to paragraphs (a)(2) and (a)(3), income from labor or personal or professional services is assigned to this state if, and to the extent that, the labor or services are performed within it; all other income from such sources is treated as income from sources without this state.

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(2) In the case of an individual who is a nonresident of Minnesota and who is an athlete or entertainer, income from compensation for labor or personal services performed within this state shall be determined in the following manner:

(i) The amount of income to be assigned to Minnesota for an individual who is a nonresident salaried athletic team employee shall be determined by using a fraction in which the denominator contains the total number of days in which the individual is under a duty to perform for the employer, and the numerator is the total number of those days spent in Minnesota; and

(ii) The amount of income to be assigned to Minnesota for an individual who is a nonresident, and who is an athlete or entertainer not listed in clause (i), for that person's athletic or entertainment performance in Minnesota shall be determined by assigning to this state all income from performances or athletic contests in this state.

(3) For purposes of this section, amounts received by a nonresident from the United States, its agencies or instrumentalities, the Federal Reserve Bank, the state of Minnesota or any of its political or governmental subdivisions, or a Minnesota volunteer firefighters' relief association, by way of payment as a pension, public employee retirement benefit, or any combination of these, or as a retirement or survivor's benefit made from a plan qualifying under section 401, 403, 408, or 409, or as defined in section 403(b) or 457 of the Internal Revenue Code of 1986, as amended through December 31, 1986, are not considered income derived from carrying on a trade or business or from performing personal or professional services in Minnesota, and are not taxable under this chapter.

(b) Income or gains from tangible property located in this state that is not employed in the business of the recipient of the income or gains must be assigned to this state.

(c) Except upon the sale of a partnership interest or the sale of stock of an "S" corporation, income or gains from intangible personal property not employed in the business of the recipient of the income or gains must be assigned to this state if the recipient of the income or gains is a resident of this state or is a resident trust or estate.

Gain on the sale of a partnership interest is allocable to this state in the ratio of the original cost of partnership tangible property in this state to the original cost of partnership tangible property everywhere, determined at the time of the sale. If more than 50 percent of the value of the partnership's assets consists of intangibles, gain or loss from the sale of the partnership interest is allocated to this state in accordance with the sales factor of the partnership for its first full tax period immediately preceding the tax period of the partnership during which the partnership interest was sold.

Gain on the sale of stock held in an "S" corporation is allocable to this state in the ratio of the original cost of tangible property of the "S" corporation within this state to the original cost of tangible property of the "S" corporation everywhere.

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(d) Income from the operation of a farm shall be assigned to this state if the farm is located within this state and to other states only if the farm is not located in this state.

(e) Income from winnings on Minnesota pari-mutuel betting tickets and lawful gambling as defined in section 349.12, subdivision 2, conducted within the boundaries of the state of Minnesota shall be assigned to this state.

(f) All items of gross income not covered in paragraphs (a) to (e) and not part of the taxpayer's income from a trade or business shall be assigned to the taxpayer's domicile.

Sec. 13. Minnesota Statutes 1987 Supplement, section 290.38, is amended to read:

290.38 RETURNS OF MARRIED PERSONS.

A husband and wife must file a joint Minnesota income tax return if they filed a joint federal income tax return. If a joint return is made the tax shall be computed on the aggregate income and the liability with respect to the tax shall be joint and several; provided that a spouse who is relieved of a liability attributable to a substantial underpayment under section 6013(e) of the Internal Revenue Code of 1986, as amended through December 31, 1987, shall also be relieved of the state tax liability on the substantial underpayment. If the husband and wife have elected to file separate federal income tax returns they must file separate Minnesota income tax returns. This election to file a joint or separate returns must be changed if they change their election for federal purposes. In the event taxpayers desire to change their election, such change shall be done in the manner and on such form as the commissioner shall prescribe by rule.

The determination of whether an individual is married shall be made under provisions of section 7703 of the Internal Revenue Code of 1986, as amended through December 31, 1986.

Sec. 14. Minnesota Statutes 1986, section 290.39, is amended by adding a subdivision to read:

Subd. 5. PARTNERSHIPS; NONRESIDENT PARTNERS. (a) The commissioner may allow a partnership with five or more nonresident partners to file a composite return on behalf of nonresident partners who have no other Minnesota source income. This composite return must include the names, addresses, social security numbers, income allocation, and tax liability for all nonresident partners electing to be covered by the composite return.

(b) The computation of each partner's tax liability will be determined by multiplying the income allocated to that partner by the highest rate used to determine the tax liability for individuals under section 290.06, subdivision 2c. Nonbusiness deductions, standard deductions, or personal exemptions are not allowed.

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(c) The partnership must submit a request to use this composite return filing method for nonresident partners on or before the due date for filing the individual income tax return. The request may be made a part of the return filed.

(d) The electing partner must not have any Minnesota source income other than the income from the partnership and other electing partnerships. If it is determined that the electing partner has other Minnesota source income, the inclusion of the income and tax liability for that partner under this provision will not constitute a return to satisfy the requirements of subdivision 1. The penalty for failure to file a return as provided in section 290.53, subdivision 2, is assessed from the due date for filing a return until a non-composite return is filed. The tax paid for such an individual as part of the composite return is allowed as a payment of the tax by the individual on the date on which the composite return payment was made. If the electing nonresident partner has no other Minnesota source income, filing of the composite return constitutes a return for purposes of subdivision 1 of this section.

(e) This subdivision does not preclude the requirement that an individual pay estimated tax if the individual's liability would exceed the requirements set forth in section 290.93. However, a composite estimate may be filed in a manner similar to and containing the same information required under paragraph (a).

(f) If an electing partner's share of the partnership's gross income from Minnesota sources is less than the filing requirements for a nonresident under section 290.37, subdivision 1, the tax liability is zero. However, a statement showing the partner's share of gross income must be included as part of the composite return.

(g) The election provided in this subdivision is not available to any partner other than a full-year nonresident individual who has no other Minnesota source income.

(h) A corporation defined in section 290.9725 and its nonresident shareholders may make an election under this subdivision. The provisions covering the partnership apply to the corporation and the provisions applying to the partner apply to each shareholder.

(i) Estates and trusts distributing current income only and the nonresident individual beneficiaries of such estates or trusts may make an election under this subdivision. The provisions covering the partnership apply to the estate or trust. The provisions applying to the partner apply to each beneficiary.

Sec. 15. Minnesota Statutes 1987 Supplement, section 290.41, subdivision 2, is amended to read:

Subd. 2. **BY PERSONS, CORPORATIONS, COOPERATIVES, GOVERNMENTAL ENTITIES OR SCHOOL DISTRICTS.** To the extent required by section 6041 of the Internal Revenue Code of 1986, as amended through December 31, 1986 1987, every person, corporation, or cooperative, the state of

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Minnesota and its political subdivisions, and every city, county and school district in Minnesota, making payments in the regular course of a trade or business during the taxable year to any person or corporation of \$600 or more on account of rents or royalties, or of \$10 or more on account of interest, or \$10 or more on account of dividends or patronage dividends, or \$600 or more on account of either wages, salaries, commissions, fees, prizes, awards, pensions, annuities, or any other fixed or determinable gains, profits or income, not otherwise reportable under section 290.92, subdivision 7, or on account of earnings of \$10 or more distributed to its members by savings, building and loan associations or credit unions chartered under the laws of this state or the United States, (a) shall make a return (except in cases where a valid agreement to participate in the combined federal and state information reporting system has been entered into, and such return is therefore filed only with the commissioner of internal revenue pursuant to the applicable filing and informational reporting requirements of the Internal Revenue Code of 1986, as amended through December 31, ~~1986~~ 1987) in respect to such payments in excess of the amounts specified, giving the names and addresses of the persons to whom such payments were made, the amounts paid to each, and (b) shall make a return in respect to the total number of such payments and total amount of such payments, for each category of income specified, which were in excess of the amounts specified. This subdivision shall not apply to the payment of interest or dividends to a person who was a nonresident of Minnesota for the entire year.

A person, corporation, or cooperative required to file returns under this subdivision ~~on interest, dividends, or patronage dividend payments with respect to more than 50 payees for any calendar year~~ must file all of these returns on magnetic media if the media were used to satisfy the federal reporting requirement under section 6011(e) of the Internal Revenue Code of 1986, as amended through December 31, 1987, unless the person establishes to the satisfaction of the commissioner that compliance with this requirement would be an undue hardship.

Sec. 16. Minnesota Statutes 1987 Supplement, section 290.491, is amended to read:

290.491 TAX ON GAIN; DISCHARGE IN BANKRUPTCY.

(a) Any tax due under this chapter on a gain realized on a forced sale pursuant to foreclosure of a mortgage or other security interest in agricultural production property, other real property, or equipment, used in a farm business that was owned and operated by the taxpayer shall be a dischargeable debt in a bankruptcy proceeding under United States Code, title 11, section 727.

(b) Income realized on a sale or exchange of agricultural production property, other real property, or equipment, used in a farm business that was owned and operated by the taxpayer shall be exempt from taxation under this chapter, if the taxpayer was insolvent at the time of the sale and the proceeds of the sale were used solely to discharge indebtedness secured by a mortgage, lien, or other

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security interest on the property sold. For purposes of this section, "insolvent" means insolvent as defined in section 108(d)(3) of the Internal Revenue Code of 1954, as amended through December 31, 1985. This paragraph applies only to the extent that the gain is includable in federal taxable income or in the computation of the alternative minimum taxable income under section 290.091 for purposes of the alternative minimum tax. The amount of the exemption is limited to the excess of the taxpayer's (1) liabilities over (2) the total assets and any exclusion claimed under section 108 of the Internal Revenue Code of 1986, as amended through December 31, 1987, determined immediately before application of this paragraph.

(c) For purposes of this section, any tax due under this chapter specifically includes, but is not limited to, tax imposed under sections 290.02 and 290.03 on income derived from a sale or exchange, whether constituting gain, discharge of indebtedness or recapture of depreciation deductions, or the alternative minimum tax imposed under section 290.091.

Sec. 17. Minnesota Statutes 1987 Supplement, section 290.92, subdivision 7, is amended to read:

Subd. 7. **WITHHOLDING STATEMENT TO EMPLOYEE OR PAYEE AND TO COMMISSIONER.** (1) Every person required to deduct and withhold from an employee a tax under subdivision 2a or 3, or section 290.923, subdivision 2, or who would have been required to deduct and withhold a tax under subdivision 2a or 3, or persons required to withhold tax under section 290.923, subdivision 2, determined without regard to subdivision 19, if the employee or payee had claimed no more than one withholding exemption, or who paid wages or made payments not subject to withholding under subdivision 2a or 3, or section 290.923, subdivision 2, to an employee or person receiving royalty payments in excess of \$600, or who has entered into a voluntary withholding agreement with a payee pursuant to subdivision 20, shall furnish to each such employee or person receiving royalty payments in respect to the remuneration paid by such person to such employee or person receiving royalty payments during the calendar year, on or before January 31 of the succeeding year, or, if employment is terminated before the close of such calendar year, within 30 days after the date of receipt of a written request from the employee if the 30-day period ends before January 31, a written statement showing the following:

(a) Name of such person,

(b) The name of the employee or payee and the employee's or payee's social security account number,

(c) The total amount of wages as that term is defined in subdivision 1(1), and/or the total amount of remuneration subject to withholding pursuant to subdivision 20, and the amount of sick pay as required under section 6051(f) of the Internal Revenue Code of ~~1954~~ 1986, as amended through December 31, ~~1985~~ 1987,

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(d) The total amount deducted and withheld as tax under subdivision 2a or 3, or section 290.923, subdivision 2.

(2) The statement required to be furnished by this subdivision in respect of any remuneration shall be furnished at such other times, shall contain such other information, and shall be in such form as the commissioner may prescribe.

(3) The commissioner may prescribe rules providing for reasonable extensions of time, not in excess of 30 days, to employers or payers required to furnish such statements to their employees or payees under this subdivision.

(4) A duplicate of any statement made pursuant to this subdivision and in accordance with rules prescribed by the commissioner, along with a reconciliation in such form as the commissioner may prescribe of all such statements for the calendar year (including a reconciliation of the quarterly returns required to be filed pursuant to subdivision 6), shall be filed with the commissioner on or before February 28 of the year after the payments were made.

(5) The employer must submit the statements required to be sent to the commissioner on magnetic media, if the media were required to satisfy the federal reporting requirements pursuant to section 6011(e) of the Internal Revenue Code of 1986, as amended through December 31, 1987, and the regulations issued under it.

Sec. 18. Minnesota Statutes 1987 Supplement, section 290.92, subdivision 15, is amended to read:

Subd. 15. **PENALTIES; FAILURE TO PAY TAX.** (1) In the case of any failure to withhold a tax on wages, or make payments to or deposits with the commissioner of amounts withheld, as required by this section, within the time prescribed by law, there shall be added to the tax a penalty equal to three percent of the amount of tax that should have been properly withheld and paid over to or deposited with the commissioner if the failure is for not more than 30 days with an additional three percent for each additional 30 days or fraction thereof during which the failure continues, not exceeding 24 percent in the aggregate. The amount of the tax together with this amount shall bear interest at the rate specified in section 270.75 from the time the tax should have been paid until paid. The amount added to the tax shall be collected at the same time and in the same manner and as a part of the tax unless the tax has been paid before the discovery of the negligence, in which case the amount added shall be collected in the same manner as the tax.

(1a) In the case of a failure to make and file quarterly returns with the commissioner as required by this section, there shall be added to the tax a penalty equal to three percent of the amount of tax not properly withheld and paid over to or deposited with the commissioner if the failure is for not more than 30 days with an additional five percent of the amount of tax remaining unpaid during each additional 30 days or fraction thereof during which the failure continues, not exceeding 23 percent in the aggregate. The amount of the

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tax together with this amount shall bear interest at the rate specified in section 270.75 from the time the tax should have been paid until paid. The amount added to the tax shall be collected at the same time and in the same manner and as a part of the tax unless the tax has been paid before the discovery of the negligence, in which case the amount added shall be collected in the same manner as the tax.

(1b) In the case of a failure to file a return of tax imposed by this chapter within 60 days of the date prescribed for filing of the return (determined with regard to any extension of time for filing), the addition to tax under paragraph (1a) shall not be less than the lesser of (i) \$200; or (ii) the greater of (a) 25 percent of the amount required to be shown as tax on the return without reduction for any payments made or refundable credits allowable against the tax or (b) \$50.

(1c) Where penalties are imposed under paragraphs (1) and (1a), except for the minimum penalty under paragraph (1b), the combined penalty percentage shall not exceed 38 percent in the aggregate.

(2) If any employer required to withhold a tax on wages, make deposits, make and file quarterly returns and make payments to the commissioner of amounts withheld, as required by sections 290.92 to 290.97, willfully fails to withhold the tax or make the deposits, files a false or fraudulent return, willfully fails to make the payment or deposit, or willfully attempts in any manner to evade or defeat the tax or the payment or deposit of it, there shall also be imposed on the employer as a penalty an amount equal to 50 percent of the amount of tax, less any amount paid or deposited by the employer on the basis of the false or fraudulent return or deposit, that should have been properly withheld and paid over or deposited with the commissioner. The amount of the tax together with this amount shall bear interest at the rate specified in section 270.75 from the time the tax should have been paid until paid. The penalty imposed by this paragraph shall be collected as a part of the tax, and shall be in addition to any other penalties civil and criminal, prescribed by this subdivision.

(3) If any person required under the provisions of subdivision 7 to furnish a statement to an employee or payee and a duplicate statement to the commissioner, or to furnish a reconciliation of the statements, and quarterly returns, to the commissioner, willfully furnishes a false or fraudulent statement to an employee or payee or a false or fraudulent duplicate statement or reconciliation of statements, and quarterly returns, to the commissioner, or willfully fails to furnish a statement or the reconciliation in the manner, at the time, and showing the information required by the provisions of subdivision 7, or rules prescribed by the commissioner thereunder, there shall be imposed on the person a penalty of \$50 for each act or failure to act, but the total amount imposed on the delinquent person for all such failures during any calendar year shall not exceed \$25,000. The penalty imposed by this paragraph is due and payable within ten days after the mailing of a written demand therefor, and may be collected in the manner prescribed in subdivision 6, paragraph (8).

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(4) In addition to any other penalties prescribed, any person required to withhold a tax on wages, file quarterly returns, and make payments or deposits to the commissioner of amounts withheld, as required by this section, who attempts to evade the tax by (i) willfully failing to withhold the tax, file the return, or make the payment or deposit, or (ii) willfully preparing or filing a false return, is guilty of a gross misdemeanor unless the tax involved exceeds \$300, in which event the person is guilty of a felony.

(5) In lieu of any other penalty provided by law, except the penalty provided by paragraph (3), any person required under the provisions of subdivision 7 to furnish a statement of wages to an employee and a duplicate statement to the commissioner, who willfully furnishes a false or fraudulent statement of wages to an employee or a false or fraudulent duplicate statement of wages to the commissioner, or who willfully fails to furnish a statement in the manner, at the time, and showing the information required by the provisions of subdivision 7, or rules prescribed by the commissioner thereunder, is guilty of a gross misdemeanor.

(6) Any employee required to supply information to an employer under the provisions of ~~subdivision~~ subdivisions 4a and 5, who willfully fails to supply information or willfully supplies false or fraudulent information thereunder which would require an increase in the tax to be deducted and withheld under subdivision 2a or 3, is guilty of a gross misdemeanor.

(7) The term "person," as used in this section, includes an officer or employee of a corporation, or a member or employee of a partnership, who as an officer, employee, or member is under a duty to perform the act in respect of which the violation occurs.

(8) All payments received may, in the discretion of the commissioner of revenue, be credited first to the oldest liability not secured by a judgment or lien, but in all cases shall be credited first to penalties, next to interest, and then to the tax due.

(9) In addition to any other penalty provided by law, any employee who furnishes a withholding exemption certificate or a residency affidavit to an employer which the employee has reason to know contains a materially incorrect statement is liable to the commissioner of revenue for a penalty of \$500 for each instance. The penalty is immediately due and payable and may be collected in the same manner as any delinquent income tax.

(10) In addition to any other penalty provided by law, any employer who fails to submit a copy of a withholding exemption certificate or a residency affidavit required by subdivision 5a, clause (1)(a), (1)(b), or (2) is liable to the commissioner of revenue for a penalty of \$50 for each instance. The penalty is immediately due and payable and may be collected in the manner provided in subdivision 6, paragraph (8).

(11) Any person who willfully aids or assists in, or procures, counsels, or

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advises the preparation or presentation under, or in connection with any matter arising under this section, of a return, affidavit, claim, or other document, which is fraudulent or false as to any material matter, whether or not the falsity or fraud is with the knowledge or consent of the person authorized or required to present the return, affidavit, claim, or document, is guilty of a gross misdemeanor, unless the tax involved exceeds \$300, in which event the actor is guilty of a felony.

(12) Notwithstanding the provisions of section 628.26, or any other provision of the criminal laws of this state, an indictment may be found and filed, or a complaint filed, upon any criminal offense specified in this subdivision, in the proper court within six years after the commission of the offense.

Sec. 19. Minnesota Statutes 1986, section 290.92, subdivision 21, is amended to read:

Subd. 21. **EXTENSION OF WITHHOLDING TO UNEMPLOYMENT COMPENSATION BENEFITS.** (a) At the time an individual makes a claim for unemployment compensation benefits, the commissioner of jobs and training must notify the individual that the individual's unemployment compensation may be subject to state income taxes depending on the individual's other income and that the individual may elect to have the payments subject to withholding under this section. If the individual so requests, unemployment compensation benefits paid to the individual shall be treated as if it were a payment of wages by an employer to an employee for a payroll period.

(b) For purposes of this section, any supplemental unemployment compensation benefit paid to an individual to the extent includable in such individual's Minnesota gross income, shall be treated as if it were a payment of wages by an employer to an employee for a payroll period.

Sec. 20. **ESTIMATED TAX EXCEPTION FOR 1987.**

For taxable years beginning after December 31, 1986, but beginning before January 1, 1988, the required amount of the annual payment of the current year's tax in determining the underpayment in Minnesota Statutes, section 290.93, subdivision 10, paragraph (4), clause (a), shall be 80 percent instead of 90 percent and the penalty shall also be reduced by the ratio by which the salary income subject to withholding bears to the federal adjusted gross income for 1987 as determined under section 62 of the Internal Revenue Code of 1986, as amended through December 31, 1987.

Sec. 21. **REPEALER.**

Minnesota Statutes 1987 Supplement, sections 290.06, subdivision 20; and 290.077, subdivision 1, are repealed.

Sec. 22. **EFFECTIVE DATES.**

Except as otherwise provided, sections 1 to 3 and 16 are effective for

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taxable years beginning after December 31, 1986. Sections 5, 7 to 12, 14, 15, 17, and 21 are effective for taxable years beginning after December 31, 1987. The deduction allowed under section 4, clause (4) and the ability of surviving spouses to use the married filing joint rates in section 7 are effective for taxable years beginning after December 31, 1986. The rest of sections 4 and 7 are effective for taxable years beginning after December 31, 1987. Section 13 is effective for taxable years beginning after December 31, 1984. Section 18 is effective the day following final enactment.

ARTICLE 2

BUSINESS TAXES

Section 1. Minnesota Statutes 1987 Supplement, section 60A.15, subdivision 1, is amended to read:

Subdivision 1. **DOMESTIC AND FOREIGN COMPANIES.** (a) On or before April 15, June 15, and December 15 of each year, every domestic and foreign company, including town and farmers' mutual insurance companies and domestic mutual insurance companies, shall pay to the commissioner of revenue installments equal to one-third of the insurer's total estimated tax for the current year. For insurers other than town and farmers' mutual insurance companies and mutual property and casualty insurance companies other than those (i) principally writing workers' compensation insurance, (ii) writing life insurance, or (iii) whose total assets at the end of the preceding calendar year exceed \$1,600,000,000, installments must be based on a sum equal to two percent of the premiums described in paragraph (b). For town and farmers' mutual insurance companies and mutual property and casualty insurance companies other than those (i) principally writing workers' compensation insurance, (ii) writing life insurance, or (iii) whose total assets at the end of the preceding calendar year exceed \$1,600,000,000, the installments must be based on an amount equal to the following percentages of the premiums described in paragraph (b):

(1) for premiums paid after December 31, 1987, and before January 1, 1989, 1.5 percent;

(2) for premiums paid after December 31, 1988, and before January 1, 1992, one percent; and

(3) for premiums paid after December 31, 1991, one-half of one percent.

(b) Installments under paragraph (a) are percentages of gross premiums less return premiums on all direct business received by the insurer in this state, or by its agents for it, in cash or otherwise, during such year, excepting premiums written for marine insurance as specified in subdivision 6.

(c) Failure of a company to make payments of at least one-third of either (a)

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(1) the total tax paid during the previous calendar year or ~~(b)~~ (2) 80 percent of the actual tax for the current calendar year shall subject the company to the penalty and interest provided in this section.

Sec. 2. Minnesota Statutes 1987 Supplement, section 60E.04, subdivision 4, is amended to read:

Subd. 4. TAXATION. (a) All premiums paid for coverages within this state to risk retention groups are subject to taxation at the same rate and subject to the same interest, fines, and penalties for nonpayment as that applicable to ~~foreign admitted~~ other insurers.

(b) To the extent agents or brokers are utilized, they shall report and pay the taxes for the premiums for risks which they have placed with or on behalf of a risk retention group not chartered in this state. The agents or brokers are subject to the provisions of sections 60A.195 to 60A.209.

(c) To the extent agents or brokers are not utilized or fail to pay the tax, each risk retention group shall pay the tax for risks insured within the state. Each risk retention group shall report all premiums paid to it for risks insured within the state and shall be subject to the same interest, fines, and penalties for nonpayment as that applicable to foreign admitted insurers.

Sec. 3. Minnesota Statutes 1986, section 62E.13, is amended by adding a subdivision to read:

Subd. 10. Premiums received by the writing carrier for the comprehensive health insurance plan are exempt from the provisions of section 60A.15.

Sec. 4. Minnesota Statutes 1987 Supplement, section 69.021, subdivision 5, is amended to read:

Subd. 5. CALCULATION OF STATE AID. The amount of state aid available for apportionment shall be two percent of the fire, lightning, sprinkler leakage, and extended coverage premiums reported to the commissioner by insurers on the Minnesota Firetown Premium Report and two percent of the premiums reported to the commissioner by insurers on the Minnesota Aid to Police Premium Report. ~~The amount for apportionment in respect to firefighter's state aid shall not be greater or lesser than the amount of premium taxes paid to the state upon the premiums reported to the commissioner by insurers on the Minnesota Firetown Premium Report after subtracting~~ This amount shall be reduced by the amount required to pay the state auditor's costs and expenses of the audits or exams of the firefighters relief associations. The total amount for apportionment in respect to police state aid shall not be greater or lesser than the amount of premium taxes paid to the state upon the premiums reported to the commissioner by insurers on the Minnesota Aid to Police Premium Report after subtracting the amount required to pay the state auditor's costs and expenses of the audits or exams of the police relief associations. The amount for apportionment in respect to police state aid shall be distributed to the municipalities

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maintaining police departments and to the county on the basis of the number of active peace officers, as certified pursuant to section 69.011, subdivision 2, clause (b). The commissioner shall calculate the percentage of increase or decrease reflected in the apportionment over or under the previous year's available state aid using the same premiums as a basis for comparison.

Sec. 5. Minnesota Statutes 1986, section 69.031, subdivision 3, is amended to read:

Subd. 3. **APPROPRIATIONS.** There is hereby appropriated annually from the state general fund to the commissioner of revenue an amount sufficient to make the payments specified in this section and section 69.021 ~~not exceeding the tax collected.~~

Sec. 6. Minnesota Statutes 1986, section 237.075, subdivision 8, is amended to read:

Subd. 8. **CHARITABLE CONTRIBUTIONS.** The commission shall allow as operating expenses only those charitable contributions which the commission deems prudent and which qualify under section 290.21, subdivision 3, clause (b) or (e). Only 50 percent of the qualified contributions shall be allowed as operating expenses.

Sec. 7. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 5, is amended to read:

Subd. 5. **DOMESTIC CORPORATIONS.** The term "domestic" when applied to a corporation means a corporation;

(1) created or organized in Minnesota or under its laws; and the term "foreign" when thus applied means a corporation other than a domestic corporation the United States, or under the laws of the United States or of any state, the District of Columbia, or any political subdivision of any of the foregoing but not including the commonwealth of Puerto Rico, or any possession of the United States;

(2) which qualifies as a DISC, as defined in section 992(a) of the Internal Revenue Code of 1954, as amended through December 31, 1985; or

(3) which qualifies as a FSC, as defined in section 922 of the Internal Revenue Code of 1986, as amended through December 31, 1987.

Sec. 8. Minnesota Statutes 1986, section 290.01, is amended by adding a subdivision to read:

Subd. 5a. **FOREIGN CORPORATION.** The term "foreign," when applied to a corporation, means a corporation other than a domestic corporation.

Sec. 9. Minnesota Statutes 1986, section 290.01, is amended by adding a subdivision to read:

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Subd. 6b. FOREIGN OPERATING CORPORATION. The term "foreign operating corporation," when applied to a corporation, means a domestic corporation with the following characteristics:

(1) it is part of a unitary business at least one member of which is taxable in this state; and

(2) either (i) the average of the percentages of its property and payrolls assigned to locations inside the United States and the District of Columbia, excluding the commonwealth of Puerto Rico and possessions of the United States, as determined under section 290.191 or 290.20, is 20 percent or less; or (ii) it has in effect a valid election under section 936 of the Internal Revenue Code of 1986, as amended through December 31, 1987.

Sec. 10. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19, 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; and

(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.

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

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

Sec. 11. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19c, is amended to read:

Subd. 19c. **CORPORATIONS; ADDITIONS TO FEDERAL TAXABLE INCOME.** For corporations, there shall be added to federal taxable income:

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(1) the amount of any deduction taken for federal income tax purposes for income, excise, or franchise taxes based on net income or related minimum taxes paid by the corporation to Minnesota, another state, a political subdivision of another state, the District of Columbia, or any foreign country or possession of the United States;

(2) interest not subject to federal tax upon obligations of: the United States, its possessions, its agencies, or its instrumentalities ~~to the extent the obligations are not subject to federal tax~~; the state of Minnesota or any other state, any of its political or governmental subdivisions, any of its municipalities, or any of its governmental agencies or instrumentalities; or the District of Columbia;

(3) ~~exempt interest~~ exempt-interest dividends received as defined in section 852(b)(5) of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(4) the amount of any windfall profits tax deducted under section 164 or 471 of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(5) the amount of any net operating loss deduction taken for federal income tax purposes under section 172 of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(6) the amount of any special deductions taken for federal income tax purposes under sections 241 to 247 of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(7) losses from the business of mining, as defined in section 290.05, subdivision 1, clause (a), that are not subject to Minnesota income tax;

(8) the amount of any capital losses deducted for federal income tax purposes under sections 1211 and 1212 of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(9) the amount of any charitable contributions deducted for federal income tax purposes under section 170 of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(10) the exempt foreign trade income of a foreign sales corporation under sections 921(a) and 291 of the Internal Revenue Code of 1986, as amended through December 31, 1986;

(11) the amount of percentage depletion deducted under sections 611 through 614 and 291 of the Internal Revenue Code of 1986, as amended through December 31, 1986; ~~and~~

(12) for certified pollution control facilities placed in service in a taxable year beginning before December 31, 1986, and for which amortization deductions were elected under section 169 of the Internal Revenue Code of 1954, as

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amended through December 31, 1985, the amount of the amortization deduction allowed in computing federal taxable income for those facilities; and

(13) the amount of any deemed dividend from a foreign operating corporation determined pursuant to section 290.17, subdivision 4, paragraph (g).

Sec. 12. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19d, is amended to read:

Subd. 19d. **CORPORATIONS; MODIFICATIONS DECREASING FEDERAL TAXABLE INCOME.** For corporations, there shall be subtracted from federal taxable income after the increases provided in subdivision 19c:

(1) the amount of foreign dividend gross-up added to gross income for federal income tax purposes under section 78 of the Internal Revenue Code;

(2) the decrease in salary expense for federal income tax purposes due to claiming the federal jobs credit under section 51 of the Internal Revenue Code;

(3) any dividend (not including any distribution in liquidation) paid within the taxable year by a national or state bank to the United States, or to any instrumentality of the United States exempt from federal income taxes, on the preferred stock of the bank owned by the United States or the instrumentality;

(4) amounts disallowed for intangible drilling costs due to differences between this chapter and the Internal Revenue Code in taxable years beginning before January 1, 1987, as follows:

(i) to the extent the disallowed costs are represented by physical property, an amount equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09, subdivision 7, subject to the modifications contained in subdivision 19e; and

(ii) to the extent the disallowed costs are not represented by physical property, an amount equal to the allowance for cost depletion under Minnesota Statutes 1986, section 290.09, subdivision 8;

(5) the deduction for capital losses pursuant to sections 1211 and 1212 of the Internal Revenue Code of 1986, as amended through December 31, 1986, except that:

(i) for capital losses incurred in taxable years beginning after December 31, 1986, capital loss carrybacks shall not be allowed; ~~and~~

(ii) for capital losses incurred in taxable years beginning after December 31, 1986, a capital loss carryover to each of the 15 taxable years succeeding the loss year shall be allowed;

(iii) for capital losses incurred in taxable years beginning before January 1, 1987, a capital loss carryback to each of the three taxable years preceding the

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loss year, subject to the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed; and

(iv) for capital losses incurred in taxable years beginning before January 1, 1987, a capital loss carryover to each of the five taxable years succeeding the loss year to the extent such loss was not used in a prior taxable year and subject to the provisions of Minnesota Statutes 1986, section 290.16, shall be allowed;

(6) an amount for interest and expenses relating to income not taxable for federal income tax purposes, if (i) the income is taxable under this chapter and (ii) the interest and expenses were disallowed as deductions under the provisions of section 171(a)(2), 265 or 291 of the Internal Revenue Code of 1986, as amended through December 31, 1986, in computing federal taxable income;

(7) in the case of mines, oil and gas wells, other natural deposits, and timber for which percentage depletion was disallowed pursuant to subdivision 19c, clause (11), a reasonable allowance for depletion based on actual cost. In the case of leases the deduction must be apportioned between the lessor and lessee in accordance with rules prescribed by the commissioner. In the case of property held in trust, the allowable deduction must be apportioned between the income beneficiaries and the trustee in accordance with the pertinent provisions of the trust, or if there is no provision in the instrument, on the basis of the trust's income allocable to each;

(8) for certified pollution control facilities placed in service in a taxable year beginning before December 31, 1986, and for which amortization deductions were elected under section 169 of the Internal Revenue Code of 1954, as amended through December 31, 1985, an amount equal to the allowance for depreciation under Minnesota Statutes 1986, section 290.09, subdivision 7;

(9) the amount included in federal taxable income attributable to the credits provided in Minnesota Statutes 1986, section 273.1314, subdivision 9, or Minnesota Statutes, section 469.171, subdivision 6;

(10) amounts included in federal taxable income that are due to refunds of income, excise, or franchise taxes based on net income or related minimum taxes paid by the corporation to Minnesota, another state, a political subdivision of another state, the District of Columbia, or a foreign country or possession of the United States to the extent that the taxes were added to federal taxable income under section 290.01, subdivision 19c, clause (1), in a prior taxable year; and

(11) the following percentage of royalties, fees, or other like income accrued or received from a foreign operating corporation or a foreign corporation which is part of the same unitary business as the receiving corporation:

<u>Taxable Year</u>	<u>Percentage</u>
<u>Beginning After</u>	<u>Percentage</u>
<u>December 31, 1988</u>	<u>50 percent</u>
<u>December 31, 1990</u>	<u>80 percent.</u>

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Sec. 13. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19e, is amended to read:

Subd. 19e. **DEPRECIATION MODIFICATIONS FOR CORPORATIONS.** In the case of corporations, a modification shall be made for the accelerated cost recovery system. The allowable deduction for the accelerated cost recovery system is the same amount as provided in section 168 of the Internal Revenue Code with the following modifications. The modifications apply to taxable years beginning after December 31, 1986, and to property for which deductions under the Tax Reform Act of 1986, Public Law Number 99-514, are elected or apply.

(a) For property placed in service after December 31, 1980, and before January 1, 1987, 40 percent of the allowance pursuant to section 168 of the Internal Revenue Code of 1954, as amended through December 31, 1985, for 15-, 18-, or 19-year real property shall not be allowed and for all other property 20 percent shall not be allowed.

(b) For property placed in service after December 31, 1987, no modification shall be made.

(c) For property placed in service after July 31, 1986, and before January 1, 1987, for which the taxpayer elects the deduction pursuant to section 203 of the Tax Reform Act of 1986, Public Law Number 99-514, and for property placed in service after December 31, 1986, and before January 1, 1988, 15 percent of the allowance pursuant to section 168 of the Internal Revenue Code of 1986 shall not be allowed.

(d) For property placed in service after December 31, 1980, and before January 1, 1987, for which the taxpayer elects to use the straight line method provided in section 168(b)(3), (f)(12), or (j)(1) or a method provided in section 168(e)(2) of the Internal Revenue Code of 1986, as amended through December 31, 1986, but excluding property for which the taxpayer elects the deduction pursuant to section 203 of the Tax Reform Act of 1986, Public Law Number 99-514, the modifications provided in paragraph (a) do not apply.

(e) For property subject to the modifications contained in paragraphs (a) and ~~(b)~~ (c) and Minnesota Statutes 1986, section 290.09, subdivision 7, clause (c), the following modification shall be made after the entire amount of the allowable deduction has been allowed for federal tax purposes for that property under the provisions of section 168 of the Internal Revenue Code of 1986, as amended through December 31, 1986. The remaining depreciable basis in those assets for Minnesota purposes, including the amount of any basis reduction to reflect the investment tax credit for federal purposes under sections 48(q) and 49(d) of the Internal Revenue Code of 1986, as amended through December 31, 1986, shall be a depreciation allowance computed using the straight line method over the following number of years:

- (1) three-year property, one year;

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- (2) five-year and seven-year property, two years;
- (3) ten-year property, five years; and
- (4) all other property, seven years.

(f) For property placed in service after December 31, 1987, the remaining depreciable basis for Minnesota purposes that is attributable to the basis reduction for federal purposes to reflect the investment tax credit under sections 48(q) and 49(d) of the Internal Revenue Code of 1986, as amended through December 31, 1986, shall be allowed as a deduction in the first taxable year after the entire amount of the allowable deduction for that property under the provisions of section 168 of the Internal Revenue Code of 1986, has been allowed, except that where the straight line method provided in section 168(b)(3) is used, the deduction provided in this clause shall be allowed in the last taxable year in which an allowance for depreciation is allowed for that property.

(g) For qualified timber property for which the taxpayer made an election under section 194 of the Internal Revenue Code of 1986, the remaining depreciable basis for Minnesota purposes is allowed as a deduction in the first taxable year after the entire allowable deduction has been allowed for federal tax purposes.

(h) The basis of property to which section 168 of the Internal Revenue Code applies is its basis as provided in this chapter including the modifications provided in this subdivision and in Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c). The recapture tax provisions provided in sections 1245 and 1250 of the Internal Revenue Code of 1986, as amended through December 31, 1986, apply but must be calculated using the basis provided in the preceding sentence.

(i) The basis of an asset acquired in an exchange of assets, including an involuntary conversion, is the same as its federal basis under the provisions of the Internal Revenue Code of 1986, except that the difference in basis due to the modifications in this subdivision and in Minnesota Statutes 1986, section 290.09, subdivision 7, paragraph (c), is a deduction as provided in paragraph (e).

Sec. 14. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 29, is amended to read:

Subd. 29. **TAXABLE INCOME.** For tax years beginning after December 31, 1986, 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;

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

and

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(iii) the charitable contribution deduction under section 290.21, subdivision 3; and

(iv) the foreign royalty deduction under section 290.21, subdivision 8.

Sec. 15. Minnesota Statutes 1987 Supplement, section 290.015, subdivision 1, is amended to read:

Subdivision 1. **GENERAL RULE.** ~~A person, other than a resident individual, that conducts a trade or business with its principal place of business outside of Minnesota is subject to the taxes imposed by this chapter with respect to that trade or business if the trade or business makes sales or receives other income that is assignable or apportionable to this state under section 290.17, 290.191, 290.20, 290.35 or 290.36 without regard to physical presence in this state, except as provided in subdivision 3. Activities that create jurisdiction to tax under this chapter include, but are not limited to:~~

- (1) having a place of business in this state;
- (2) having employees, representatives, or independent contractors conducting business activities in this state;
- (3) regularly selling products or services of any kind or nature to customers in this state who receive the product or service in this state;
- (4) regularly soliciting business from potential customers in this state;
- (5) regularly performing services from outside this state which are consumed within this state;
- (6) regularly engaging in transactions with customers in this state that involve intangible property, including loans but not property described in subdivision 3, paragraph (b); and result in income flowing to the person from within this state;
- (7) owning or leasing tangible personal or real property located in this state; or
- (8) if a financial institution, regularly soliciting and receiving deposits from customers in this state.

(a) Except as provided in subdivision 3, a person that conducts a trade or business that has a place of business in this state, regularly has employees or independent contractors conducting business activities on its behalf in this state, or owns or leases real property located in this state or tangible personal property located in this state as defined in section 290.191, subdivision 6, paragraph (c), is subject to the taxes imposed by this chapter.

(b) Except as provided in subdivision 3, a person that conducts a trade or business not described in paragraph (a) is subject to the taxes imposed by this chapter if the trade or business obtains or regularly solicits business from within this state, without regard to physical presence in this state.

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(c) For purposes of paragraph (b), business from within this state includes, but is not limited to:

(1) sales of products or services of any kind or nature to customers in this state who receive the product or service in this state;

(2) sales of services which are performed from outside this state but the benefits of which are consumed in this state;

(3) transactions with customers in this state that involve intangible property and result in income flowing to the person from within this state as provided in section 290.191;

(4) leases of tangible personal property that is located in this state as defined in section 290.191, subdivision 6, paragraph (e);

(5) sales and leases of real property located in this state; and

(6) if a financial institution, deposits received from customers in this state.

(d) For purposes of paragraph (b), solicitation includes, but is not limited to:

(1) the distribution, by mail or otherwise, without regard to the state from which such distribution originated or in which the materials were prepared, of catalogs, periodicals, advertising flyers, or other written solicitations of business to customers in this state;

(2) display of advertisements on billboards or other outdoor advertising in this state;

(3) advertisements in newspapers published in this state;

(4) advertisements in trade journals or other periodicals, the circulation of which is primarily within this state;

(5) advertisements in a Minnesota edition of a national or regional publication or a limited regional edition of which this state is included of a broader regional or national publication which are not placed in other geographically defined editions of the same issue of the same publication;

(6) advertisements in regional or national publications in an edition which is not by its contents geographically targeted to Minnesota, but which is sold over the counter in Minnesota or by subscription to Minnesota residents;

(7) advertisements broadcast on a radio or television station located in Minnesota; or

(8) any other solicitation by telegraph, telephone, computer data base, cable, optic, microwave, or other communication system.

Sec. 16. Minnesota Statutes 1987 Supplement, section 290.015, subdivision 2, is amended to read:

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Subd. 2. **PRESUMPTION.** (a) A person is presumed, subject to rebuttal, to be engaged in regular solicitation within this state if it conducts transactions described in any of subdivision 1, clauses (3) to (6), with 20 or more residents of this state during any tax period or, if a financial institution, if the sum of its assets and the absolute value of its deposits attributable to sources within this state equals or exceeds \$5,000,000. Assets and deposits must be attributed to sources within this state by applying the principles established under section 290.191 obtaining or regularly soliciting business from within this state if:

(1) it is a financial institution and it conducts activities described in subdivision 1, paragraph (b), without regard to transactions described in subdivision 3, with 20 or more persons within this state during any tax period; or

(2) it is a financial institution as defined in section 290.01, subdivision 4a, and the sum of its assets and the absolute value of its deposits attributable to sources within this state equals or exceeds \$5,000,000, with assets and deposits attributed to sources within this state by applying the principles established under section 290.191, except as provided in subdivision 3.

(b) A financial institution that (i) is not engaged in activities within this state under subdivision 1, paragraph (a), and (ii) does not satisfy the requirements of paragraph (a) is not subject to taxes imposed by this chapter.

Sec. 17. Minnesota Statutes 1987 Supplement, section 290.015, subdivision 3, is amended to read:

Subd. 3. **EXCEPTIONS.** (a) A person is not subject to tax under this chapter if the person is engaged in the business of selling tangible personal property and taxation of that person under this chapter is precluded by Public Law Number 86-272, United States Code, title 15, sections 381 to 384 or would be so precluded except for the fact that the person stored tangible personal property in a state licensed facility under chapter 231.

(b) Ownership of an interest in the following types of property (including those contacts with this state reasonably required to evaluate and complete the acquisition or disposition of the property, the servicing of the property or the income from it, the collection of income from the property, or the acquisition or liquidation of collateral relating to the property) shall not be a factor in determining whether the owner is subject to tax under this chapter:

(1) an interest in a real estate mortgage investment conduit, a real estate investment trust, or a regulated investment company, as those terms are defined in the Internal Revenue Code of 1986, as amended through December 31, 1986; and

(2) an interest in a loan-backed, mortgage-backed, or receivable-backed security representing either: (i) ownership in a pool of promissory notes, mortgages, or receivables or certificates of interest or participation in such notes, mortgages, or receivables, or (ii) debt obligations or equity interests which provide for

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payments in relation to payments or reasonable projections of payments on the notes, mortgages, or receivables, and which are issued by a financial institution or by an entity substantially all of whose assets consist of promissory notes, mortgages, receivables, or interests in them;

(3) an interest in any assets described in section 290.191, subdivision 11, paragraphs (e) to (l), and in which the payment obligations embodied in such assets were solicited and entered into by persons independent and not acting on behalf of the owner;

(4) an interest in the right to service, or collect income from any assets described in section 290.191, subdivision 11, paragraphs (e) to (l), and in which the payment obligations embodied in such assets were solicited and entered into by persons independent and not acting on behalf of the owner;

(5) an interest of a person other than an individual, estate, or trust, in any intangible, tangible, real, or personal property acquired in satisfaction, whether in whole or in part, of any asset embodying a payment obligation which is in default, whether secured or unsecured, the ownership of an interest in which would be exempt under the preceding provisions of this subdivision, provided the property is disposed of within a reasonable period of time; or

(6) amounts held in escrow or trust accounts, pursuant to and in accordance with the terms of property described in this subdivision.

If the person is a member of the unitary group, paragraph (b) does not apply to an interest acquired from another member of the unitary group.

Sec. 18. Minnesota Statutes 1987 Supplement, section 290.015, subdivision 4, is amended to read:

Subd. 4. **LIMITATIONS.** (a) This section does not ~~(1)~~ subject a trade or business to any regulation, including any tax, of any local unit of government or subdivision of this state if the trade or business does not own or lease tangible or real property located within this state and has no employees or independent contractors present in this state to assist in the carrying on of the business; ~~or (2) exclude a trade or business from the filing requirements of the notice of business activities report under section 290.371.~~

(b) The purchase of tangible personal property or intangible property or services by a person that conducts a trade or business with the principal place of business outside of Minnesota (the "non-Minnesota person") from a person within Minnesota shall not be taken into account in determining whether the non-Minnesota person is subject to the taxes imposed by this chapter, except for services involving either the direct solicitation of Minnesota customers or relationships with Minnesota customers after sales are made.

(c) No contact with any Minnesota financial institution by any financial institution with its principal place of business outside Minnesota with respect to transactions described in subdivision 3, or with respect to deposits received from or by a Minnesota financial institution, shall be taken into account in

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determining whether such a financial institution is subject to the taxes imposed by this chapter. The fact of participation by a Minnesota financial institution in a transaction which also involves a borrower and a financial institution that conducts a trade or business with its principal place of business outside of Minnesota shall not be a factor in determining whether such financial institution is subject to the taxes imposed by this chapter. This paragraph does not apply to transactions between or among members of the same unitary group.

Sec. 19. Minnesota Statutes 1987 Supplement, section 290.06, subdivision 1, is amended to read:

Subdivision 1. **COMPUTATION, CORPORATIONS.** (a) The franchise tax imposed by this chapter upon corporations shall be computed by applying to their taxable income the rate of 9.5 percent adjusted as provided in paragraph (b).

(b) For taxable years beginning after December 31, 1989, the commissioner of revenue must adjust the rate provided in paragraph (a) as provided in this paragraph. By December 15, 1989, the commissioner shall prepare a forecast of revenues predicted to be raised for taxable years beginning in 1990 by the franchise tax on corporations under this chapter for taxable years beginning in 1990, including the tax under section 290.092, computed as if the tax were imposed under section 290.092, subdivisions 1 to 4, and the rate in effect in this subdivision were 9.5 percent. The commissioner shall adjust the rate provided in paragraph (a) so that the amount forecast to be raised by the franchise tax on corporations under this chapter, including the tax under section 290.092, subdivision 5, is equal to the amount of the forecast computed as if the tax under section 290.092, subdivisions 1 to 4, were in effect. The adjustment of the tax rate by the commissioner under this subdivision shall not be considered a "rule" and shall not be subject to the administrative procedure act contained in chapter 14.

Sec. 20. Minnesota Statutes 1987 Supplement, section 290.06, subdivision 21, is amended to read:

Subd. 21. **ALTERNATIVE MINIMUM TAX.** (a) A corporation is allowed a credit for alternative minimum tax previously paid for any taxable year in which the corporation has no tax liability under section 290.092, subdivision 1, and has an alternative minimum tax credit carryover from a previous year. The credit allowable in any taxable year shall be equal to the lesser of (1) the excess of the tax under section 290.06 for the taxable year over the amount computed under section 290.092, subdivision 1, clause ~~(a)~~ (1), for the taxable year, or (2) the alternative minimum tax credit carryover to the taxable year.

(b) The tax imposed under section 290.092, subdivision 1, for any taxable year is a credit for an alternative minimum tax ~~previously paid which is a credit~~ carryover to each of the five taxable years succeeding the taxable year. The entire amount of the alternative minimum tax credit must be carried to the ~~earliest of the taxable years~~ year to which such amount may be carried. ~~The portion of the alternative minimum tax credit which is carried to each of the~~

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other taxable years to which the credit may be carried is the excess, if any, of the credit over the amount allowable under paragraph (a) for each of the taxable years to which the credit may be carried. In each taxable year in which a credit is allowable under paragraph (a), the credit for alternative minimum tax previously paid must be used beginning with the earliest taxable year from which the credit may be carried Any unused portion of the credit must be carried to the following taxable year. No credit may be carried to a taxable year more than five years after the taxable year in which the alternative minimum tax was paid.

Sec. 21. Minnesota Statutes 1987 Supplement, section 290.092, subdivision 3, is amended to read:

Subd. 3. **ALTERNATIVE MINIMUM TAX BASE.** The alternative minimum tax base equals the sum of:

- (1) the total amount of Minnesota sales ~~and~~ or receipts;
- (2) the amount of the taxpayer's total Minnesota property; and
- (3) the taxpayer's total Minnesota payrolls;

less the exemption amount, if any.

Sec. 22. Minnesota Statutes 1987 Supplement, section 290.092, subdivision 4, is amended to read:

Subd. 4. **DEFINITIONS.** (a) "Minnesota sales ~~and~~ 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 except as provided in subdivision 4a. 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. ~~For the first five taxable years during which a corporation is subject to taxation under this chapter, the amount of its Minnesota property and payrolls shall be deemed to be zero 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, except as provided in subdivision 4a. Taxpayers who do not utilize payrolls to apportion income shall nevertheless include Minnesota payrolls for purposes of this section.

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(d) The "exemption amount" equals the lesser of (1) the sum of the taxpayer's Minnesota sales and or receipts, property, and payrolls, as defined in this section, or (2) \$5,000,000 reduced by one-half of the amount of the taxpayer's total sales and receipts, property, and payrolls, as defined in this section, in excess of \$10,000,000. In the case of a unitary group, the exemption amount equals the lesser of (1) the sum of the unitary group's Minnesota sales or receipts, property, and payrolls or (2) \$5,000,000 reduced by one-half of the unitary group's total sales or receipts, property, and payrolls in excess of \$10,000,000. Each member of a unitary group may use a portion of the unitary group's exemption amount based on a fraction, the numerator of which is the sum of the taxpayer's Minnesota sales or receipts, property, and payrolls and the denominator is the sum of the Minnesota sales or receipts, property, and payrolls of all unitary members subject to the taxes imposed by this chapter. Total sales and receipts, property, and payroll means the total determined under section 290.191 as the denominator of the apportionment formula. For purposes of this section, taxpayers who use an apportionment formula that does not include sales or receipts, property, and payrolls shall, nevertheless, use those amounts as defined in section 290.191, subdivisions 5 to 12. On a return for a short taxable year, the amount of total 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. In the case of a unitary business, the exemption amount must reflect the factors of the entire all businesses included in the unitary business group as reported on the combined report defined in section 290.17, subdivision 4. A corporation that has as its sole or primary business activity (1) the providing of professional services, as defined in section 319A.02; (2) operation as a financial institution, as defined in section 290.01, subdivision 4a; (3) sales or management of real estate; or (4) operation as an insurance agency, as defined in section 60A.02, does not have an exemption amount.

Sec. 23. Minnesota Statutes 1987 Supplement, section 290.092, is amended by adding a subdivision to read:

Subd. 4a. NEW BUSINESS EXCLUSION. For the first five taxable years during which a corporation is subject to taxation under this chapter, the amount of its Minnesota property and payrolls must be excluded from the alternative minimum tax base unless it is disqualified in this subdivision. A corporation is considered subject to taxation under this chapter if it would be subject to Minnesota's jurisdiction to tax as provided in section 290.015, before claiming this exclusion. The following does not qualify for this exclusion:

(1) a corporation that is a member of a unitary group that includes at least one business that does not qualify for this exclusion;

(2) any corporation organized under the laws of this state or certified to do business within this state at least five taxable years before the taxable year in which this exclusion is claimed;

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(3) corporations created by: reorganizations, as defined in section 368 of the Internal Revenue Code of 1986, as amended through December 31, 1987; or split-ups, split-offs, or spin-offs, as described in section 355 of the Internal Revenue Code of 1986, as amended through December 31, 1987; or the transfer or acquisition, whether directly or indirectly, of assets which constitute a trade or business, including stock purchases under section 338 of the Internal Revenue Code of 1986, as amended through December 31, 1987, where the surviving, newly formed, or acquiring corporation conducts substantially the same activities as the predecessor corporation, regardless of whether or not the survivor corporation also conducts additional activities, and the predecessor corporation would not otherwise qualify for this exclusion if it had continued to conduct those activities;

(4) any change in identity or form of business where the original business entity would have been subject to Minnesota's taxing jurisdiction, as provided in section 290.015, at least five taxable years before the taxable year in which this exclusion is claimed;

(5) a corporation, the primary business activity of which is the providing of professional services as defined in section 319A.02, operation as a financial institution, as defined in section 290.01, subdivision 4a; sales or management of real estate; or operation as an insurance agency, as defined in section 60A.03; or

(6) a corporation the affairs of which the commissioner finds were arranged as they were primarily to reduce taxes by qualifying as a new business under this subdivision.

Sec. 24. Minnesota Statutes 1987 Supplement, section 290.092, subdivision 5, is amended to read:

Subd. 5. **IMPOSITION OF TAX AFTER 1989.** For taxable years beginning after December 31, 1989, in addition to the taxes computed under this chapter ~~without regard to this section~~, the franchise tax imposed on corporations includes a tax equal to ~~the excess, if any, of:~~

(4) 40 percent of the tax imposed upon the corporation under section 55(a) of the Internal Revenue Code of 1986, as amended through December 31, 1986, apportioned to Minnesota under section 290.191. In computing the amount of the liability under section 55(a) of the Internal Revenue Code of 1986, the regular federal tax liability under section 55(a)(2) of the Internal Revenue Code of 1986, must be determined using federal taxable income as modified by sections 290.01, subdivisions 19c and 19d, 290.095, and 290.21, and alternative minimum taxable income under section 56 of the Internal Revenue Code of 1986 must be computed as if the section 290.095 restrictions on net operating losses applied.

~~(2) the amount of tax computed under this chapter without regard to this section;~~

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Sec. 25. Minnesota Statutes 1987 Supplement, section 290.095, subdivision 1, is amended to read:

Subdivision 1. **ALLOWANCE OF DEDUCTION.** (a) There shall be allowed as a deduction for the taxable year the amount of any net operating loss deduction as provided in section 172 of the Internal Revenue Code of 1986, as amended through December 31, 1986, subject to the limitations and modifications provided in this section.

(b) A net operating loss deduction shall be available under this section only to corporate taxpayers except that subdivisions 7, 9, and 11 hereof apply only to individuals, estates, and trusts.

(c) In the case of a regulated investment company or fund thereof, as defined in section 851(a) or 851(q) of the Internal Revenue code of 1986, as amended through December 31, 1987, the deduction provided by this section shall not be allowed.

Sec. 26. Minnesota Statutes 1987 Supplement, section 290.095, subdivision 2, is amended to read:

Subd. 2. **DEFINED AND LIMITED.** (a) The term "net operating loss" as used in this section shall mean a net operating loss as defined in section 172(c) of the Internal Revenue Code of 1986, as amended through December 31, 1986, with the modifications specified in subdivision 4. The deductions provided in section 290.21 and the modification provided in section 290.01, subdivision 19d, clause (11), cannot be used in the determination of a net operating loss.

(b) The term "net operating loss deduction" as used in this section means the aggregate of the net operating loss carryovers to the taxable year, computed in accordance with subdivision 3. The provisions of section 172(b) of the Internal Revenue Code of 1986, as amended through December 31, 1986, relating to the carryback of net operating losses, do not apply.

Sec. 27. Minnesota Statutes 1987 Supplement, section 290.095, subdivision 3, is amended to read:

Subd. 3. **CARRYOVER.** (a) A net operating loss ~~for any taxable year incurred in a taxable year:~~ (i) beginning after December 31, 1986, shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of such loss; (ii) beginning before January 1, 1987, shall be a net operating loss carryover to each of the five taxable years following the taxable year of such loss subject to the provisions of Minnesota Statutes 1986, section 290.095; and (iii) beginning before January 1, 1987, shall be a net operating loss carryback to each of the three taxable years preceding the loss year subject to the provisions of Minnesota Statutes 1986, section 290.095.

(b) The entire amount of the net operating loss for any taxable year shall be carried to the earliest of the taxable years to which such loss may be carried.

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The portion of such loss which shall be carried to each of the other taxable years shall be the excess, if any, of the amount of such loss over the sum of the taxable net income, adjusted by the modifications specified in subdivision 4, for each of the taxable years to which such loss may be carried.

(c) Where a corporation does business both within and without Minnesota, and apportions its income under the provisions of section 290.191, the net operating loss deduction incurred in any taxable year shall be allowed to the extent of the apportionment ratio of the loss year.

(d) No additional net operating loss deduction is allowed in a subsequent taxable year for the portion of a net operating loss deduction incurred in any taxable year used to offset Minnesota income in a year in which the taxpayer is subject to the alternative minimum tax in section 290.092.

Sec. 28. Minnesota Statutes 1987 Supplement, section 290.095, is amended by adding a subdivision to read:

Subd. 12. UNITARY GROUP; CARRYBACK; CARRYFORWARD. A taxpayer may elect a net operating loss carryback to each of the three taxable years preceding the taxable year of the loss and a net operating loss carryover to each of the five taxable years following the taxable year of the loss, notwithstanding subdivision 3, clause (a). The net operating loss carryback and carryover allowed under this subdivision is limited to the part of the net operating loss attributable to the deduction allowed for bad debts under section 166(a) of the Internal Revenue Code of 1986, as amended through December 31, 1987. The part of the net operating loss for any taxable year that is attributable to the deduction allowed for bad debts is the excess of the net operating loss for the taxable year, over the net operating loss for the taxable year determined without regard to the amount allowed as a deduction for bad debts for the taxable year. In applying the provisions of subdivision 3, clause (b), the part of the net operating loss for the loss year that is attributable to the deduction allowed for bad debts is considered a separate net operating loss for the year to be applied before the other part of the net operating loss. This subdivision applies only to taxpayers where a member of the unitary group meets the definition found in section 585(c)(2)(A) of the Internal Revenue Code of 1986, as amended through December 31, 1987, and includes all corporations included in the unitary group and required to be included on a combined report. A refund of tax that is the result of a net operating loss carryback under this section must be paid after two years but before two years and 30 days after the claim for refund was filed.

Sec. 29. Minnesota Statutes 1987 Supplement, section 290.10, is amended to read:

290.10 NONDEDUCTIBLE ITEMS.

~~Notwithstanding any other provision of law~~ Except as provided in section 290.17, subdivision 4, paragraph (i), in computing the net income of a corporation no deduction shall in any case be allowed for expenses, interest and taxes

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connected with or allocable against the production or receipt of all income not included in the measure of the tax imposed by this chapter, except that for corporations engaged in the business of mining or producing iron ore, the mining of which is subject to the occupation tax imposed by section 298.01, subdivision 1, and the provisions of section 298.031, this shall not prevent the deduction of expenses and other items to the extent that the expenses and other items are allowable under this chapter and are not deductible, capitalizable, retainable in basis, or taken into account by allowance or otherwise in computing the occupation tax and do not exceed the amounts taken for federal income tax purposes for that year. Occupation taxes imposed under chapter 298, royalty taxes imposed under chapter 299, or depletion expenses may not be deducted under this clause.

Sec. 30. Minnesota Statutes 1987 Supplement, section 290.17, subdivision 4, is amended to read:

Subd. 4. **UNITARY BUSINESS PRINCIPLE.** (a) If a trade or business conducted wholly within this state or partly within and partly without this state is part of a unitary business, the entire income of the unitary business is subject to apportionment pursuant to section 290.191. Notwithstanding subdivision 2, paragraph (c), none of the income of a unitary business is considered to be derived from any particular source and none may be allocated to a particular place except as provided by the applicable apportionment formula. The provisions of this subdivision do not apply to farm income subject to subdivision 5, paragraph (a), business income subject to subdivision 5, paragraph (b) or (c), income of an insurance company determined under section 290.35, or income of an investment company determined under section 290.36.

(b) The term "unitary business" means business activities or operations which are of mutual benefit, dependent upon, or contributory to one another, individually or as a group. The term may be applied within a single legal entity or between multiple entities and without regard to whether each entity is a corporation, a partnership or a trust.

(c) Unity is presumed whenever there is unity of ownership, operation, and use, evidenced by centralized management or executive force, centralized purchasing, advertising, accounting, or other controlled interaction, but the absence of these centralized activities will not necessarily evidence a nonunitary business.

(d) Where a business operation conducted in Minnesota is owned by a business entity that carries on business activity outside the state different in kind from that conducted within this state, and the other business is conducted entirely outside the state, it is presumed that the two business operations are unitary in nature, interrelated, connected, and interdependent unless it can be shown to the contrary.

(e) Unity of ownership is not deemed to exist when a corporation is involved unless that corporation is a member of a group of two or more business entities and more than 50 percent of the voting stock of each member of the group is

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directly or indirectly owned by a common owner or by common owners, either corporate or noncorporate, or by one or more of the member corporations of the group.

(f) For purposes of determining the net income of a unitary business and the factors to be used in the apportionment of net income pursuant to section 290.191 or 290.20, there must be included only the income and apportionment factors of corporations or other entities created or organized in the United States or under the laws of the United States or of any state, the District of Columbia, the commonwealth of Puerto Rico, any possession of the United States, or any political subdivision of any the foregoing and of any FSC as defined in section 922 of the Internal Revenue Code of 1986, as amended through December 31, 1986, that are determined to be part of the unitary business pursuant to this subdivision, notwithstanding that other corporations or other entities organized in foreign countries might be included in the unitary business. The net income and apportionment factors under section 290.191 or 290.20 of foreign corporations and other foreign entities which are part of a unitary business shall not be included in the net income or the apportionment factors of the unitary business. A foreign corporation or other foreign entity which is required to file a return under this chapter shall file on a separate return basis. The net income and apportionment factors under section 290.191 or 290.20 of foreign operating corporations shall not be included in the net income or the apportionment factors of the unitary business except as provided in paragraph (g).

(g) The adjusted net income of a foreign operating corporation shall be deemed to be paid as a dividend on the last day of its taxable year to each shareholder thereof, in proportion to each shareholder's ownership, with which such corporation is engaged in a unitary business. Such deemed dividend shall be treated as a dividend under section 290.21, subdivision 4.

Dividends actually paid by a foreign operating corporation to a corporate shareholder which is a member of the same unitary business as the foreign operating corporation shall be eliminated from the net income of the unitary business in preparing a combined report for the unitary business. The adjusted net income of a foreign operating corporation shall be its net income adjusted as follows:

(1) any taxes paid or accrued to a foreign country, the commonwealth of Puerto Rico, or a United States possession or political subdivision of any of the foregoing shall be a deduction; and

(2) the subtraction from federal taxable income for payments received from foreign corporations or foreign operating corporations under section 290.01, subdivision 19d, clause (11), shall not be allowed.

If a foreign operating corporation incurs a net loss, neither income nor deduction from that corporation shall be included in determining the net income of the unitary business.

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(h) For purposes of determining the net income of a unitary business and the factors to be used in the apportionment of net income pursuant to section 290.191 or 290.20, there must be included only the income and apportionment factors of domestic corporations or other domestic entities other than foreign operating corporations that are determined to be part of the unitary business pursuant to this subdivision, notwithstanding that foreign corporations or other foreign entities might be included in the unitary business.

(i) Deductions for expenses, interest, or taxes otherwise allowable under this chapter that are connected with or allocable against dividends, deemed dividends described in paragraph (g) or royalties, fees, or other like income described in section 290.01, subdivision 19d, clause (11), shall not be disallowed.

~~(g)~~ (j) Each corporation or other entity that is part of a unitary business must file combined reports as the commissioner determines. On the reports, all intercompany transactions between entities included pursuant to paragraph (f) (h) must be eliminated and the entire net income of the unitary business determined in accordance with this subdivision is apportioned among the entities by using each entity's Minnesota factors for apportionment purposes in the numerators of the apportionment formula and the total factors for apportionment purposes of all entities included pursuant to paragraph (f) (h) in the denominators of the apportionment formula.

(k) If a corporation has been divested from a unitary business and is included in a combined report for a fractional part of the common accounting period of the combined report:

(1) its income includable in the combined report is its income incurred for that part of the year determined by proration or separate accounting; and

(2) its sales, property, and payroll included in the apportionment formula must be prorated or accounted for separately.

Sec. 31. Minnesota Statutes 1987 Supplement, section 290.191, subdivision 1, is amended to read:

Subdivision 1. **GENERAL RULE.** Except as otherwise provided in section 290.17, subdivision 5, the net income from a trade or business carried on partly within and partly without this state must be apportioned to this state as provided in this section. For purposes of this section, state means a state of the United States, the District of Columbia, the commonwealth of Puerto Rico, or any territory or possession of the United States or any foreign country.

Sec. 32. Minnesota Statutes 1987 Supplement, section 290.191, subdivision 4, is amended to read:

Subd. 4. **APPORTIONMENT FORMULA FOR CERTAIN MAIL ORDER BUSINESSES.** If the business consists exclusively of the selling of tangible personal property and services in response to orders received by United States

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mail or telephone, and ~~400~~ 99 percent of the taxpayer's property and payroll is within Minnesota, then the taxpayer may apportion net income to Minnesota based solely upon the percentage that the sales made within this state in connection with the trade or business during the tax period are of the total sales wherever made in connection with the trade or business during the tax period. Property and payroll factors are disregarded. In determining eligibility for this subdivision, the sale not in the ordinary course of business of tangible or intangible assets used in conducting business activities must be disregarded. ~~This subdivision is repealed effective for taxable years beginning after December 31, 1988.~~

Sec. 33. Minnesota Statutes 1987 Supplement, section 290.191, subdivision 5, is amended to read:

Subd. 5. **DETERMINATION OF SALES FACTOR.** (a) For purposes of this section, the following rules apply in determining the sales factor.

~~(b)~~ (a) The sales factor includes all sales, gross earnings, or receipts received in the ordinary course of the business, except that the following types of income are not included in the sales factor:

(1) interest;

(2) dividends;

(3) sales of capital assets as defined in section 1221 of the Internal Revenue Code of 1986, as amended through December 31, 1987;

(4) sales of property used in the trade or business, except sales of leased property of a type which is regularly sold as well as leased;

(5) sales of debt instruments as defined in section 1275(a)(1) of the Internal Revenue Code of 1986, as amended through December 31, 1987, or sales of stock; and

(6) royalties, fees, or other like income of a type which qualify for a subtraction from federal taxable income under section 290.01, subdivision 19(d)(11).

(b) Sales of tangible personal property are made within this state if the property is received by a purchaser at a point within this state, and the taxpayer is taxable in this state, regardless of the f.o.b. point, other conditions of the sale, or the ultimate destination of the property.

(c) Tangible personal property delivered to a common or contract carrier or foreign vessel for delivery to a purchaser in another state or nation is a sale in that state or nation, regardless of f.o.b. point or other conditions of the sale.

(d) Notwithstanding paragraphs (b) and (c), when intoxicating liquor, wine, fermented malt beverages, cigarettes, or tobacco products are sold to a purchaser who is licensed by a state or political subdivision to resell this property only within the state of ultimate destination, the sale is made in that state.

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(e) Sales made by or through a corporation that is qualified as a domestic international sales corporation under section 992 of the Internal Revenue Code are not considered to have been made within this state.

(f) Sales, other than sales of tangible personal property, are made in this state if the property is used, or the benefits of the services are consumed, in this state. If the property is used or the benefits of the services are consumed in more than one state, the sales must be apportioned pro rata according to the portion of use or consumption of benefits in this state. Sales, rents, royalties, and other income in connection with real property is attributed to the state in which the property is located.

(g) Receipts from the lease or rental of tangible personal property, including finance leases and true leases, must be attributed to this state if the property is located in this state and to other states if the property is not located in this state. Moving property including, but not limited to, motor vehicles, rolling stock, aircraft, vessels, or mobile equipment is located in this state if:

(1) the operation of the property is entirely within this state; or

(2) the operation of the property is in two or more states and the principal base of operations from which the property is sent out is in this state.

(h) Royalties and other income not described in paragraph (a), clause (6), received for the use of or for the privilege of using intangible property, including patents, know-how, formulas, designs, processes, patterns, copyrights, trade names, service names, franchises, licenses, contracts, customer lists, or similar items, must be attributed to the state in which the property is used by the purchaser. If the property is used in more than one state, the royalties or other income must be apportioned to this state pro rata according to the portion of use in this state. If the portion of use in this state cannot be determined, the royalties or other income must be excluded from both the numerator and the denominator. Intangible property is used in this state if the purchaser uses the intangible property or the rights therein in the regular course of its business operations in this state, regardless of the location of the purchaser's customers.

(i) Sales of intangible property are made within the state in which the property is used by the purchaser. If the property is used in more than one state, the sales must be apportioned to this state pro rata according to the portion of use in this state. If the portion of use in this state cannot be determined, the sale must be excluded from both the numerator and the denominator of the sales factor. Intangible property is used in this state if the purchaser used the intangible property in the regular course of its business operations in this state.

(j) Receipts from the performance of services must be attributed to the state in which the benefits of the services are consumed. If the benefits are consumed in more than one state, the receipts from those benefits must be apportioned to this state pro rata according to the portion of the benefits consumed in this state. If the extent to which the benefits of services are consumed in this state is not

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readily determinable, the benefits of the services shall be deemed to be consumed at the location of the office of the customer from which the services were ordered in the regular course of the customer's trade or business. If the ordering office cannot be determined, the benefits of the services shall be deemed to be consumed at the office of the customer to which the services are billed.

Sec. 34. Minnesota Statutes 1987 Supplement, section 290.191, subdivision 6, is amended to read:

Subd. 6. **DETERMINATION OF RECEIPTS FACTOR FOR FINANCIAL INSTITUTIONS.** (a) For purposes of this section, the rules in this subdivision and subdivisions 7 and 8 apply in determining the receipts factor for financial institutions.

(b) "Receipts" for this purpose means gross income, including net taxable gain on disposition of assets, including securities and money market ~~transactions~~ instruments, when derived from transactions and activities in the regular course of the taxpayer's trade or business.

(c) "Money market instruments" means federal funds sold and securities purchased under agreements to resell, commercial paper, banker's acceptances, and purchased certificates of deposit and similar instruments to the extent that the instruments are reflected as assets under generally accepted accounting principles.

(d) "Securities" means United States Treasury securities, obligations of United States government agencies and corporations, obligations of state and political subdivisions, corporate stock and other securities, participations in securities backed by mortgages held by United States or state government agencies, loan-backed securities and similar investments to the extent the investments are reflected as assets under generally accepted accounting principles.

(e) Receipts from the lease or rental of real or tangible personal property, including both finance leases and true leases, must be attributed to this state if the property is located in this state. Tangible personal property that is characteristically moving property, such as motor vehicles, rolling stock, aircraft, vessels, mobile equipment, and the like, is considered to be located in a state if:

(1) the operation of the property is entirely within the state; or

(2) the operation of the property is in two or more states, but the principal base of operations from which the property is sent out is in the state.

(f) Interest income and other receipts from assets in the nature of loans that are secured primarily by real estate or tangible personal property must be attributed to this state if the security property is located in this state under the principles stated in paragraph (e).

(g) Interest income and other receipts from consumer loans not secured by real or tangible personal property that are made to residents of this state, whether

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at a place of business, by traveling loan officer, by mail, by telephone or other electronic means, must be attributed to this state.

(h) Interest income and other receipts from commercial loans and installment obligations not secured by real or tangible personal property must be attributed to this state if the proceeds of the loan are to be applied in this state. If it cannot be determined where the funds are to be applied, the income and receipts are attributed to the state in which ~~the business applied for the loan.~~ “Applied for” means initial inquiry (including customer assistance in preparing the loan application) or submission of a completed loan application, whichever occurs first the office of the borrower from which the application would be made in the regular course of business is located. If this cannot be determined, the transaction is disregarded in the apportionment formula.

(i) Interest income and other receipts from a participating financial institution's portion of participation loans must be attributed under paragraphs (e) to (h). A participation loan is a loan in which more than one lender is a creditor to a common borrower.

(j) Interest income and other receipts including service charges from financial institution credit card and travel and entertainment credit card receivables and credit card holders' fees must be attributed to the state to which the card charges and fees are regularly billed.

(k) Merchant discount income derived from financial institution credit card holder transactions with a merchant must be attributed to the state in which the merchant is located. In the case of merchants located within and outside the state, only receipts from merchant discounts attributable to sales made from locations within the state are attributed to this state. It is presumed, subject to rebuttal, that the location of a merchant is the address shown on the invoice submitted by the merchant to the taxpayer.

(l) Receipts from the performance of fiduciary and other services must be attributed to the state in which the benefits of the services are consumed. If the benefits are consumed in more than one state, the receipts from those benefits must be apportioned to this state pro rata according to the portion of the benefits consumed in this state. If the extent to which the benefits of services are consumed in this state is not readily determinable, the benefits of the services shall be deemed to be consumed at the location of the office of the customer from which the services were ordered in the regular course of the customer's trade or business. If the ordering office cannot be determined, the benefits of the services shall be deemed to be consumed at the office of the customer to which the services are billed.

(m) Receipts from the issuance of travelers checks and money orders must be attributed to the state in which the checks and money orders are purchased.

(n) Receipts from investments of a financial institution in securities of this state, its political subdivisions, agencies, and instrumentalities must be attributed to this state.

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(o) Receipts from a financial institution's interest in any property described in section 290.015, subdivision 3, paragraph (b), is not included in the numerator or the denominator of the receipts factor provided the financial institution's activities within this state with respect to any interest in the property are limited in the manner provided in section 290.015, subdivision 3, paragraph (b). If a financial institution is subject to tax under this chapter, its interest in property described in section 290.015, subdivision 3, paragraph (b), is included in the receipts factor in the same manner as assets in the nature of securities or money market instruments are included under paragraph (n) and subdivision 7.

Sec. 35. Minnesota Statutes 1987 Supplement, section 290.191, subdivision 11, is amended to read:

Subd. 11. **FINANCIAL INSTITUTIONS; PROPERTY FACTOR.** (a) For financial institutions, the property factor includes, as well as tangible property, intangible property as set forth in this subdivision.

(b) Intangible personal property must be included at its tax basis for federal income tax purposes.

(c) Goodwill must not be included in the property factor.

(d) Coin and currency located in this state must be attributed to this state.

(e) Lease financing receivables must be attributed to this state if and to the extent that the property is located within this state.

(f) Assets in the nature of loans that are secured by real or tangible personal property must be attributed to this state if and to the extent that the security property is located within this state.

(g) Assets in the nature of consumer loans and installment obligations that are unsecured or secured by intangible property must be attributed to this state if the loan was made to a resident of this state.

(h) Assets in the nature of commercial loan and installment obligations that are unsecured or secured by intangible property must be attributed to this state if the loan proceeds of the loan are to be applied in this state. If it cannot be determined where the funds are to be applied, the assets must be attributed to the state in which the business applied for the loan. "Applied for" means initial inquiry (including customer assistance in preparing the loan application) or submission of a completed loan application, whichever occurs first there is located the office of the borrower from which the application would be made in the regular course of business. If this cannot be determined, the transaction is disregarded in the apportionment formula.

(i) A participating financial institution's portion of a participation loan must be attributed under paragraphs (e) to (h).

(j) Financial institution credit card and travel and entertainment credit card

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receivables must be attributed to the state to which the credit card charges and fees are regularly billed.

(k) Receivables arising from merchant discount income derived from financial institution credit card holder transactions with a merchant are attributed to the state in which the merchant is located. In the case of merchants located within and without the state, only receipts from merchant discounts attributable to sales made from locations within the state are attributed to this state. It is presumed, subject to rebuttal, that the location of a merchant is the address shown on the invoice submitted by the merchant to the taxpayer.

(l) Assets in the nature of securities and money market instruments are apportioned to this state based upon the ratio that total deposits from this state, its residents, its political subdivisions, agencies and instrumentalities bear to the total deposits from all states, their residents, their political subdivisions, agencies and instrumentalities. In the case of an unregulated financial institution ~~subject to this regulation, the receipts~~ assets are apportioned to this state based upon the ratio that its gross business income earned from sources within this state bears to gross business income earned from sources within all states. For purposes of this subsection, deposits made by this state, its residents, its political subdivisions, agencies, and instrumentalities are attributed to this state, whether or not the deposits are accepted or maintained by the taxpayer at locations within this state.

(m) A financial institution's interest in any property described in section 290.015, subdivision 3, paragraph (b), is not included in the numerator or the denominator of the property factor provided the financial institution's activities within this state with respect to any interest in such property are limited in the manner provided in section 290.015, subdivision 3, paragraph (b). If a financial institution is subject to tax under this chapter, its interest in property described in section 290.015, subdivision 3, paragraph (b), is included in the property factor in the same manner as assets in the nature of securities or money market instruments are included under paragraph (l).

Sec. 36. Minnesota Statutes 1987 Supplement, section 290.21, subdivision 3, is amended to read:

Subd. 3. An amount for contribution or gifts made within the taxable year:

(a) to or for the use of the state of Minnesota, or any of its political subdivisions for exclusively public purposes,

(b) to or for the use of any community chest, corporation, organization, trust, fund, association, or foundation located in and carrying on substantially all of its activities within this state, organized and operating exclusively for religious, charitable, public cemetery, scientific, literary, artistic, or educational purposes, or for the prevention of cruelty to children or animals, no part of the net earnings of which inures to the benefit of any private stockholder or individual,

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(c) to a fraternal society, order, or association, operating under the lodge system located in and carrying on substantially all of their activities within this state if such contributions or gifts are to be used exclusively for the purposes specified in clause (b), or for or to posts or organizations of war veterans or auxiliary units or societies of such posts or organizations, if they are within the state and no part of their net income inures to the benefit of any private shareholder or individual,

(d) to or for the use of the United States of America for exclusively public purposes if the contribution or gift consists of real property located in Minnesota,

(e) to or for the use of a foundation if the foundation is organized and operated exclusively for a purpose in clause (b), and has no part of its net earnings inuring to the benefit of a private shareholder or individual, but does not carry on substantially all of its activities within this state. The deduction under this clause equals the amount of the corporation's contributions or gifts to the foundation within the taxable year multiplied by a fraction equal to the ratio of the foundation's total expenditures during the taxable year for the benefit of organizations described in clause (b) to the foundation's total expenditures during the taxable year.

(f) the total deduction hereunder shall not exceed 15 percent of the taxpayer's taxable net income less the deductions allowable under this section other than those for contributions or gifts,

(g) in the case of a corporation reporting its taxable income on the accrual basis, if: (A) the board of directors authorizes a charitable contribution during any taxable year, and (B) payment of such contribution is made after the close of such taxable year and on or before the fifteenth day of the third month following the close of such taxable year; then the taxpayer may elect to treat such contribution as paid during such taxable year. The election may be made only at the time of the filing of the return for such taxable year, and shall be signified in such manner as the commissioner shall by rules prescribe.

Sec. 37. Minnesota Statutes 1987 Supplement, section 290.21, subdivision 4, is amended to read:

Subd. 4. (a) Eighty percent of dividends received by a corporation during the taxable year from another corporation, in which the recipient owns 20 percent or more of the stock, by vote and value, not including stock described in section 1504(a)(4) of the Internal Revenue Code of 1986, as amended through December 31, 1987, when the corporate stock with respect to which dividends are paid does not constitute the stock in trade of the taxpayer or would not be included in the inventory of the taxpayer, or does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business, or when the trade or business of the taxpayer does not consist principally of the holding of the stocks and the collection of the income and gains therefrom. ~~The remaining 20 percent shall be allowed if the~~

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recipient owns 80 percent or more of all the voting stock of the other corporation and the dividends were paid from income arising out of business done in this state by the corporation paying the dividends. If the dividends were declared from income arising out of business done within and without this state, then a proportion of the remainder shall be allowed as a deduction. The proportion must be that which the amount of the taxable net income of the corporation paying the dividends assignable or allocable to this state bears to the entire net income of the corporation. The amounts must be determined by the returns under this chapter of the corporation paying the dividends for the taxable year preceding their distribution. The burden is on the taxpayer to show that the amount of remainder claimed as a deduction has been received from income arising out of business done in this state.

(b) If the trade or business of the taxpayer consists principally of the holding of the stocks and the collection of the income and gains therefrom, dividends received by a corporation during the taxable year from another corporation, if the recipient owns 80 percent or more of all the voting stock of the other corporation, from income arising out of business done in this state by the corporation paying the dividends. If the dividends were declared from income arising out of business done within and without this state, then a proportion of the dividends shall be allowed as a deduction. The proportion must be that which the amount of the taxable net income of the corporation paying the dividends assignable or allocable to this state bears to the entire net income of the corporation. The amounts must be determined by the returns under this chapter of the corporation paying the dividends for the taxable year preceding their distribution. The burden is on the taxpayer to show that the amount of dividends claimed as a deduction has been received from income arising out of business done in this state:

(b) Seventy percent of dividends received by a corporation during the taxable year from another corporation in which the recipient owns less than 20 percent of the stock, by vote or value, not including stock described in section 1504(a)(4) of the Internal Revenue Code of 1986 as amended through December 31, 1987, when the corporate stock with respect to which dividends are paid does not constitute the stock in trade of the taxpayer, or does not constitute property held by the taxpayer primarily for sale to customers in the ordinary course of the taxpayer's trade or business, or when the trade or business of the taxpayer does not consist principally of the holding of the stocks and the collection of income and gain therefrom.

(c) The dividend deduction provided in this subdivision shall be allowed only with respect to dividends that are included in a corporation's Minnesota taxable net income for the taxable year.

The dividend deduction provided in this subdivision does not apply to a dividend from a corporation which, for the taxable year of the corporation in which the distribution is made or for the next preceding taxable year of the corporation, is a corporation exempt from tax under section 501 of the Internal Revenue Code of 1986, as amended through December 31, 1986.

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The dividend deduction provided in this subdivision applies to the amount of regulated investment company dividends only to the extent determined under section 854(b) of the Internal Revenue Code of 1986, as amended through December 31, 1986.

The dividend deduction provided in this subdivision shall not be allowed with respect to any dividend for which a deduction is not allowed under the provisions of section 246(c) of the Internal Revenue Code of 1986, as amended through December 31, 1986.

(d) If dividends received by a corporation that does not have nexus with Minnesota under the provisions of Public Law Number 86-272 are included as income on the return of an affiliated corporation permitted or required to file a combined report under section 290.34, subdivision 2, then for purposes of this subdivision the determination as to whether the trade or business of the corporation consists principally of the holding of stocks and the collection of income and gains therefrom shall be made with reference to the trade or business of the affiliated corporation having a nexus with Minnesota.

(e) The deduction provided by this subdivision does not apply if the dividends are paid by a FSC as defined in section 922 of the Internal Revenue Code of 1986, as amended through December 31, 1986.

(f) If one or more of the members of the unitary group whose income is included on the combined report received a dividend, the deduction under this subdivision for each member of the unitary business required to file a return under this chapter is the product of: (1) 100 percent of the dividends received by members of the group; (2) 80 percent or 70 percent, pursuant to paragraph (a) or (b); and (3) the percentage of the taxpayer's business income apportionable to this state for the taxable year under section 290.191 or 290.20.

Sec. 38. Minnesota Statutes 1987 Supplement, section 290.34, subdivision 2, is amended to read:

Subd. 2. AFFILIATED OR RELATED CORPORATIONS, COMBINED REPORT. (a) When a corporation which is required to file an income tax return is affiliated with or related to any other corporation through stock ownership by the same interests or as parent or subsidiary corporations, or has its income regulated through contract or other arrangement, the commissioner of revenue may permit or require such combined report as, in the commissioner's opinion, is necessary in order to determine the taxable net income of any one of the affiliated or related corporations.

~~(b) If a corporation has been divested from the unitary group and is included in a combined report for a fractional part of the common accounting period that the report is based on, then the sales, property, and payroll attributed to the corporation in the apportionment formula must be prorated or separately accounted and must show for what part of the accounting period the corporation is included in the report.~~

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(e) ~~The combined report shall reflect the income of the entire unitary business as provided in section 290.17, subdivision 4. If a corporation has been divested from the unitary group and is included in the combined report for a fractional part of the common accounting period that the combined report is based on, its income includable in the combined report is its income for that part of the year.~~

Sec. 39. Minnesota Statutes 1987 Supplement, section 290.35, subdivision 2, is amended to read:

Subd. 2. **APPORTIONMENT OF TAXABLE NET INCOME.** The commissioner shall compute therefrom the taxable net income of such companies by assigning to this state that proportion thereof which the gross premiums collected by them during the taxable year from old and new business within this state bears to the total gross premiums collected by them during that year from their entire old and new business, including reinsurance premiums; provided, the commissioner shall add to the taxable net income so apportioned to this state the amount of any taxes on premiums paid by the company by virtue of any law of this state (other than the surcharge on premiums imposed by sections 69.54 to 69.56) which shall have been deducted from gross income by the company in arriving at its total net income under the provisions of such act of congress.

(a) For purposes of determining the Minnesota apportionment percentage, ~~premiums from reinsurance contracts assumed from companies domiciled in Minnesota and premiums in connection with property in or liability arising out of activity in, or in connection with the lives or health of Minnesota residents shall be assigned to Minnesota and premiums from reinsurance contracts assumed from companies domiciled outside of Minnesota and premiums in connection with property in or liability arising out of activity in, or in connection with the lives or health of non-Minnesota residents shall be assigned outside of Minnesota.~~ Reinsurance premiums are presumed to be received for a Minnesota risk and are assigned to Minnesota, if:

(1) the reinsurance contract is assumed for a company domiciled in Minnesota; and

(2) the taxpayer, upon request of the commissioner, fails to provide reliable records indicating the reinsured contract covered non-Minnesota risks.

For purposes of this paragraph, "Minnesota risk" means coverage in connection with property in or liability arising out of activity in Minnesota, or in connection with the lives or health of Minnesota residents.

(b) The apportionment method prescribed by paragraph (a) shall be presumed to fairly and correctly determine the taxpayer's taxable net income. If the method prescribed in paragraph (a) does not fairly reflect all or any part of taxable net income, the taxpayer may petition for or the commissioner may require the determination of taxable net income by use of another method if that method fairly reflects taxable net income. A petition within the meaning of

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this section must be filed by the taxpayer on such form as the commissioner shall require.

Sec. 40. Minnesota Statutes 1987 Supplement, section 290.37, subdivision 1, is amended to read:

Subdivision 1. **PERSONS MAKING RETURNS.** (a) A taxpayer shall file a return for each taxable year the taxpayer is required to file a return under section 6012 of the Internal Revenue Code of 1986, as amended through December 31, 1986, except that an individual who is not a Minnesota resident for any part of the year is not required to file a Minnesota income tax return if the individual's gross income derived from Minnesota sources under sections 290.081, paragraph (a), and 290.17, is less than the filing requirements for a single individual who is a full year resident of Minnesota.

The decedent's final income tax return, and all other income tax returns for prior years where the decedent had gross income in excess of the minimum amount at which an individual is required to file and did not file, shall be filed by the decedent's personal representative, if any. If there is no personal representative, the return or returns shall be filed by the transferees as defined in section 290.29, subdivision 3, who receive any property of the decedent.

The trustee or other fiduciary of property held in trust shall file a return with respect to the taxable net income of such trust if that exceeds an amount determined by the commissioner if such trust belongs to the class of taxable persons.

Every corporation shall file a return, if the corporation is subject to the state's jurisdiction to tax under section 290.014, subdivision 5, except that a foreign operating corporation as defined in section 290.01, subdivision 6b, is not required to file a return. The return in the case of a corporation must be signed by a person designated by the corporation. The commissioner may adopt rules for the filing of one return on behalf of the members of an affiliated group of corporations that are required to file a combined report if the affiliated group includes a bank subject to tax under this chapter. Members of an affiliated group that elect to file one return on behalf of the members of the group under rules adopted by the commissioner may modify or rescind the election by filing the form required by the commissioner.

The receivers, trustees in bankruptcy, or assignees operating the business or property of a taxpayer shall file a return with respect to the taxable net income of such taxpayer if a return is required.

(b) Such return shall (1) contain a written declaration that it is correct and complete, and (2) shall contain language prescribed by the commissioner providing a confession of judgment for the amount of the tax shown due thereon to the extent not timely paid.

Sec. 41. Minnesota Statutes 1987 Supplement, section 290.371, subdivision 1, is amended to read:

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Subdivision 1. **REPORT REQUIRED.** Every corporation that, during any calendar year or fiscal accounting year ~~ending~~ beginning after December 31, 1986, ~~carried on any activity or owned or maintained any property in this state, unless specifically exempted under subdivision 3~~ obtained any business from within this state as described in section 290.015, subdivision 1, with the exception of:

(1) activity levels lower than those set forth in section 290.015, subdivision 2, paragraph (a), if the corporation is a financial institution; or

(2) activities described in section 290.015, subdivision 3, paragraph (b); or

(3) corporations specifically exempted under subdivision 3, must file a notice of business activities report, as provided in this section. Filing of the report is not a factor in determining whether a corporation is subject to taxation under this chapter.

Sec. 42. Minnesota Statutes 1987 Supplement, section 290.371, subdivision 3, is amended to read:

Subd. 3. **EXEMPTIONS.** A corporation is not required to file a notice of business activities report if:

(1) by the end of an accounting period for which it was otherwise required to file a notice of business activities report under this section, it had received a certificate of authority to do business in this state;

(2) a timely return or report has been filed under section 290.05, subdivision 4; or 290.37; ~~or~~

(3) the corporation is exempt from taxation under this chapter pursuant to section 290.05, subdivision 1; or

(4) the corporation's activities in Minnesota, or the interests in property which it owns, consist solely of activities or property exempted from jurisdiction to tax under section 290.015, subdivision 3, paragraph (b).

Sec. 43. Minnesota Statutes 1987 Supplement, section 290.371, subdivision 4, is amended to read:

Subd. 4. **ANNUAL FILING.** Every corporation not exempt under subdivision 3 must file annually a notice of business activities report, including such forms as the commissioner may require, with respect to ~~all or any part of~~ each of its calendar or fiscal accounting years beginning after December 31, 1986, on or before the 15th day of the fourth month after the close of the calendar or fiscal accounting year.

Sec. 44. Minnesota Statutes 1987 Supplement, section 290.371, subdivision 5, is amended to read:

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Subd. 5. **FAILURE TO FILE TIMELY REPORT.** (a) Any corporation required to file a notice of business activities report does not have any cause of action upon which it may bring suit under Minnesota law unless the corporation has filed a notice of business activities report.

(b) The failure of a corporation to file a timely report prevents the use of the courts in this state, except regarding activities and property described in section 290.015, subdivision 3, paragraph (b), for all contracts executed and all causes of action that arose at any time before the end of the last accounting period for which the corporation failed to file a required report.

(c) The court in which the issues arise has the power to excuse the corporation for its failure to file a report when due, and restore the corporation's cause of action under the laws of this state, if the corporation has paid all taxes, interest, and civil penalties due the state for all periods, or provided for payment of them by adequate security or bond approved by the commissioner.

(d) Notwithstanding the provisions of section 290.61, the commissioner may acknowledge whether or not a particular corporation has filed with the commissioner reports or returns required by this chapter if the acknowledgment:

(1) is to a party in a civil action;

(2) relates to the filing status of another party in the same civil action; and

(3) is in response to a written request accompanied by a copy of the summons and complaint in the civil action.

Sec. 45. Minnesota Statutes 1986, section 290.50, subdivision 3, is amended to read:

Subd. 3. **EXCEPTIONS.** This section shall not be construed so as to disallow:

(a) a net operating loss carryback to any taxable year authorized by section 290.095 or section 172 of the Internal Revenue Code of 1954, as amended through December 31, 1985, but the refund or credit shall be limited to the amount of overpayment arising from the carryback;

(b) a capital loss carryback by a corporation under Minnesota Statutes 1986, section 290.16, provided that the claim for refund or credit is made prior to the expiration of the 15th day of the 45th month following the end of the taxable year of the net capital loss which results in the carryback, plus any extension of time granted for filing the return, but only if the return was filed within the extended time, and the refund or credit is limited to the amount of overpayment arising from the carryback.

Sec. 46. Minnesota Statutes 1987 Supplement, section 290.9725, is amended to read:

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290.9725 ELECTION BY SMALL BUSINESS CORPORATION S CORPORATIONS.

For purposes of this chapter, the term "S corporation" means any corporation having a valid election in effect for the taxable year under section 1362 of the Internal Revenue Code of 1986, as amended through December 31, 1986, 1987. An S corporation shall not be subject to the taxes imposed by this chapter, except:

- (1) the corporation is subject to the tax imposed under section 290.92; and
- (2) the corporation is subject to the tax imposed under section 290.02 in any tax period in which it recognizes income for federal income tax purposes under Internal Revenue Code, section 1363(d), 1374, or 1375; the total amount of income recognized is the federal taxable income for the corporation within the meaning of section 290.01, subdivision 19; the provisions of sections 290.01, subdivisions 19a to 19f, and 290.17 to 290.20; must be employed to determine the taxable net income of the corporation; and the taxable net income of the corporation is its taxable income, except that any net operating loss carryforward that arose in a year when there was no election in effect under Section 1362 of the Internal Revenue Code is allowed as a deduction the taxes imposed under sections 290.92, 290.9727, 290.9728, and 290.9729.

Sec. 47. [290.9727] TAX ON CERTAIN BUILT-IN GAINS.

Subdivision 1. TAX IMPOSED. For a corporation electing S corporation status pursuant to section 1362 of the Internal Revenue Code of 1986, as amended through December 31, 1987, after December 31, 1986, and having a recognized built-in gain as defined in section 1374 of the Internal Revenue Code of 1986, as amended through December 31, 1987, there is imposed a tax on the taxable income of such S corporation, as defined in this section, at the rate prescribed by section 290.06, subdivision 1. This section does not apply to any corporation having an S election in effect for each of its taxable years. An S corporation and any predecessor corporation must be treated as one corporation for purposes of the preceding sentence.

Subd. 2. TAXABLE INCOME. For purposes of this section, taxable income means taxable net income less the deduction for net operating loss carryforwards as provided by this section.

Subd. 3. TAXABLE NET INCOME. For purposes of this section, taxable net income means the lesser of:

- (1) the recognized built-in gains of the S corporation for the taxable year, as determined under section 1374 of the Internal Revenue Code of 1986, as amended through December 31, 1987, subject to the modifications provided in section 290.01, subdivisions 19e and 19f, that are allocable to this state under section 290.17, 290.191, or 290.20; or

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(2) the amount of the S corporation's federal taxable income, as determined under section 1374(d)(4) of the Internal Revenue Code of 1986, as amended through December 31, 1987, subject to the provisions of section 290.01, subdivisions 19c to 19f, that is allocable to this state under section 290.17, 290.191, or 290.20, less the deduction for charitable contributions in section 290.21, subdivision 3.

Subd. 4. NET OPERATING LOSS CARRYFORWARD. A net operating loss carryforward, as determined under section 290.095, arising in a taxable year before the corporation elected S corporation status, shall be allowed as a deduction against the lesser of the amounts referred to in subdivision 3, clauses (1) and (2). For purposes of determining the amount of any such loss that may be carried to later taxable years, the lesser of the amounts referred to in subdivision 3, clauses (1) and (2) shall be treated as taxable income.

Sec. 48. [290.9728] TAX ON CAPITAL GAINS.

Subdivision 1. TAX IMPOSED. There is imposed a tax on the taxable income of a corporation that has:

(1) elected S corporation status pursuant to section 1362 of the Internal Revenue Code of 1954, as amended through December 31, 1985, before January 1, 1987;

(2) a net capital gain for the taxable year (i) in excess of \$25,000 and (ii) exceeding 50 percent of the corporation's federal taxable income for the taxable year; and

(3) federal taxable income for the taxable year exceeding \$25,000.

The tax is imposed at the rate prescribed by section 290.06, subdivision 1. For purposes of this section, "federal taxable income" means federal taxable income determined under section 1374(4)(d) of the Internal Revenue Code of 1986, as amended through December 31, 1987. This section does not apply to an S corporation which has had an election under section 1362 of the Internal Revenue Code of 1954, in effect for the three immediately preceding taxable years. This section does not apply to an S corporation that has been in existence for less than four taxable years and has had an election in effect under section 1362 of the Internal Revenue Code of 1954 for each of the corporation's taxable years. For purposes of this section, an S corporation and any predecessor corporation are treated as one corporation.

Subd. 2. TAXABLE INCOME. For purposes of this section, taxable income means the lesser of:

(1) the amount of the net capital gain of the S corporation for the taxable year, as determined under sections 1222 and 1374 of the Internal Revenue Code of 1986, as amended through December 31, 1987, and subject to the modifications provided in section 290.01, subdivisions 19e and 19f, in excess of \$25,000 that is allocable to this state under section 290.17, 290.191, or 290.20; or

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(2) the amount of the S corporation's federal taxable income, subject to the provisions of section 290.01, subdivisions 19c to 19f, that is allocable to this state under section 290.17, 290.191, or 290.20, less the deduction for charitable contributions in section 290.21, subdivision 3.

Sec. 49. [290.9729] TAX ON PASSIVE INVESTMENT INCOME.

Subdivision 1. TAX IMPOSED. There is imposed a tax for the taxable year on the taxable income of an S corporation, if for the taxable year an S corporation has:

- (1) subchapter C earnings and profits at the close of such taxable year; and
- (2) gross receipts more than 25 percent of which are passive investment income.

The tax is imposed at the rate prescribed by section 290.06, subdivision 1. The terms "subchapter C earnings and profits," "passive investment income," and "gross receipts" have the same meanings as when used in sections 1362(d)(3) and 1375 of the Internal Revenue Code of 1986, as amended through December 31, 1987.

Subd. 2. TAXABLE INCOME. For the purposes of this section, taxable income means the lesser of:

(1) the amount of the S corporation's excess net passive income, as determined under section 1375 of the Internal Revenue Code of 1986, as amended through December 31, 1986, subject to the provisions of section 290.01, subdivisions 19c to 19f, that is allocable to this state under section 290.17, 290.191, or 290.20; or

(2) the amount of the S corporation's federal taxable income, as determined under section 1374(d)(4) of the Internal Revenue Code of 1986, as amended through December 31, 1987, subject to the provisions of section 290.01, subdivisions 19c to 19f, that is allocable to this state under section 290.17, 290.191, or 290.20, less the deduction for charitable contributions in section 290.21, subdivision 3.

Subd. 3. WAIVER OF TAX. The tax imposed by this section shall be waived if the taxpayer receives a waiver for federal income tax purposes under section 1375(d) of the Internal Revenue Code of 1986, as amended through December 31, 1987.

Sec. 50. Minnesota Statutes 1987 Supplement, section 295.34, subdivision 1, is amended to read:

Subdivision 1. Except as provided in subdivision 2 every telephone company shall file a return with the commissioner of revenue on or before April 15 of each year, and submit payment therewith, of the following percentages of its gross earnings, including long distance access charges, of the preceding calendar year derived from business within this state:

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(a) for gross earnings from service to rural subscribers and from exchange business of all cities of the fourth class and statutory cities having a population of 10,000 or less

for calendar years beginning before December 31, 1988, 4 percent,

for calendar year 1989, 3 percent, provided that the estimated tax payments made on March 15 and June 15, 1989, pursuant to section 295.365, must be made as if the tax were imposed at a rate of four percent,

for calendar year 1990, 1.5 percent,

for calendar year 1991, 1 percent, and

for calendar years beginning after December 31, 1991, exempt; and

(b) for gross earnings derived from all other business

for calendar years beginning before December 31, 1988, 7 percent,

for calendar year 1989, 5.5 percent, provided that the estimated tax payments made on March 15 and June 15, 1989, pursuant to section 295.365, must be made as if the tax were imposed at a rate of seven percent,

for calendar year 1990, 3 percent,

for calendar year 1991, 2.5 percent, and

for calendar years beginning after December 31, 1991, exempt.

A tax shall not be imposed on the gross earnings of a telephone company from business originating or terminating outside of Minnesota, except that the gross earnings tax is imposed on all long distance access charges allocated to interstate service received in payment from a telephone company before December 31, 1989.

The tax imposed is in lieu of all other taxes, except the taxes imposed by chapter 290, property taxes assessed beginning in 1989, payable in 1990, and sales and use taxes imposed as a result of chapter 297A. All money paid by a company for connecting fees and switching charges to any other company shall be reported as earnings by the company to which they are paid. For the purposes of this section, the population of any statutory city shall be considered as that stated in the latest federal census.

(c) For the period January 1, 1984 through December 31, 1986, all money paid by a company for connecting fees and switching charges, including carriers access charges except that portion paid for directory assistance and billing and collection services, to any other company must be reported as earnings by the company to which they are paid, but are not deemed to be earnings of the collecting and paying company.

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Sec. 51. Minnesota Statutes 1987 Supplement, section 298.01, subdivision 3, is amended to read:

Subd. 3. **OCCUPATION TAX; OTHER ORES.** Every person engaged in the business of mining or producing ores, except iron ore or taconite concentrates, shall pay an occupation tax to the state of Minnesota as provided in this subdivision. The tax is measured by the person's taxable income for the year for which the tax is imposed, and computed in the manner and at the rates provided in chapter 290, except that ~~section~~ sections 290.01, subdivisions 19c, clause (11), 19d, clause (7), and 290.05, subdivision 1, clause (a), does do not apply. Corporations and individuals shall be subject to the alternative minimum taxes imposed under chapter 290. The tax is in addition to all other taxes and is due and payable on or before June 15 of the year succeeding the calendar year covered by the report required by section 298.05.

Sec. 52. Minnesota Statutes 1987 Supplement, section 298.01 subdivision 4, is amended to read:

Subd. 4. **OCCUPATION TAX; IRON ORE; TACONITE CONCENTRATES.** A person engaged in the business of mining or producing of iron ore or taconite concentrates shall pay an occupation tax to the state of Minnesota. The tax is measured by the person's taxable income for the year for which the tax is imposed, and computed in the manner and at the rates provided for in chapter 290, except that ~~section~~ sections 290.01, subdivisions 19c, clause (11), 19d, clause (7), and 290.05, subdivision 1, clause (a), does do not apply. Corporations and individuals shall be subject to the alternative minimum taxes imposed under chapter 290. The tax is in addition to all other taxes and is due and payable on or before June 15 of the year succeeding the calendar year covered by the report required by section 298.05.

Sec. 53. **[298.402] NET OPERATING LOSSES.**

For purposes of the computation under section 298.40, subdivision 1, clause (b), a net operating loss incurred in a taxable year beginning after December 31, 1986, is a net operating loss carryover to each of the 15 taxable years following the taxable year of the loss, in accordance with section 290.095. A net operating loss incurred in a taxable year beginning after December 31, 1981, and before January 1, 1987, is a net operating loss carryover to taxable years beginning after December 31, 1986, not to exceed the five taxable years following the taxable year of the loss, in accordance with section 290.095. No net operating loss carryback is allowed for a net operating loss incurred in a taxable year beginning after December 31, 1986.

Sec. 54. Minnesota Statutes 1986, section 299.01, subdivision 1, is amended to read:

Subdivision 1. There shall be levied and collected upon all royalty received during each calendar year for permission to explore, mine, take out and remove iron ore or taconites from land in this state, a tax of 15 percent before January

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1, 1986, a tax of 14.5 percent after December 31, 1985, and before January 1, 1987, and a tax of 14 percent after December 31, 1986.

Sec. 55. Minnesota Statutes 1986, section 303.03, is amended to read:

303.03 FOREIGN CORPORATIONS MUST HAVE CERTIFICATE OF AUTHORITY.

No foreign corporation shall transact business in this state unless it holds a certificate of authority so to do; and no foreign corporation whose certificate of authority has been revoked or canceled pursuant to the provisions of this chapter shall be entitled to obtain a certificate of authority except in accordance with the provisions of section 303.19. This section does not establish standards for those activities that may subject a foreign corporation to taxation under section 290.015 and to the reporting requirements of section 290.371. Without excluding other activities which may not constitute transacting business in this state, and subject to the provisions of sections 303.13 and 543.19, a foreign corporation shall not be considered to be transacting business in this state for the purposes of this chapter solely by reason of carrying on in this state any one or more of the following activities:

(a) Maintaining or defending any action or suit or any administrative or arbitration proceeding, or effecting the settlement thereof or the settlement of claims or disputes;

(b) Holding meetings of its directors or shareholders or carrying on other activities concerning its internal affairs;

(c) Maintaining bank accounts;

(d) Maintaining offices or agencies for the transfer, exchange and registration of its securities, or appointing and maintaining trustees or depositaries with relation to its securities;

(e) Holding title to and managing real or personal property, or any interest therein, situated in this state, as executor of the will or administrator of the estate of any decedent, as trustee of any trust, or as guardian or conservator of the person or estate, or both, of any person;

(f) Making, participating in, or investing in loans or creating, as borrower or lender, or otherwise acquiring indebtedness or mortgages or other security interests in real or personal property;

(g) Securing or collecting its debts or enforcing any rights in property securing them; or

(h) Conducting an isolated transaction completed within a period of 30 days and not in the course of a number of repeated transactions of like nature.

Sec. 56. **REPEALER.**

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

(a) Minnesota Statutes 1986, section 298.401, is repealed.

(b) Minnesota Statutes 1986, section 299.013, is repealed.

(c) Minnesota Statutes 1987 Supplement, section 290.21, subdivision 8, is repealed.

(d) Minnesota Statutes 1987 Supplement, section 290.371, subdivision 2, is repealed.

Sec. 57. EFFECTIVE DATE.

Sections 1, 4, and 5 are effective January 1, 1988. Sections 7, 8, 9, 11, clause (13), 31, and 40 are effective for taxable years beginning after December 31, 1990, except that sections 9, 11, clause (13), and 40 are effective for taxable years beginning after December 31, 1989, insofar as they apply to 936 corporations. In this section, "936 corporations" are corporations referred to in section 9, clause (2)(ii). Sections 12, clause (11), 14, 26, 33, and 56, paragraph (c), are effective for taxable years beginning after December 31, 1988. Sections 2, 3, 32, 36, 37, and 38 are effective for taxable years beginning after December 31, 1987. Section 30, paragraphs (f), (g), (h), and (j) are effective for taxable years beginning after December 31, 1990, except that insofar as they apply to 936 corporations, they are effective for taxable years beginning after December 31, 1989. Sections 29, in its reference to section 290.17, subdivision 4, paragraph (i), and 30, paragraph (i), are effective for taxable years beginning after December 31, 1988, in its application to income described in section 290.01, subdivision 19d, clause (11), for taxable years beginning after December 31, 1989, in its application to other income of 936 corporations, and for taxable years beginning after December 31, 1990, in its application to other income of foreign operating corporations. Section 30, paragraph (k) is effective for taxable years beginning after December 31, 1987.

Sections 10, 11, clauses (2) and (3), 12, except for clause (11), 13, 15 to 18, 20, 21, 23, 25, 29 insofar as it refers to companies subject to the occupation tax, 34, 35, 39, 41 to 49, and 56, paragraph (d), are effective for taxable years beginning after December 31, 1986. Section 22 is effective for taxable years beginning after December 31, 1986, except that the part relating to the apportionment of the exemption amount among members of a unitary group is effective for taxable years beginning after December 31, 1987. Section 27 is effective for taxable years beginning after December 31, 1986, except that the part relating to the allowance of a net operating loss incurred in any taxable year to the extent of the apportionment ratio of the loss year is effective for taxable years beginning after December 31, 1987. Section 28 is effective for losses incurred in taxable years beginning after December 31, 1986, and is repealed effective for taxable years beginning after December 31, 1993. Sections 6, 50, and 55 are effective the day following final enactment. Sections 51 and 52 are effective for ores mined after December 31, 1989. Section 53 is effective for ores mined after December 31, 1986, and before January 1, 1990. Section 54 is effective for ore mined after December 31, 1986. Section 56, paragraph (a), is effective for ores

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mined after December 31, 1989. Section 56, paragraph (b), is effective for ores mined after December 31, 1986, and supersedes the repealer in Laws 1987, chapter 268, article 2, section 43.

ARTICLE 3

FEDERAL UPDATE

Section 1. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 4, is amended to read:

Subd. 4. **CORPORATIONS.** The term "corporation" shall include every entity which is a corporation under section 7701(a)(3) or is treated as a corporation under section 851(q) or 7704 of the Internal Revenue Code of 1986, as amended through December 31, ~~1986~~ 1987, and financial institutions. A corporation's franchise is its authorization to exist and conduct business, whether created by legislation, by executive order, by a governmental agency, by contract or other private action, or by some combination thereof. Every corporation is deemed to have a corporate franchise. An entity described in section 646(b) of the Tax Reform Act of 1986, Public Law Number 99-514, shall be classified in the same manner for purposes of this chapter as it is for federal income tax purposes.

Sec. 2. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 19, 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.

The Internal Revenue Code of 1986, as amended through December 31, 1986, shall be in effect for taxable years beginning after December 31, 1986. The provisions of sections 10104, 10202, 10203, 10204, 10206, 10212, 10221, 10222, 10223, 10226, 10227, 10228, 10611, 10631, 10632, and 10711 of the Omnibus Budget Reconciliation Act of 1987, Public Law Number 100-203, shall be effective at the time they become effective for federal income tax purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1987, shall be in effect for taxable years beginning after December 31, 1987.

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

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Sec. 3. Minnesota Statutes 1987 Supplement, section 290.01, subdivision 20, is amended to read:

Subd. 20. **GROSS INCOME.** For tax years beginning after December 31, 1986, The term "gross income" means the gross income as defined in section 61 of the Internal Revenue Code of 1986, as amended through the date named in subdivision 19 for the applicable taxable year, plus any additional items of income taxable under this chapter but not taxable under the Internal Revenue Code, less any items included in federal gross income but of a character exempt from state income tax under the laws of the United States. For tax years beginning before January 1, 1987, except as otherwise provided in this chapter, the term "gross income," as applied to corporations includes every kind of compensation for labor or personal services of every kind from any private or public employment, office, position or services; income derived from the ownership or use of property; gains or profits derived from every kind of disposition of, or every kind of dealing in, property; income derived from the transaction of any trade or business; and income derived from any source.

For tax years beginning before January 1, 1987, the term "gross income" in its application to individuals, estates, and trusts shall mean the adjusted gross income as defined in the Internal Revenue Code of 1954, as amended through the date specified herein for the applicable taxable year, with the modifications specified in this subdivision and in Minnesota Statutes 1986, section 290.01, subdivisions 20a to 20f. For estates and trusts the adjusted gross income for purposes of the preceding sentence shall be their federal taxable income as defined in the Internal Revenue Code of 1954, as amended through the date specified herein for the applicable taxable year, with the modifications specified in this subdivision and in Minnesota Statutes 1986, section 290.01, subdivisions 20a to 20f.

(i) The Internal Revenue Code of 1954, as amended through December 31, 1981, shall be in effect for taxable years beginning after December 31, 1981. The provisions of sections 205(a), 214 to 222, 231, 232, 236, 247, 251, 252, 253, 265, 266, 285, 288, and 335 of the Tax Equity and Fiscal Responsibility Act of 1982, Public Law Number 97-248, section 6(b)(2) and (3) of the Subchapter S Revision Act of 1982, Public Law Number 97-354, section 517 of Public Law Number 97-424, sections 101(e) and (d), 102(a), (aa), (f)(4), (g), (j), (l), 103(e), 104(b)(3), 105, 305(d), 306(a)(9) of Public Law Number 97-448, sections 101 and 102 of Public Law Number 97-473, and section 243 of the Tax Reform Act of 1986, Public Law Number 99-514, shall be effective at the same time that they become effective for federal income tax purposes. The Payment-in-Kind Tax Treatment Act of 1983, Public Law Number 98-4, shall be effective at the same time that it becomes effective for federal income tax purposes.

(ii) The Internal Revenue Code of 1954, as amended through January 15, 1983, shall be in effect for taxable years beginning after December 31, 1982. The provisions of sections 905, 1708, and 1879(m) of the Tax Reform Act of 1986, Public Law Number 99-514, shall be effective at the same time that they become effective for federal income tax purposes.

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(iii) The Internal Revenue Code of 1954, as amended through December 31, 1983, shall be in effect for taxable years beginning after December 31, 1983. The provisions of sections 13, 17, 25(b), 31, 32, 41 to 43, 52, 55, 56, 71 to 74, 77, 81, 82, 91, 92, 94, 101 to 103, 105 to 108, 111 to 113, 147(e), 171, 172, 174, 175, 179(a), 221, 223, 224, 421(b), 432, 481, 491, 512, 522 to 524, 554 to 557, 561, 611(a), 621 to 623, 626 to 628, 711(e), 712(d), 713(b), (e), (g), and (h), 721(a), (b), (d), (g), (i), (o), (p), (r), (t), and (w), 722(e), 1001, 1026, 1061 to 1064, 1066, 1076, 1078, and 2638(b) of the Deficit Reduction Act of 1984, Public Law Number 98-369, section 1 of Public Law Number 98-611, and sections 1801, 1802, 1805 to 1809, 1812, 1842, 1853 to 1855, 1866, 1869 to 1873, 1875, and 1878(g) and (h) of the Tax Reform Act of 1986, Public Law Number 99-514, shall be effective at the same time that they become effective for federal income tax purposes.

(iv) The Internal Revenue Code of 1954, as amended through May 25, 1985, shall be in effect for taxable years beginning after December 31, 1984. The provisions of sections 101, 102, 103, 201, and 202 of Public Law Number 99-121 and sections 402, 403, 1803, 1804, 1852, and 1861 of the Tax Reform Act of 1986, Public Law Number 99-514, shall be effective at the same time that they become effective for federal income tax purposes.

(v) The Internal Revenue Code of 1954, as amended through December 31, 1985, shall be in effect for taxable years beginning after December 31, 1985.

The provisions of sections 121 to 123, 201, 202, 241, 401, 405, 411 to 413, 653, 654, 804, 811, 822, 1001, 1003, 1122, 1162, 1164, 1166, 1301, 1401, 1402, 1707, 1826, 1827, 1843, 1867, 1868, 1879(f), and 1895 of the Tax Reform Act of 1986, Public Law Number 99-514, shall be effective at the same time that they become effective for federal income tax purposes.

References to the Internal Revenue Code of 1954 in subdivisions 20a, 20b, 20c, and 20f mean the code in effect for the purpose of defining gross income for the applicable taxable year.

Sec. 4. Minnesota Statutes 1987 Supplement, section 290.095, subdivision 3, is amended to read:

Subd. 3. **CARRYOVER.** (a) A net operating loss for any taxable year shall be a net operating loss carryover to each of the 15 taxable years following the taxable year of such loss.

(b) The entire amount of the net operating loss for any taxable year shall be carried to the earliest of the taxable years to which such loss may be carried. The portion of such loss which shall be carried to each of the other taxable years shall be the excess, if any, of the amount of such loss over the sum of the taxable net income, adjusted by the modifications specified in subdivision 4, for each of the taxable years to which such loss may be carried.

(c) Where a corporation does business both within and without Minnesota,

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and apportions its income under the provisions of section 290.191, the net operating loss deduction shall be allowed to the extent of the apportionment ratio of the loss year.

(d) No additional net operating loss deduction is allowed in a subsequent taxable year for the portion of a net operating loss deduction used to offset Minnesota income in a year in which the taxpayer is subject to the alternative minimum tax in section 290.092.

(e) The provisions of sections 381, 382, and 384 of the Internal Revenue Code of 1986, as amended through December 31, 1987, apply to carryovers in certain corporate acquisitions and special limitations on net operating loss carryovers.

Sec. 5. Minnesota Statutes 1986, section 290.931, subdivision 1, is amended to read:

Subdivision 1. **REQUIREMENTS OF DECLARATION.** Every corporation subject to taxation under this chapter (excluding section 290.92) shall make a declaration of estimated tax for the taxable year if its tax liability so computed can reasonably be expected to exceed ~~\$1,000~~ \$500, or in accordance with rules prescribed by the commissioner for an affiliated group of corporations electing to file one return as permitted by rules prescribed under section 290.37, subdivision 1.

Sec. 6. Minnesota Statutes 1986, section 290.934, subdivision 1, is amended to read:

Subdivision 1. **ADDITION TO THE TAX.** In case of any underpayment of estimated tax by a corporation, ~~except as provided in subdivision 4;~~ there shall be added to the tax for the taxable year an amount determined at the rate specified in section 270.75 upon the amount of the underpayment (determined under subdivision 2) for the period of the underpayment (determined under subdivision 3).

Sec. 7. Minnesota Statutes 1987 Supplement, section 290.934, subdivision 2, is amended to read:

Subd. 2. **AMOUNT OF UNDERPAYMENT.** For purposes of subdivision 1, the amount of the underpayment shall be the excess of

(1) ~~the amount of tax shown on the return for the tax year or, if no return is filed, the tax for the tax year~~ required installment, over

(2) the amount, if any, of the installment paid on or before the last date prescribed for payment.

Sec. 8. Minnesota Statutes 1986, section 290.934, subdivision 3, is amended to read:

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Subd. 3. **PERIOD OF UNDERPAYMENT.** The period of the underpayment shall run from the date the installment was required to be paid to whichever of the following dates is the earlier

(1) The 15th day of the third month following the close of the taxable year.

(2) With respect to any portion of the underpayment, the date on which such portion is paid. For purposes of this paragraph, a payment of estimated tax on any installment date shall be considered a payment of any previous underpayment only to the extent such payment exceeds the amount of the installment determined under subdivision 2(1) for such installment date credited against unpaid required installments in the order in which such installments are required to be paid.

Sec. 9. Minnesota Statutes 1986, section 290.934, is amended by adding a subdivision to read:

Subd. 3a. REQUIRED INSTALLMENTS. (1) Except as otherwise provided in this subdivision, the amount of a required installment is 25 percent of the required annual payment.

(2) Except as otherwise provided in this subdivision, the term "required annual payment" means the lesser of:

(a) 90 percent of the tax shown on the return for the taxable year, or if no return is filed 90 percent of the tax for such year; or

(b) 100 percent of the tax shown on the return of the corporation for the preceding taxable year providing such return was for a full 12-month period, did show a liability, and was filed by the corporation.

(3) Except for determining the first required installment for any taxable year, paragraph (2), clause (b) does not apply in the case of a large corporation. The term "large corporation" means a corporation or any predecessor corporation that had taxable net income of \$1,000,000 or more for any taxable year during the testing period. The term "testing period" means the three taxable years immediately preceding the taxable year involved. A reduction allowed to a large corporation for the first installment that is allowed by applying paragraph (2), clause (b) must be recaptured by increasing the next required installment by the amount of the reduction.

(4) In the case of a required installment, if the corporation establishes that the annualized income installment is less than the amount determined in paragraph (1), the amount of the required installment is the annualized income installment and the recapture of previous quarters' reductions allowed by this paragraph must be recovered by increasing subsequent required installments to the extent the reductions have not previously been recovered. A reduction shall be treated as recaptured for purposes of this paragraph if 90 percent of the reduction is recaptured.

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(5) The "annualized income installment" is the excess, if any, of:

(a) an amount equal to the applicable percentage of the tax for the taxable year computed by placing on an annualized basis the taxable income:

(i) for the first two months of the taxable year, in the case of the first required installment;

(ii) for the first two months or for the first five months of the taxable year, in the case of the second required installment;

(iii) for the first six months or for the first eight months of the taxable year, in the case of the third required installment; and

(iv) for the first nine months or for the first 11 months of the taxable year, in the case of the fourth required installment, over;

(b) the aggregate amount of any prior required installments for the taxable year.

(c) For the purpose of this paragraph, the annualized income shall be computed by placing on an annualized basis the taxable income for the year up to the end of the month preceding the due date for the quarterly payment multiplied by 12 and dividing the resulting amount by the number of months in the taxable year (2, 5, 6, 8, 9, or 11 as the case may be) referred to in clause (a).

(d) The "applicable percentage" used in clause (a) is:

<u>In the case of the following</u>	<u>The applicable</u>
<u>required installments:</u>	<u>percentage is:</u>
<u>1st</u>	<u>22.5</u>
<u>2nd</u>	<u>45</u>
<u>3rd</u>	<u>67.5</u>
<u>4th</u>	<u>90</u>

(6)(a) If this paragraph applies, the amount determined for any installment must be determined in the following manner:

(i) take the taxable income for all months during the taxable year preceding the filing month;

(ii) divide that amount by the base period percentage for all months during the taxable year preceding the filing month;

(iii) determine the tax on the amount determined under item (ii); and

(iv) multiply the tax computed under item (iii) by the base period percentage for the filing month and all months during the taxable year preceding the filing month.

(b) For purposes of this paragraph:

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(i) the "base period percentage" for any period of months is the average percent which the taxable income for the corresponding months in each of the three preceding taxable years bears to the taxable income for the three preceding taxable years;

(ii) the term "filing month" means the month in which the installment is required to be paid;

(iii) this paragraph shall only apply if the base period percentage for any six consecutive months of the taxable year equals or exceeds 70 percent; and

(iv) the commissioner may provide by rule for the determination of the base period percentage in the case of reorganizations, new corporations, and other similar circumstances.

(c) In the case of a required installment, determined under this paragraph, if the corporation determines that the installment is less than the amount determined in paragraph (1), the amount of the required installment is the amount determined under this paragraph and the recapture of previous quarters' reductions allowed by this paragraph must be recovered by increasing subsequent required installments to the extent the reductions have not previously been recovered. A reduction shall be treated as recaptured for purposes of this paragraph if 90 percent of the reduction is recaptured.

Sec. 10. Minnesota Statutes 1987 Supplement, section 290A.03, subdivision 15, is amended to read:

Subd. 15. **INTERNAL REVENUE CODE.** "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through December 31, 1986 1987.

Sec. 11. **REPEALER.**

Minnesota Statutes 1986, sections 290.07, subdivisions 3 and 6; 290.11; 290.12, as amended by Laws 1987, chapter 268, article 1, section 64; 290.131, as amended by Laws 1987, chapter 268, article 1, section 65; 290.132, as amended by Laws 1987, chapter 268, article 1, section 66; 290.133, as amended by Laws 1987, chapter 268, article 1, section 67; 290.134, as amended by Laws 1987, chapter 268, article 1, section 68; 290.135, as amended by Laws 1987, chapter 268, article 1, section 69; 290.136, as amended by Laws 1987, chapter 268, article 1, section 70; 290.138, as amended by Laws 1987, chapter 268, article 1, section 71; and 290.934, subdivision 4; and Minnesota Statutes 1987 Supplement, section 290.14, is repealed.

Sec. 12. **INSTRUCTION TO REVISOR.**

In the next edition of Minnesota Statutes, the revisor of statutes shall substitute the phrase "Internal Revenue Code of 1986, as amended through December 31, 1987" for the phrase "Internal Revenue Code of 1986, as amended through December 31, 1986" whenever that phrase occurs in chapter 290, except section 290.01, subdivision 19, and chapter 291.

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Sec. 13. **EFFECTIVE DATES.**

Section 4 is effective for taxable years beginning after December 31, 1986. The repeal in section 11 of Minnesota Statutes 1986, section 290.07, subdivisions 3 and 6, are effective for taxable years beginning after December 31, 1986. The remainder of section 11 is effective for taxable years beginning after December 31, 1987. Except as provided in section 2, all other sections of this article are effective for taxable years beginning after December 31, 1987.

ARTICLE 4

PROPERTY TAX REFUND

Section 1. Minnesota Statutes 1987 Supplement, section 290A.03, subdivision 3, is amended to read:

Subd. 3. **INCOME.** (1) "Income" means the sum of the following:

(a) the greater of federal adjusted gross income as defined in the Internal Revenue Code or zero; and

(b) the sum of the following amounts to the extent not included in clause (a):

(i) all nontaxable income;

(ii) the amount of a passive activity loss that is not disallowed as a result of section 469, paragraph (i) or (1) of the Internal Revenue Code and the amount of passive activity loss carryover allowed under section 469(b) of the Internal Revenue Code;

(iii) an amount equal to the total of any discharge of qualified farm indebtedness of a solvent individual excluded from gross income under section 108(g) of the Internal Revenue Code;

(iv) cash public assistance and relief;

(v) any pension or annuity (including railroad retirement benefits, all payments received under the federal Social Security Act, supplemental security income, and veterans benefits), which was not exclusively funded by the claimant or spouse, or which was funded exclusively by the claimant or spouse and which funding payments were excluded from federal adjusted gross income in the years when the payments were made;

(vi) interest received from the federal or a state government or any instrumentality or political subdivision thereof;

(vii) workers' compensation;

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(viii) nontaxable strike benefits;

(ix) the gross amounts of payments received in the nature of disability income or sick pay as a result of accident, sickness, or other disability, whether funded through insurance or otherwise;

(x) ~~the ordinary income portion of~~ a lump sum distribution under section 402(e)(3) of the Internal Revenue Code; ~~and~~

(xi) contributions made by the claimant to an individual retirement account, including a qualified voluntary employee contribution; simplified employee pension plan; self-employed retirement plan; cash or deferred arrangement plan under section 401(k) of the Internal Revenue Code; or deferred compensation plan under section 457 of the Internal Revenue Code; and

(xii) nontaxable scholarship or fellowship grants.

In the case of an individual who files an income tax return on a fiscal year basis, the term "federal adjusted gross income" shall mean federal adjusted gross income reflected in the fiscal year ending in the calendar year. Federal adjusted gross income shall not be reduced by the amount of a net operating loss carry-back.

(2) "Income" does not include

(a) amounts excluded pursuant to the Internal Revenue Code, sections 101(a), 102, 447, and 121;

(b) amounts of any pension or annuity which was exclusively funded by the claimant or spouse and which funding payments were not excluded from federal adjusted gross income in the years when the payments were made;

(c) surplus food or other relief in kind supplied by a governmental agency;

(d) relief granted under this chapter; or

(e) child support payments received under a temporary or final decree of dissolution or legal separation.

(3) The sum of the following amounts shall be subtracted from income:

(a) for the claimant's first dependent, the exemption amount multiplied by 1.4;

(b) for the claimant's second dependent, the exemption amount multiplied by 1.3;

(c) for the claimant's third dependent, the exemption amount multiplied by 1.2;

(d) for the claimant's fourth dependent, the exemption amount multiplied by 1.1;

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(e) for the claimant's fifth dependent, the exemption amount; and

(f) if the claimant or claimant's spouse was disabled or attained the age of 65 prior to June 1 of the year for which the taxes were levied or rent paid, the exemption amount.

For purposes of this subdivision, the "exemption amount" means the exemption amount under section 151(d) of the Internal Revenue Code of 1986, as amended through December 31, 1987, for the taxable year for which the income is reported.

Sec. 2. Minnesota Statutes 1986, section 290A.03, subdivision 7, is amended to read:

Subd. 7. **DEPENDENT.** "Dependent" means any person who is under 18 years of age at the end of the calendar year who receives more than 50 percent of support from the claimant; or who is between 18 and 21 years of age and is a full time student who receives more than 50 percent of support from the claimant considered a dependent under sections 151 and 152 of the Internal Revenue Code of 1986, as amended through December 31, 1987. In the case of a son, stepson, daughter, or stepdaughter of the claimant, amounts received as an aid to families with dependent children grant or 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 claimant. "Dependent" includes a parent of the claimant or spouse who lives in the claimant's homestead. "Dependent" includes a person over 18 years of age who lives in the claimant's homestead and who receives more than 50 percent of support from the claimant.

Sec. 3. Minnesota Statutes 1987 Supplement, section 290A.03, subdivision 13, is amended to read:

Subd. 13. **PROPERTY TAXES PAYABLE.** "Property taxes payable" means the property tax exclusive of special assessments, penalties, and interest payable on a claimant's homestead before reductions made under section 273.13 but after deductions made pursuant to under sections 273.132, 273.135, 273.1391, 273.42, subdivision 2, and any other state paid property tax credits in any calendar year. In the case of a claimant who makes ground lease payments, "property taxes payable" includes the amount of the payments directly attributable to the property taxes assessed against the parcel on which the house is located. No apportionment or reduction of the "property taxes payable" shall be required for the use of a portion of the claimant's homestead for a business purpose if the claimant does not deduct any business depreciation expenses for the use of a portion of the homestead in the determination of federal adjusted gross income. For homesteads which are manufactured homes as defined in section 274.19, subdivision 8, "property taxes payable" shall also include the amount of the gross rent paid in the preceding year for the site on which the homestead is located, which is attributable to the net tax paid on the site. The amount attributable to property taxes shall be determined by multiplying the net tax on the parcel by a fraction, the numerator of which is the gross rent paid for

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the calendar year for the site and the denominator of which is the gross rent paid for the calendar year for the parcel. When a homestead is owned by two or more persons as joint tenants or tenants in common, such tenants shall determine between them which tenant may claim the property taxes payable on the homestead. If they are unable to agree, the matter shall be referred to the commissioner of revenue whose decision shall be final. Property taxes are considered payable in the year prescribed by law for payment of the taxes.

In the case of a claim relating to "property taxes payable," the claimant must have owned and occupied the homestead on January 2 of the year in which the tax is payable and (i) the property must have been classified as homestead property pursuant to section 273.13, subdivision 22 or 23 on or before June 1 of the year in which the "property taxes payable" were levied; or (ii) the claimant must provide documentation from the local assessor that application for homestead classification has been made prior to October 1 of the year in which the "property taxes payable" were payable and that the assessor has approved the application.

Sec. 4. Minnesota Statutes 1987 Supplement, section 290A.03, subdivision 14, is amended to read:

Subd. 14. NET TAX. "Net tax" means

(a) the property tax, exclusive of special assessments, interest, and penalties, and after reduction for any state paid property tax credits as required in subdivision 13 except for the reduction under section 273.13, subdivisions 22 and 23, or

(b) the payments made in lieu of ad valorem taxes, including payments of special assessments imposed in lieu of ad valorem taxes,

for the calendar year in which the rent was paid. If a portion of the property is occupied as a homestead or is used for other than rental purposes, the net tax shall be the amount of tax reduced by the percentage that the nonrental use comprises of the total square footage of the building. If a portion of the property is used for purposes other than for residential rental and none of the property is occupied as a homestead, the net tax shall be the amount of the tax of the parcel multiplied by a fraction, the numerator of which is the assessed value of the residential rental portion and the denominator of which is the total assessed value of the parcel. If a portion of the property is used for other than rental residential purposes, the county treasurer shall list on the property tax statement the amount of net tax pertaining to the rental residential portion of the property.

The amount of the net tax shall not be reduced by an abatement or a court ordered reduction in the property tax on the property made after the certificate of rent constituting property tax has been provided to the renter.

Sec. 5. Minnesota Statutes 1987 Supplement, section 290A.04, subdivision 2, is amended to read:

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Subd. 2. A claimant who is disabled or has attained the age of 65 by June 1 of the year in which a refund is payable or who, on the federal tax return filed for the prior year, claimed a personal exemption for a dependent pursuant to section 151 of the Internal Revenue Code, and whose property taxes payable or rent constituting property taxes are in excess of the percentage of the household income stated below shall pay an amount equal to the percent of income shown for the appropriate household income level along with the percent to be paid by the claimant of the remaining amount of property taxes payable or rent constituting property taxes. The state refund will be equal to the amount of property taxes payable or rent constituting property taxes that remain, up to the state refund amount shown below.

Household Income	Percent of Income	Percent Paid by Claimant	Maximum State Refund
\$0 to 999	1.0 percent	10 percent	\$1,100
1,000 to 1,999	1.0 <u>1.1</u> percent	10 <u>11</u> percent	\$1,100
2,000 to 2,999	1.0 <u>1.2</u> percent	10 <u>12</u> percent	\$1,100
3,000 to 3,499	1.0 <u>1.3</u> percent	11 <u>13</u> percent	\$1,100
3,500 to 3,999	1.0 <u>1.3</u> percent	11 <u>13</u> percent	\$1,100
4,000 to 4,499	1.0 <u>1.4</u> percent	11 <u>14</u> percent	\$1,100
4,500 to 4,999	1.0 <u>1.4</u> percent	11 <u>14</u> percent	\$1,100
5,000 to 5,999	1.0 <u>1.5</u> percent	12 <u>15</u> percent	\$1,100
6,000 to 6,999	1.1 <u>1.5</u> percent	12 <u>16</u> percent	\$1,100
7,000 to 7,999	1.1 <u>1.6</u> percent	13 <u>17</u> percent	\$1,100
8,000 to 8,999	1.2 <u>1.6</u> percent	13 <u>18</u> percent	\$1,100
9,000 to 9,999	1.2 <u>1.7</u> percent	13 <u>19</u> percent	\$1,100
10,000 to 10,999	1.3 <u>1.7</u> percent	14 <u>20</u> percent	\$1,075
11,000 to 11,999	1.4 <u>1.8</u> percent	14 <u>22</u> percent	\$1,075
12,000 to 12,999	1.5 <u>1.8</u> percent	14 <u>24</u> percent	\$1,075
13,000 to 13,999	1.5 <u>1.9</u> percent	15 <u>26</u> percent	\$1,075
14,000 to 14,999	1.5 <u>2.0</u> percent	16 <u>28</u> percent	\$1,075
15,000 to 15,999	1.6 <u>2.1</u> percent	17 <u>30</u> percent	\$1,075
16,000 to 16,999	1.7 <u>2.2</u> percent	18 <u>32</u> percent	\$1,075
17,000 to 17,999	1.8 <u>2.3</u> percent	19 <u>34</u> percent	\$1,050
18,000 to 18,999	1.9 <u>2.4</u> percent	20 <u>36</u> percent	\$1,050
19,000 to 19,999	2.0 <u>2.6</u> percent	22 <u>38</u> percent	\$1,050
20,000 to 20,999	2.1 <u>2.8</u> percent	24 <u>40</u> percent	\$1,050
21,000 to 21,999	2.2 <u>3.0</u> percent	26 <u>42</u> percent	\$1,050
22,000 to 22,999	2.2 <u>3.2</u> percent	28 <u>44</u> percent	\$1,050
23,000 to 23,999	2.2 <u>3.3</u> percent	30 <u>46</u> percent	\$1,025
24,000 to 24,999	2.3 <u>3.4</u> percent	32 <u>48</u> percent	\$1,025
25,000 to 25,999	2.3 <u>3.5</u> percent	34 <u>50</u> percent	\$1,025
26,000 to 26,999	2.3 <u>3.6</u> percent	36 <u>52</u> percent	\$1,025
27,000 to 27,999	2.4 <u>3.7</u> percent	38 <u>54</u> percent	\$1,000
28,000 to 28,999	2.4 <u>3.8</u> percent	40 <u>56</u> percent	\$ 900
29,000 to 29,999	2.4 <u>3.9</u> percent	42 <u>58</u> percent	\$ 800
30,000 to 30,999	2.4 <u>4.0</u> percent	44 <u>60</u> percent	\$ 700

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31,000 to 31,999	2.5 <u>4.0</u> percent	46 <u>60</u> percent	\$ 600
32,000 to 32,999	2.5 <u>4.0</u> percent	48 <u>60</u> percent	\$ 500
33,000 to 33,999	2.5 <u>4.0</u> percent	50 <u>60</u> percent	\$ 300
34,000 to 34,999	2.5 <u>4.0</u> percent	50 <u>60</u> percent	\$ 100

The payment made to a claimant shall be the amount of the state refund calculated pursuant to this subdivision. For taxes payable in 1989, the amount of the refund must be reduced by the homestead credit. No payment is allowed if the claimant's household income is \$35,000 or more.

Sec. 6. Minnesota Statutes 1987 Supplement, section 290A.04, subdivision 2b, is amended to read:

Subd. 2b. The commissioner may reconstruct the tables in ~~subdivisions subdivision 2 and 2a~~ for homeowners to reflect the elimination of the homestead credit beginning for claims based on taxes payable in ~~1989~~ 1990.

Sec. 7. Minnesota Statutes 1986, section 290A.04, is amended by adding a subdivision to read:

Subd. 2h. If the net property taxes payable in 1989 on a homestead increase more than ten percent over the net property taxes payable in 1988 on the same property, and the amount of that increase is \$40 or more, a claimant who is a homeowner shall be allowed an additional refund equal to 75 percent of the amount by which the increase exceeds ten percent. This subdivision shall not apply to any increase in the net property taxes payable attributable to improvements made to the homestead.

A refund under this subdivision shall not exceed \$250.

For purposes of this subdivision, "net property taxes payable" means property taxes payable after reductions made pursuant to sections 273.13, subdivisions 22 and 23; 273.132; 273.135; 273.1391; and 273.42, subdivision 2, and any other state paid property tax credits and after the deduction of tax refund amounts for which the claimant qualifies pursuant to subdivision 2.

In addition to the other proofs required by this chapter, each claimant under this subdivision shall file with the property tax refund return a copy of the property tax statement for taxes payable in the preceding year or other documents required by the commissioner.

Sec. 8. Minnesota Statutes 1987 Supplement, section 290A.06, is amended to read:

290A.06 FILING TIME LIMIT, LATE FILING; INCOME TAX RETURN.

Any claim for a refund based on property taxes payable shall be filed with the department of revenue on or before August 15 of the year in which the property taxes are due and payable. ~~A copy of the claimant's federal income tax return for the taxable year preceding the year in which the property taxes are payable must be filed with the claim if the claimant filed a federal income tax return for that year.~~

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Any claim for rent constituting property taxes shall be filed with the department of revenue on or before August 15 of the year following the year in which the rent was paid. A copy of the claimant's federal income tax return for the taxable year in which the rent was paid must be filed with the claim if the claimant filed a federal income tax return for that year.

The commissioner may extend the time for filing these claims for a period not to exceed six months in the case of sickness, absence, or other disability, or when in the commissioner's judgment other good cause exists.

A claim filed after the original or extended due date shall be allowed, but the amount of credit shall be reduced by five percent of the amount otherwise allowable, plus an additional five percent for each month of delinquency, not exceeding a total reduction of 25 percent which may be canceled or reduced by the commissioner in the case of sickness, absence, or other disability, or when in the commissioner's judgment other good cause exists. In any event no claim shall be allowed if the initial claim is filed one year after the original due date for filing the claim.

The time limit on redetermination of claims for refund and examination of records shall be governed by sections 290.49, 290.50, and 290.56 and for purposes of computing the time limit as provided in these sections the due date of the property tax refund return shall be the same as the due date contained in section 290.42 for an income tax return covering the year in which the rent was paid or the year preceding the year in which the property taxes are payable.

Sec. 9. [290A.24] FINANCIAL REPORTING.

For financial reporting and accounting purposes and for purposes of the state budget, the refunds paid under this chapter must be recognized and accounted for as an adjustment in the total amount of withholding tax paid under section 290.92 and declarations of estimated tax under section 290.93.

Sec. 10. TRANSITION RULE.

For purposes of claims based on rent paid in 1987 and property taxes payable in 1988, a claimant who has a dependent under the revised definition in section 2 shall be treated as having claimed a personal exemption for a dependent under federal law in order to qualify for a refund under Minnesota Statutes 1987 Supplement, section 290A.04, subdivision 2.

Sec. 11. Laws 1987, chapter 268, article 3, section 12, is amended to read:

Sec. 12. LIMITATIONS ON PROPERTY TAX REFUNDS.

(a) For claims filed based on rent paid in 1986 and property taxes payable in 1987, the commissioner shall pay ~~67~~ 100 percent of the payments allowable under section 290A.04, subdivisions 1 and 2. ~~The commissioner shall include with each reduced refund a statement that the reduction is required by this section:~~

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(b) Minnesota Statutes 1986, section 290A.23 does not apply to claims based on property taxes payable in 1988 and rent paid in 1987 under section 290A.04, subdivisions 1 and 2. \$125,000,000 is appropriated to the commissioner of revenue for fiscal year 1989 to pay the claims. The commissioner shall estimate the amount of payments allowable under section 290A.04, subdivisions 1 and 2, by August 25, 1988. If the estimate exceeds the \$125,000,000 limitation, the commissioner shall proportionally reduce the refunds paid so that the refunds paid equal \$125,000,000. All refunds for claims based on property taxes payable in 1988 and rent paid in 1987 must be reduced by the same percentage. If reduced, the commissioner shall include with each refund a statement that the reduction is required by this section.

Sec. 12. PAYMENT.

By June 15, 1988, the commissioner of revenue shall pay claimants for claims paid before the date of final enactment based on rent paid in 1986 and property taxes payable in 1987 the difference between the payments allowable under Minnesota Statutes, section 290A.04, subdivisions 1 and 2, and the amounts paid under Laws 1987, chapter 268, article 3, section 12, paragraph (a). The amounts paid shall be reduced for claims filed after the original or extended due date as provided in Minnesota Statutes, section 290A.06. Interest shall not be paid on payments made by June 15, 1988. Thereafter, interest shall be added at the rate specified in Minnesota Statutes, section 270.76, from June 15, 1988, until the claim is paid.

The commissioner of revenue shall include with each payment a statement explaining that the payment is the balance of the claim filed based on rent paid in 1986 or property taxes payable in 1987 and that the payment is required by this act. The statement must read substantially as follows:

"Here is the rest of your 1986 property tax refund.

As you recall, a state law reduced all 1986 property tax refund checks by 33 percent.

The amount of this check, together with the amount of the property tax refund check you received last fall, should equal the amount of the refund you listed on your 1986 property tax refund application."

Sec 13. REPEALER.

Minnesota Statutes 1987 Supplement, section 290A.04, subdivision 2a, is repealed.

Sec. 14. APPROPRIATION.

The amount necessary to pay the refunds required in section 12 is appropriated for fiscal year 1988 from the general fund to the commissioner of revenue.

Sec. 15. EFFECTIVE DATES.

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Sections 1 to 5 and 13 are effective for claims based on rent paid in 1988 and subsequent years and claims based on property taxes payable in 1989 and subsequent years. Section 6 is effective for claims based on property taxes paid in 1990. Section 7 is effective for property taxes payable in 1989. Section 8 is effective for claims based on rent paid in 1987 and subsequent years and claims based on property taxes payable in 1988 and subsequent years. Sections 10, 11, 12, and 14 are effective the day following final enactment.

ARTICLE 5

PROPERTY TAX REFORM

Section 1. Minnesota Statutes 1987 Supplement, section 124.155, subdivision 2, is amended to read:

Subd. 2. **ADJUSTMENT TO AIDS.** The amount specified in subdivision 1 shall be used to adjust the following state aids and credits in the order listed:

- (a) foundation aid as defined in section 124A.01;
- (b) secondary vocational aid authorized in section 124.573;
- (c) special education aid authorized in section 124.32;
- (d) secondary vocational aid for handicapped children authorized in section 124.574;
- (e) gifted and talented aid authorized in section 124.247;
- (f) aid for pupils of limited English proficiency authorized in section 124.273;
- (g) aid for chemical use programs authorized in section 124.246;
- (h) interdistrict cooperation aid authorized in section 124.272;
- (i) summer program aid authorized in section 124A.033;
- (j) transportation aid authorized in section 124.225;
- (k) community education programs aid authorized in section 124.271;
- (l) adult education aid authorized in section 124.26;
- (m) early childhood family education aid authorized in section 124.2711;
- (n) capital expenditure equalization aid authorized in section 124.245;
- (o) homestead credit ~~replacement aid authorized in section 273.1394 under section 273.13~~ replacement aid authorized in section 273.1394 under section 273.13 for taxes payable in 1989 and under section 273.1398 for taxes payable in 1990 and thereafter;

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(p) ~~agricultural credit replacement aid authorized in under section 273.1395 273.132 for taxes payable in 1989 and under section 273.1398 for taxes payable in 1990 and thereafter;~~

(q) transition aid and disparity reduction aid authorized in section 273.1398;

(~~e~~) (r) attached machinery aid authorized in section 273.138, subdivision 3;
and

(~~r~~) (s) teacher retirement and F.I.C.A. aid authorized in sections 124.2162 and 124.2163.

The commissioner of education shall schedule the timing of the adjustments to state aids and credits specified in subdivision 1, as close to the end of the fiscal year as possible.

Sec. 2. Minnesota Statutes 1987 Supplement, section 124.2131, subdivision 3, is amended to read:

Subd. 3. **DECREASE IN IRON ORE ASSESSED VALUE.** If in any year the ~~assessed value~~ gross tax capacity of iron ore property, as defined in section 273.13, subdivision 31 in any district is less than the ~~assessed value~~ gross tax capacity of such property in the preceding year, the commissioner of revenue shall redetermine for all purposes the adjusted ~~assessed value~~ gross tax capacity of the preceding year taking into account only the decrease in ~~assessed value~~ gross tax capacity of iron ore property as defined in section 273.13, subdivision 31. If subdivision 2, clause (a), is applicable to the district, the decrease in iron ore property shall be applied to the adjusted assessed value as limited therein. In all other respects, the provisions of clause (1) shall apply.

Sec. 3. Minnesota Statutes 1987 Supplement, section 124.2139, is amended to read:

124.2139 **REDUCTION OF HOMESTEAD CREDIT PAYMENTS TO SCHOOL DISTRICTS.**

The commissioner of revenue shall reduce the homestead credit replacement aid payments under section 273.13 for fiscal year 1990, the sum of the homestead credit, and transition aid and disparity reduction aid payments under section 273.1398 for fiscal years 1991 and thereafter made to school districts ~~pursuant to section 273.1394~~ by the product of:

(1) the district's fiscal year 1984 payroll for coordinated plan members of the public employees retirement association, times

(2) the difference between the employer contribution rate in effect prior to July 1, 1984, and the total employer contribution rate in effect after June 30, 1984.

Sec. 4. Minnesota Statutes 1987 Supplement, section 124A.02, subdivision 3a, is amended to read:

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Subd. 3a. **ADJUSTED ASSESSED VALUATION.** "Adjusted assessed valuation" means the assessed valuation of the taxable property ~~notwithstanding the provisions of section 275.49~~ of the school district as adjusted by the commissioner of revenue under section 124.2131. The adjusted assessed valuation for any given calendar year shall be used to compute levy limitations for levies certified in the succeeding calendar year and aid for the school year beginning in the second succeeding calendar year.

Sec. 5. Minnesota Statutes 1987 Supplement, section 124A.02, subdivision 11, is amended to read:

Subd. 11. **MINIMUM AID.** A qualifying district's minimum aid for each school year shall equal its minimum guarantee for that school year, minus the sum of:

(1) the amount of the district's homestead credit ~~replacement aid paid under section 273.1394 and its 273.13, for taxes payable in 1989 and under section 273.1398 for taxes payable in 1990 and thereafter, agricultural credit replacement aid under section 273.1395 273.132, for taxes payable in 1989 and under section 273.1398 for taxes payable in 1990 and thereafter, and transition aid and disparity reduction aid paid under section 273.1398~~ for that school year, after any positive tax base adjustment but prior to any negative tax base adjustment under section 273.1396;

(2) the amount by which property taxes of the district for use in that school year are reduced by the attached machinery provisions in section 273.138, subdivision 6;

(3) the amount by which property taxes of the district for use in that school year are reduced by the state reimbursed disaster or emergency reassessment provisions in section 273.123; and

(4) the amount by which property taxes of the district for use in that school year are reduced by the metropolitan agricultural preserve provisions in section 473H.10.

Sec. 6. Minnesota Statutes 1987 Supplement, section 272.115, subdivision 4, is amended to read:

Subd. 4. No real estate sold on or after January 1, 1978, for which a certificate of value is required pursuant to subdivision 1 shall ~~receive the homestead value exemption amount or the agricultural exemption amount computed in section 275.081; or the taconite homestead credit provided in sections 273.134 to 273.136 be classified as a homestead,~~ unless a certificate of value has been filed with the county auditor in accordance with this section.

This subdivision shall apply to any real estate taxes that are payable the year or years following the sale of the property.

Sec. 7. Minnesota Statutes 1987 Supplement, section 273.1102, is amended by adding a subdivision to read:

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Subd. 3. [1988 ADJUSTMENT.] For school districts levy limitations or authorities expressed in terms of mills and adjusted assessed value, their levy limitations shall be converted by the department of education to "equalized tax capacity rates." For purposes of this calculation, the 1987 adjusted assessed values of the district shall be converted to "adjusted gross tax capacities" by multiplying the equalized market values by class of property by the gross tax capacity rates provided in section 273.13. Each county assessor and the city assessors of Minneapolis, Duluth, and St. Cloud shall furnish the commissioner of revenue the 1987 market value for taxes payable in 1988 for any new classes of property established in this article. The commissioner shall use those values, and estimate values where needed, in developing the 1987 tax capacity for each school district under this section. The requirements of section 124.2131, subdivision 1, paragraph (c), and subdivisions 2 and 3, shall remain in effect.

Sec. 8. Minnesota Statutes 1987 Supplement, section 273.123, subdivision 4, is amended to read:

Subd. 4. STATE REIMBURSEMENT. The county auditor shall calculate the tax on the property described in subdivision 2 based on the assessment made on January 2 of the year in which the disaster or emergency occurred. The difference between the tax determined on the January 2 assessed value and the tax actually payable based on the reassessed value determined under subdivision 2 shall be reimbursed to each taxing jurisdiction in which the damaged property is located. The amount shall be certified by the county auditor and reported to the commissioner of revenue. The commissioner shall make the payments to the taxing jurisdictions containing the property at the time distributions are made pursuant to ~~section 273.1394~~ section 273.13 for taxes payable in 1989, and pursuant to section 273.1398 for taxes payable in 1990 and thereafter, in the same proportion that the ad valorem tax is distributed.

Sec. 9. Minnesota Statutes 1987 Supplement, section 273.123, subdivision 5, is amended to read:

Subd. 5. COMPUTATION OF CREDITS. The amounts of any credits or tax relief which reduce the gross tax shall be computed upon the reassessed value determined under subdivision 2. Payment shall be made pursuant to ~~section 273.1394~~ section 273.13 for taxes payable in 1989, and pursuant to section 273.1398 for taxes payable in 1990 and thereafter. For purposes of the property tax refund, property taxes payable, as defined in section 290A.03, subdivision 13, and net property taxes payable, as defined in section 290A.04, subdivision 2d, shall be computed upon the reassessed value determined under subdivision 2.

Sec. 10. Minnesota Statutes 1987 Supplement, section 273.124, subdivision 8, is amended to read:

Subd. 8. HOMESTEAD OWNED BY FAMILY FARM CORPORATION OR PARTNERSHIP. (a) Each family farm corporation and each partnership operating a family farm is entitled to class 1b under section 273.13, subdivision

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22, paragraph (b), or class 2a assessment for one homestead occupied by a shareholder or partner thereof who is residing on the land and actively engaged in farming of the land owned by the corporation or partnership. Homestead treatment applies even if legal title to the property is in the name of the corporation or partnership and not in the name of the person residing on it. "Family farm corporation" and "family farm" have the meanings given in section 500.24.

(b) In addition to property specified in paragraph (a), any other residences owned by corporations or partnerships described in paragraph (a) which are located on agricultural land and occupied as homesteads by shareholders or partners who are actively engaged in farming on behalf of the corporation or partnership must also be assessed as class 2a property or as class 1b property under section 273.13, subdivision 22, paragraph (b), but the property eligible is limited to the residence itself and as much of the land surrounding the homestead, not exceeding one acre, as is reasonably necessary for the use of the dwelling as a home, and does not include any other structures that may be located on it.

Sec. 11. Minnesota Statutes 1987 Supplement, section 273.124, subdivision 11, is amended to read:

Subd. 11. **LIMITATION ON HOMESTEAD CLASSIFICATION.** If the assessor has classified a property as both homestead and nonhomestead, the greater of the value attributable to the portion of the property classified as class 1 or class 2a or the value of the first tier of ~~assessment~~ gross tax capacity percentages provided under section 273.13, subdivision 22, or 23, paragraph (a) is entitled to assessment as a homestead under section 273.13, subdivision 22 or 23; ~~and the homestead exemption under section 275.081, subdivision 2.~~ The limitation in this subdivision does not apply to buildings containing fewer than four residential units or to a single rented or leased dwelling unit located within or attached to a private garage or similar structure owned by the owner of a homestead and located on the premises of that homestead.

If the assessor has classified a property as both homestead and nonhomestead, the homestead credit provided in section 273.13, subdivisions 22 and 23 and the reductions in tax provided under sections 273.135 and 273.1391 apply to the value of both the homestead and the nonhomestead portions of the property.

Sec. 12. Minnesota Statutes 1987 Supplement, section 273.124, subdivision 13, is amended to read:

Subd. 13. **SOCIAL SECURITY NUMBER REQUIRED FOR HOMESTEAD APPLICATION.** ~~Beginning with the January 2, 1987, assessment,~~ Every property owner applying for homestead classification must furnish to the county assessor that owner's social security or taxpayer identification number. If the social security or taxpayer identification number is not provided, the county assessor shall classify the property as nonhomestead. The social security numbers of the property owners are private data on individuals as defined by section

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13.02, subdivision 12, but, notwithstanding that section, the private data may be disclosed to the commissioner of revenue.

At the request of the commissioner, each county must give the commissioner a listing list that includes the name and social security or taxpayer identification number of each property owner applying for homestead classification.

If, in comparing the lists supplied by the counties, the commissioner finds that a property owner is claiming more than one homestead, the commissioner shall notify the appropriate counties. Within 90 days of the notification, the county assessor shall investigate to determine if the homestead classification was properly claimed. If the property owner does not qualify, the county assessor shall notify the county auditor who will determine the amount of homestead benefits that had been improperly allowed. For the purpose of this section, "homestead benefits" means the tax reduction resulting from the ~~homestead exemption amount provided under section 275.081~~ classification as a homestead under section 273.13, the homestead credit under section 273.13 for taxes payable in 1989 and under section 273.1398 for taxes payable in 1990 and thereafter, the taconite homestead credit, and the supplemental homestead credit, and the tax reduction resulting from the agricultural exemption amount provided in section 275.081 credit under section 273.132 for taxes payable in 1989 and under section 273.1398 for taxes payable in 1990 and thereafter. The county auditor shall send a notice to the owners of the affected property, demanding reimbursement of the homestead benefits plus a penalty equal to 25 percent of the homestead benefits. The property owners may appeal the county's determination by filing a notice of appeal with the Minnesota tax court within 60 days of the date of the notice from the county.

If the amount of homestead benefits and penalty is not paid within 60 days, and if no appeal has been filed, the county auditor shall certify the amount to the succeeding year's tax list to be collected as part of the property taxes.

Any amount of homestead benefits recovered from the property owner must be transmitted to the commissioner by the end of each calendar quarter. Any amount recovered attributable to taconite homestead credit shall be transmitted to the St. Louis county auditor to be deposited in the taconite property tax relief account. The amount of penalty collected must be deposited in the county general fund.

The commissioner will provide suggested homestead applications to each county. If a property owner has applied for more than one homestead and the county assessors cannot determine which property should be classified as homestead, the county assessors will refer the information to the commissioner. The commissioner shall make the determination and notify the counties within 60 days.

In addition to lists of homestead properties, the commissioner may ask the counties to furnish lists of all properties and the record owners.

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Sec. 13. Minnesota Statutes 1987 Supplement, section 273.13, subdivision 15a, is amended to read:

Subd. 15a. **GENERAL FUND, REPLACEMENT OF REVENUE.** (1) Payment from the general fund shall be made, as provided herein, for the purpose of replacing revenue lost as a result of the reduction of property taxes provided in ~~subdivision~~ subdivisions 22 and 23.

(2) Each county auditor shall certify, not later than May 1 of each year to the commissioner of revenue the amount of reduction resulting from ~~subdivision~~ subdivisions 22 and 23 in the auditor's county. This certification shall be submitted to the commissioner of revenue as part of the abstracts of tax lists required to be filed with the commissioner under the provisions of section 275.29. Any prior year adjustments shall also be certified in the abstracts of tax lists. The commissioner of revenue shall review such certifications to determine their accuracy. The commissioner may make such changes in the certification as are deemed necessary or return a certification to the county auditor for corrections.

(3) Based on current year tax data reported in the abstracts of tax lists, the commissioner of revenue shall annually determine the taxing district distribution of the amounts certified under clause (2). The commissioner of revenue shall pay to each taxing district, other than school districts, its total payment for the year in equal installments on or before July ~~15~~ 20 and December 15 of each year.

Sec. 14. Minnesota Statutes 1986, section 273.13, is amended by adding a subdivision to read:

Subd. 21a. **TAX CAPACITY.** In this section, wherever the "tax capacity" of a class of property is specified without qualification as to whether it is the property's "net tax capacity" or its "gross tax capacity," the "net tax capacity" and "gross tax capacity" of that property are the same as its "tax capacity."

Sec. 15. Minnesota Statutes 1987 Supplement, section 273.13, subdivision 22, is amended to read:

Subd. 22. **CLASS 1.** (a) Except as provided in subdivision 23, real estate which is residential and used for homestead purposes is class 1. The market value of class 1a property must be determined based upon the value of the house, garage, and land.

The first \$68,000 of market value of class 1a property ~~must be assessed at 1.7~~ has a net tax capacity of one percent of its market value and a gross tax capacity of 2.17 percent of its market value. The ~~homestead market value of class 1a property that exceeds \$68,000 must be assessed at 2.7~~ but does not exceed \$100,000 has a tax capacity of 2.5 percent of its market value. The market value of class 1a property that exceeds \$100,000 has a tax capacity of 3.3 percent of its market value.

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(b) Class 1b property includes real estate or manufactured homes used for the purposes of a homestead by

(1) any blind person, if the blind person is the owner thereof or if the blind person and the blind person's spouse are the sole owners thereof; or

(2) any person, hereinafter referred to as "veteran," who:

(i) served in the active military or naval service of the United States; and

(ii) is entitled to compensation under the laws and regulations of the United States for permanent and total service-connected disability due to the loss, or loss of use, by reason of amputation, ankylosis, progressive muscular dystrophies, or paralysis, of both lower extremities, such as to preclude motion without the aid of braces, crutches, canes, or a wheelchair; and

(iii) with assistance by the administration of veterans affairs has acquired a special housing unit with special fixtures or movable facilities made necessary by the nature of the veteran's disability, or the surviving spouse of the deceased veteran for as long as the surviving spouse retains the special housing unit as a homestead; or

(3) any person who:

(i) is permanently and totally disabled and

(ii) receives 90 percent or more of total income from

(A) aid from any state as a result of that disability; or

(B) supplemental security income for the disabled; or

(C) workers' compensation based on a finding of total and permanent disability; or

(D) social security disability, including the amount of a disability insurance benefit which is converted to an old age insurance benefit and any subsequent cost of living increases; or

(E) aid under the Federal Railroad Retirement Act of 1937, United States Code Annotated, title 45, section 228b(a)5; or

(F) a pension from any local government retirement fund located in the state of Minnesota as a result of that disability; or

(iii) whose household income as defined in section 290A.03, subdivision 5, is 150 percent or less of the federal poverty level.

Property is classified and assessed pursuant to clause (1) only if the commissioner of jobs and training certifies to the assessor that the owner of the property satisfies the requirements of this subdivision. The commissioner of jobs and training shall provide a copy of the certification to the commissioner of revenue.

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Class 1b property is valued and assessed as follows: in the case of agricultural land, including a manufactured home, used for a homestead, the first \$33,000 of market value shall be valued and assessed at five percent; the next \$33,000 of market value shall be valued and assessed at 14 percent; and the remaining market value shall be valued and assessed at 18 percent; and in the case of all other real estate and manufactured homes, the first \$34,000 of market value shall be valued and assessed at five percent; the next \$34,000 of market value shall be valued and assessed at 17 percent; and the remaining market value shall be valued and assessed at 27 percent. In the case of agricultural land including a manufactured home used for purposes of a homestead, the commissioner of revenue shall adjust, as provided in section 273.1311, the maximum amount of the market value of the homestead brackets subject to the five percent and 18 percent rates; and for all other real estate and manufactured homes, the commissioner of revenue shall adjust, as provided in section 273.1311, the maximum amount of the market value of the homestead brackets subject to the five percent and 17 percent rates. Permanently and totally disabled for the purpose of this subdivision means a condition which is permanent in nature and totally incapacitates the person from working at an occupation which brings the person an income. The first \$32,000 market value of class 1b property has a net tax capacity of .4 percent of its market value and a gross tax capacity of .87 percent of its market value. The remaining market value of class 1b property has a gross or net tax capacity using the rates for class 1 or class 2a property, whichever is appropriate, of similar market value.

(c) Class 1c property is commercial use real property that abuts a lakeshore line and is devoted to temporary and seasonal residential occupancy for recreational purposes but not devoted to commercial purposes for more than 200 days in the year preceding the year of assessment, and that includes a portion used as a homestead by the owner. ~~It must be assessed at 12~~ Class 1c property has a tax capacity of .9 percent of market value with the following limitation: the area of the property must not exceed 100 feet of lakeshore footage for each cabin or campsite located on the property up to a total of 800 feet and 500 feet in depth, measured away from the lakeshore.

(d) For taxes levied in 1988, payable in 1989 only, the tax to be paid on class 1a or class 1b property, ~~less any reduction received pursuant to sections 273.123 and 473H.10,~~ shall be reduced by 54 percent of the tax imposed on the first \$68,000 of market value. The amount of the reduction shall not exceed \$700 \$725.

Sec. 16. Minnesota Statutes 1987 Supplement, section 273.13, subdivision 23, is amended to read:

Subd. 23. CLASS 2. (a) Class 2a property is agricultural land including any improvements that is homesteaded, ~~together with the house and garage.~~ The first \$66,000 of market value of an agricultural homestead is valued at 30 percent. The market value of the house and garage and immediately surrounding one acre of land that does not exceed \$65,000 has a net tax capacity of .805

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percent of market value and a gross tax capacity of 1.75 percent of market value. The excess market value over \$65,000 has a tax capacity of 2.2 percent. If the market value of the house, garage, and surrounding one acre of land is less than \$65,000, the value of the remaining land including improvements equal to the difference between \$65,000 and the market value of the house, garage, and surrounding one acre of land has a net tax capacity of 1.12 percent of market value and a gross tax capacity of 1.75 percent of market value for the first 320 acres of land and the remaining value over 320 acres has a net tax capacity of 1.295 percent of market value and a gross tax capacity of 1.75 percent of market value. The remaining value of class 2a property is assessed at 40 over the \$65,000 market value that does not exceed 320 acres has a net tax capacity of 1.44 percent of market value and a gross tax capacity of 2.25 percent of market value. The remaining property over the \$65,000 market value in excess of 320 acres has a net tax capacity of 1.665 percent of market value and a gross tax capacity of 2.25 percent of market value.

Noncontiguous land shall constitute class 2a only if the homestead is classified as class 2a and the detached land is located in the same township or city or not farther than two townships or cities or combination thereof from the homestead.

Agricultural land used for purposes of a homestead and actively farmed by a person holding a vested remainder interest in it must be classified class 2a. If agricultural land is classified class 2a, any other dwellings on the land used for purposes of a homestead by persons holding vested remainder interests who are actively engaged in farming the property, and up to one acre of the land surrounding each homestead and reasonably necessary for the use of the dwelling as a home, must also be assessed class 2a and is entitled to the homestead credit.

For taxes levied in 1988, payable in 1989 only, the tax to be paid on class 2a property; less any reduction received pursuant to sections 273.123 and 473H.10 and class 1b property under section 273.13, subdivision 22, paragraph (b), used for agricultural purposes shall be reduced by ~~52~~ 54 percent of the tax. The amount of the reduction shall not exceed \$700 ~~\$725.~~

(b) Class 2b property is (1) real estate, rural in character and used exclusively for growing trees for timber, lumber, and wood and wood products; and (2) real estate that is nonhomestead agricultural land. Class 2b property ~~is assessed at 40~~ has a net tax capacity of 1.665 percent of market value and a gross tax capacity of 2.25 percent of market value.

Agricultural land as used in this section ~~shall mean~~ means contiguous acreage of ten acres or more, primarily used during the preceding year for agricultural purposes. Agricultural use may include pasture, timber, waste, unusable wild land and land included in federal farm programs.

Real estate of less than ten acres used principally for raising poultry, livestock, fruit, vegetables or other agricultural products, including the breeding of fish for sale and consumption provided that it is located on land zoned for agricultural use, shall be considered as agricultural land, if it is not used primarily for residential purposes.

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The assessor shall determine and list separately on the records the market value of the homestead dwelling and the one acre of land on which that dwelling is located. If any farm buildings or structures are located on this homesteaded acre of land, their market value shall not be included in this separate determination.

Sec. 17. Minnesota Statutes 1987 Supplement, section 273.13, subdivision 24, is amended to read:

Subd. 24. CLASS 3. (a) Commercial ~~and~~, industrial, and utility property is class 3a. It ~~is assessed at 60~~ has a tax capacity of 3.3 percent of the first \$80,000 ~~\$100,000~~ of market value and ~~96~~ 5.25 percent of the market value over ~~\$80,000~~ \$100,000. For taxes payable in 1991, the 5.25 percent rate shall be 5.2 percent and for taxes payable in 1992 and subsequent years the rate shall be 5.15 percent. In the case of state-assessed commercial ~~or~~, industrial, and utility property owned by one person or entity, only one parcel ~~may qualify for the 60~~ has a tax capacity 3.3 percent assessment. In the case of other commercial ~~or~~, industrial, and utility property owned by one person or entity, only one parcel in each county ~~may qualify for the 60~~ has a tax capacity of 3.3 percent assessment.

(b) Employment property defined in section 469.166, during the period provided in section 469.170, shall constitute class 3b and ~~shall be valued and assessed at 45~~ has a tax capacity of 2.5 percent of the first \$50,000 of market value and ~~50~~ 3.5 percent of the remainder, except that for employment property located in a border city enterprise zone designated pursuant to section 469.168, subdivision 4, paragraph (c), the tax capacity of the first \$80,000 \$100,000 of market value ~~shall be valued and assessed at 60~~ is 3.3 percent and the tax capacity of the remainder shall be assessed and valued at 86 is 4.8 percent, unless the governing body of the city designated as an enterprise zone determines that a specific parcel shall be assessed pursuant to the first clause of this sentence. The governing body may provide for assessment under the first clause of the preceding sentence only for property which is located in an area which has been designated by the governing body for the receipt of tax reductions authorized by section 469.171, subdivision 1.

Sec. 18. Minnesota Statutes 1987 Supplement, 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. Class 4a property ~~is assessed at 70~~ has a tax capacity of 4.1 percent of market value.

(b) Class 4b includes:

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(1) residential real estate containing less than four units, other than seasonal residential, recreational, and ~~homesteads~~ a structure having five or more stories that is constructed with materials meeting the requirements for type I or II construction as defined in the state building code, 90 percent or more of which is used or is to be used as apartment housing for a period of 40 years from the date of completion of original construction, or the date of initial though partial use, whichever is the earlier date;

(2) post-secondary student housing not to exceed one acre of land which is owned by a nonprofit corporation organized under chapter 317 and is used exclusively by a sorority or fraternity organization for housing;

(3) manufactured homes not classified under any other provision; ~~and~~

(4) a dwelling, garage, and surrounding one acre of property on a nonhomestead farm classified under subdivision 23, paragraph (b), which has a tax capacity of 2.7 percent of market value.

Class 4b property is assessed at ~~60 percent~~ for taxes levied in 1988, payable in 1989 and thereafter has a tax capacity of 3.5 percent of market value, except as provided in clause (4).

(c) Class 4c property includes:

(1) a structure that is situated on real property that is used for housing for the elderly or for low and moderate income families as defined by Title II of the National Housing Act or the Minnesota housing finance agency law of 1971 or rules promulgated by the agency pursuant thereto and financed by a direct federal loan or federally insured loan or a loan made by the Minnesota housing finance agency pursuant to the provisions of either of those acts and acts amendatory thereof. This clause applies only to property of a nonprofit or limited dividend entity. Property is classified as class 4c under this clause for 15 years from the date of the completion of the original construction or substantial rehabilitation, or for the original term of the loan;

(2) a structure that is:

(i) situated upon real property that is used for housing lower income families or elderly or handicapped persons, as defined in section 8 of the United States Housing Act of 1937, as amended; and

(ii) owned by an entity which has entered into a housing assistance payments contract under section 8 which provides assistance for 100 percent of the dwelling units in the structure, other than dwelling units intended for management or maintenance personnel. Property is classified as class 4c under this clause for the term of the housing assistance payments contract, including all renewals, or for the term of its permanent financing, whichever is shorter; and

(3) a qualified low-income building that (i) receives a low-income housing credit under section 42 of the Internal Revenue Code of 1986, as amended through December 31, 1987; or (ii) meets the requirements of that section. Classification pursuant to this clause is limited to buildings the construction or rehabilitation of which began after May 1, 1988 and to a term of 15 years.

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For all properties described in clauses (1) ~~and (2)~~, (2), and (3) and in paragraph (d), ~~clause (2)~~; the market value determined by the assessor must be based on the normal approach to value using normal unrestricted rents. The land on which these structures are situated has a tax capacity of 3.5 percent of market value if the structure contains fewer than four units, and 4.1 percent of market value if the structure contains four or more units.

~~(3)~~ (4) a parcel of land, not to exceed one acre, and its improvements or a parcel of unimproved land, not to exceed one acre, if it is owned by a neighborhood real estate trust and at least 60 percent of the dwelling units, if any, on all land owned by the trust are leased to or occupied by lower income families or individuals. This clause does not apply to any portion of the land or improvements used for nonresidential purposes. For purposes of this clause, a lower income family is a family with an income that does not exceed 65 percent of the median family income for the area, and a lower income individual is an individual whose income does not exceed 65 percent of the median individual income for the area, as determined by the United States Secretary of Housing and Urban Development. For purposes of this clause, "neighborhood real estate trust" means an entity which is certified by the governing body of the municipality in which it is located to have the following characteristics: (a) it is a nonprofit corporation organized under chapter 317; (b) it has as its principal purpose providing housing for lower income families in a specific geographic community designated in its articles or bylaws; (c) it limits membership with voting rights to residents of the designated community; and (d) it has a board of directors consisting of at least seven directors, 60 percent of whom are members with voting rights and, to the extent feasible, 25 percent of whom are elected by resident members of buildings owned by the trust; and

~~(4)~~ (5) except as provided in subdivision 22, paragraph ~~(4)~~ (c), ~~clause (1)~~; 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 200 days in the year preceding the year of assessment. For this purpose, property is devoted to commercial use on a specific day if it is used, or offered for use, and a fee is charged for the use. 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 200 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 clauses (5) and (6) also includes the remainder of class ~~4d 1c~~ resorts and has a tax capacity of 2.6 percent of market value, except that noncommercial seasonal recreational property has a tax capacity of 2.3 percent of market value; and

~~(5)~~ (6) 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

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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, 1986. 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 nonintoxicating 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; and

Class 4c property is assessed at ~~50~~ classified under clauses (1), (2), (3), and (4) has a tax capacity of 2.5 percent of market value.

(d) Class 4d property includes:

~~(1) commercial use real property that abuts a lakeshore line and is devoted to temporary and seasonal residential occupancy for recreational purposes but not devoted to commercial purposes for more than 200 days in the year preceding the year of assessment; and that includes a portion used as a homestead by the owner. The area of the property that is classified as class 4d must not exceed 100 feet of lakeshore footage for each cabin or campsite located on the property up to a total of 800 feet and 500 feet in depth; measured away from the lakeshore;~~

~~(2) any structure:~~

~~(i) situated on real property that is used for housing for the elderly or for low and moderate income families as defined by the farmers home administration;~~

~~(ii) located in a municipality of less than 10,000 population; and~~

~~(iii) financed by a direct loan or insured loan from the farmers home administration. Property must be assessed is classified under this clause for 15 years from the date of the completion of the original construction or for the original term of the loan.~~

~~The 30 percent and 50 percent assessment ratios~~ 1.5 percent and 2.5 percent

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tax capacity assignments apply to the properties described in paragraph (c), clauses (1) and (2), (2), and (3) and this clause, only in proportion to occupancy of the structure by elderly or handicapped persons or low and moderate income families as defined in the applicable laws unless construction of the structure had been commenced prior to January 1, 1984; or the project had been approved by the governing body of the municipality in which it is located prior to June 30, 1983; or financing of the project had been approved by a federal or state agency prior to June 30, 1983. Classification under this clause is only available to property of a nonprofit or limited dividend entity; and

(3) the first \$34,000 of market value of real estate or manufactured homes used for the purposes of a homestead by

(i) any blind person; if the blind person is the owner thereof or if the blind person and the blind person's spouse are the sole owners thereof; or

(ii) any person; hereinafter referred to as "veteran," who:

(A) served in the active military or naval service of the United States; and

(B) is entitled to compensation under the laws and regulations of the United States for permanent and total service-connected disability due to the loss, or loss of use, by reason of amputation, ankylosis, progressive muscular dystrophies, or paralysis, of both lower extremities, such as to preclude motion without the aid of braces, crutches, canes, or a wheelchair; and

(C) with assistance by the administration of veterans affairs has acquired a special housing unit with special fixtures or movable facilities made necessary by the nature of the veteran's disability; or the surviving spouse of the deceased veteran for as long as the surviving spouse retains the special housing unit as a homestead; or

(iii) any person who:

(A) is permanently and totally disabled and

(B) receives 90 percent or more of total income from

(1) aid from any state as a result of that disability; or

(2) supplemental security income for the disabled; or

(3) workers' compensation based on a finding of total and permanent disability; or

(4) social security disability, including the amount of a disability insurance benefit which is converted to an old age insurance benefit and any subsequent cost of living increases; or

(5) aid under the Federal Railroad Retirement Act of 1937, United States Code Annotated, title 45, section 228b(a)5; or

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(6) a pension from any local government retirement fund located in the state of Minnesota as a result of that disability.

Property is classified and assessed pursuant to this clause only if the commissioner of human services certifies to the assessor that the owner of the property satisfies the requirements of this subdivision. The commissioner of human services shall provide a copy of the certification to the commissioner of revenue.

The remaining value of class 4(d)(3) property in excess of \$34,000 shall be valued and assessed under subdivision 22 or 23, as appropriate, provided that only the value in excess of \$34,000 but not in excess of \$68,000 is assessed at the rate provided for the first tier of value in subdivision 22 or only the value in excess of \$34,000 but not in excess of \$66,000 is assessed at the rate provided for the first tier of value in subdivision 23.

Class 4d property is assessed at 30 percent of market value has a tax capacity of 1.5 percent of market value.

Sec. 19. Minnesota Statutes 1987 Supplement, section 273.13, subdivision 31, is amended to read:

Subd. 31. **CLASS 5.** All property not included in any other class is class 5 property and is assessed at 96 percent of market value.

(a) Tools, implements, and machinery of an electric generating, transmission, or distribution system or a pipeline system transporting or distributing water, gas, crude oil, or petroleum products or mains and pipes used in the distribution of steam or hot or chilled water for heating or cooling buildings, which are fixtures, have a tax capacity of 4.6 percent of market value.

(b) Unmined iron ore and low-grade iron-bearing formations as defined in section 273.14 have a tax capacity of 5.25 percent of market value.

(c) Vacant land has a tax capacity of 5.25 percent of market value.

(d) All other property not otherwise classified has a tax capacity of 5.25 percent of market value.

Sec. 20. Minnesota Statutes 1986, section 273.1315, is amended to read:

273.1315 CERTIFICATION OF 1B PROPERTY.

Any property owner seeking classification and assessment of the owner's homestead as class 1b property pursuant to section 273.13, subdivision 22, paragraph (b), clause (2) or (3), shall file with the commissioner of revenue for each assessment year a 1b homestead declaration, on a form prescribed by the commissioner. The declaration shall contain the following information:

(a) the information necessary to verify that the property owner or the owner's spouse satisfies the requirements of section 273.13, subdivision 22, paragraph (b), clause (2) or (3), for 1b classification;

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(b) the property owner's household income, as defined in section 290A.03, for the previous calendar year; and

(c) any additional information prescribed by the commissioner.

The declaration shall be filed on or before March 1 of each year to be effective for property taxes payable during the succeeding calendar year. The declaration and any supplementary information received from the property owner pursuant to this section shall be subject to section 290A.17.

The commissioner shall provide to the assessor on or before April 1 a listing of the parcels of property qualifying for 1b classification.

Sec. 21. [273.132] STATE AGRICULTURAL CREDIT.

Subdivision 1. AGRICULTURAL HOMESTEAD PROPERTY. For taxes levied in 1988, payable in 1989 only, the county auditor shall reduce the tax for all purposes on all property receiving the homestead credit under section 273.13, subdivision 23, by an amount equal to 36 percent of the tax levy imposed on up to 320 acres of land including the buildings and structures thereon but excluding all dwellings and an acre of land for each dwelling.

Subd. 2. OTHER AGRICULTURAL PROPERTY. For taxes levied in 1988, payable in 1989 only, the county auditor shall reduce the tax for all purposes on all other agricultural lands classified under section 273.13, subdivision 23, including buildings and structures thereon but excluding all dwellings and an acre of land for each dwelling, and on timber land classified under section 273.13, subdivision 23, paragraph (b) by an amount equal to 26 percent of the tax levy imposed on the property.

Subd. 3. ADMINISTRATION. The amounts so computed by the county auditor shall be submitted to the commissioner of revenue as part of the abstracts of tax lists required to be filed with the commissioner under the provisions of section 275.29. Any prior year adjustments shall also be certified in the abstracts of tax lists. The commissioner of revenue shall review the certifications to determine their accuracy and may make changes in the certification as deemed necessary or return a certification to the county auditor for corrections.

Subd. 4. PAYMENT TO TAXING JURISDICTIONS. Payment from the general fund must be made to each taxing jurisdiction to replace the revenue lost as a result of the credit provided in this section. Payment to taxing jurisdictions other than school districts must be made by the commissioner in equal installments on or before July 20 and December 15 each year. Payment to school districts must be made to the commissioner of education as provided in section 273.1392.

Subd. 5. APPROPRIATION. The amount necessary to make the payments required under this section is appropriated from the general fund in the state treasury to the commissioners of revenue and education for property taxes payable in 1989.

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Sec. 22, Minnesota Statutes 1987 Supplement, section 273.135, subdivision 2, is amended to read:

Subd. 2. For taxes payable in 1989 only, the amount of the reduction authorized by subdivision 1 shall be:

(a) In the case of property located within the boundaries of a municipality which meets the qualifications prescribed in section 273.134, 66 percent of the net tax up to the taconite breakpoint plus a percentage equal to the homestead credit equivalency percentage of the net tax in excess of the taconite breakpoint, provided that the reduction shall not exceed the maximum amounts specified in clause (c), and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10.

(b) In the case of property located within the boundaries of a school district which qualifies as a tax relief area but which is outside the boundaries of a municipality which meets the qualifications prescribed in section 273.134, 57 percent of the net tax up to the taconite breakpoint plus a percentage equal to the homestead credit equivalency percentage of the net tax in excess of the taconite breakpoint, provided that the reduction shall not exceed the maximum amounts specified in clause (c), and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10.

(c)(1) The maximum reduction of the net tax up to the taconite breakpoint is \$225.40 on property described in clause (a) and \$200.10 on property described in clause (b), for taxes payable in 1985. These maximum amounts shall increase by \$15 times the quantity one minus the homestead credit equivalency percentage per year for taxes payable in 1986 and subsequent years.

(2) The total maximum reduction of the net tax on property described in clause (a) is \$490 for taxes payable in 1985. The total maximum reduction for the net tax on property described in clause (b) is \$435 for taxes payable in 1985. These maximum amounts shall increase by \$15 per year for taxes payable in 1986 and thereafter.

For the purposes of this subdivision, "net tax" means the tax on the property after deduction of any credit under section 273.13, subdivision 22 or 23, "taconite breakpoint" means the lowest possible net tax for a homestead qualifying for the maximum reduction pursuant to section 273.13, subdivision 22, rounded to the nearest whole dollar, "homestead credit equivalency percentage" means a percentage equal to the percentage reduction authorized in section 273.13, subdivision 22, "effective tax rate" means tax divided by the market value of the property, and the "base year effective tax rate" means the tax on the property after the application of the credits payable under section 273.13, subdivisions 22 and 23, and this section for taxes payable in 1988, divided by the market value of the property. A new parcel of property or a parcel with a current year classification that is different from its base year classification has the same base year effective tax rate as an equivalent homesteaded parcel.

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Subd. 2a. For taxes payable in 1990 and thereafter, the amount of the reduction authorized by subdivision 1 shall be

(a) In the case of property located within the boundaries of a municipality which meets the qualifications prescribed in section 273.134, 66 percent of the tax, provided that the reduction shall not exceed the maximum amounts specified in clause (c) and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10.

(b) In the case of property located within the boundaries of a school district which qualifies as a tax relief area but which is outside the boundaries of a municipality which meets the qualifications prescribed in section 273.134, 57 percent of the tax, provided that the reduction shall not exceed the maximum amounts specified in clause (c) and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10.

(c) The total maximum reduction of the net tax on property described in clause (a) is \$490 for taxes payable in 1985. The total maximum reduction for the net tax on property described in clause (b) is \$435 for taxes payable in 1985. These maximum amounts shall increase by \$15 per year for taxes payable in 1986 and thereafter.

For the purposes of this subdivision, "tax" means the tax on the property before application of the credit payable under this section and "effective tax rate" means tax divided by the market value of the property, and "base year effective tax rate" means the tax on the property after the application of the credits payable under section 273.13, subdivisions 22 and 23, and this section for taxes payable in 1988, divided by the market value of the property. A new parcel of property or a parcel with a current year classification that is different from its base year classification has the same base year effective tax rate as an equivalent homesteaded parcel.

Sec. 23. Minnesota Statutes 1987 Supplement, section 273.1391, subdivision 2, is amended to read:

Subd. 2. For taxes payable in 1989 only, the amount of the reduction authorized by subdivision 1 shall be:

(a) In the case of property located within a school district which does not meet the qualifications of section 273.134 as a tax relief area, but which is located in a county with a population of less than 100,000 in which taconite is mined or quarried and wherein a school district is located which does meet the qualifications of a tax relief area, and provided that at least 90 percent of the area of the school district which does not meet the qualifications of section 273.134 lies within such county, 57 percent of the net tax up to the taconite breakpoint plus a percentage equal to the homestead credit equivalency percentage of the net tax in excess of the taconite breakpoint on qualified property

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located in the school district that does not meet the qualifications of section 273.134, provided that the amount of said reduction shall not exceed the maximum amounts specified in clause (c), and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10. The reduction provided by this clause shall only be applicable to property located within the boundaries of the county described therein.

(b) In the case of property located within a school district which does not meet the qualifications of section 273.134 as a tax relief area, but which is located in a school district in a county containing a city of the first class and a qualifying municipality, but not in a school district containing a city of the first class or adjacent to a school district containing a city of the first class unless the school district so adjacent contains a qualifying municipality, 57 percent of the net tax up to the taconite breakpoint plus a percentage equal to the homestead credit equivalency percentage of the net tax in excess of the taconite breakpoint, but not to exceed the maximums specified in clause (c), and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10.

(c)(1) The maximum reduction of the net tax up to the taconite breakpoint is \$200.10 for taxes payable in 1985. This maximum amount shall increase by \$15 multiplied by the quantity one minus the homestead credit equivalency percentage per year for taxes payable in 1986 and subsequent years.

(2) The total maximum reduction of the net tax is \$435 for taxes payable in 1985. This total maximum amount shall increase by \$15 per year for taxes payable in 1986 and thereafter.

For the purposes of this subdivision, "net tax" means the tax on the property after deduction of any credit under section 273.13, subdivision 22 or 23, "taconite breakpoint" means the lowest possible net tax for a homestead qualifying for the maximum reduction pursuant to section 273.13, subdivision 22, rounded to the nearest whole dollar, "homestead credit equivalency percentage" means a percentage equal to the percentage reduction authorized in section 273.13, subdivision 22 and "effective tax rate" means tax divided by the market value of the property, and the "base year effective tax rate" means the tax on the property after application of the credits payable under section 273.13, subdivisions 22 and 23 and this section for taxes payable in 1988, divided by the market value of the property. A new parcel with a current year classification that is different from its base year classification has the same base year effective tax rate as an equivalent homesteaded parcel.

Subd. 2a. For taxes payable in 1990 and thereafter, the amount of the reduction authorized by subdivision 1 shall be:

(a) In the case of property located within a school district which does not

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meet the qualifications of section 273.134 as a tax relief area, but which is located in a county with a population of less than 100,000 in which taconite is mined or quarried and wherein a school district is located which does meet the qualifications of a tax relief area, and provided that at least 90 percent of the area of the school district which does not meet the qualifications of section 273.134 lies within such county, 57 percent of the tax, provided that the amount of ~~said~~ the reduction shall not exceed the maximum amounts specified in clause (c) and shall not exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10. The reduction provided by this clause shall only be applicable to property located within the boundaries of the county described therein.

(b) In the case of property located within a school district which does not meet the qualifications of section 273.134 as a tax relief area, but which is located in a school district in a county containing a city of the first class and a qualifying municipality, but not in a school district containing a city of the first class or adjacent to a school district containing a city of the first class unless the school district so adjacent contains a qualifying municipality, 57 percent of the tax, but not to exceed the maximums specified in clause (c) and not to exceed an amount sufficient to reduce the effective tax rate on each parcel of property to 95 percent of the base year effective tax rate. In no case will the reduction resulting from this credit be less than \$10.

(c) The total maximum reduction of the tax is \$435 for taxes payable in 1985. This total maximum amount shall increase by \$15 per year for taxes payable in 1986 and thereafter.

For the purposes of this subdivision, "tax" means the tax on the property before application of the credit under this section, "effective tax rate" means tax divided by the market value of the property, and "base year effective tax rate" means the tax on the property after the application of the credits payable under section 273.13, subdivisions 22 and 23, and this section for taxes payable in 1988, divided by the market value of the property. A new parcel of property or a parcel with a current year classification that is different from its base year classification has the same base year effective tax rate as an equivalent homesteaded parcel.

Sec. 24. Minnesota Statutes 1987 Supplement, section 273.1392, is amended to read:

The amounts of ~~small business transition credit under section 273.1195; disaster or emergency reimbursement under section 273.123; attached machinery aid under section 273.138; homestead credit replacement aid under section 273.1394 273.13; agricultural credit replacement aid under section 273.1395 273.132; aids and credits under section 273.1398; and metropolitan agricultural preserve reduction under section 473H.10,~~ shall be certified to the department of education by the department of revenue. The amounts so certified shall be paid according to section 124.195, subdivisions 6 and 10.

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Sec. 25. Minnesota Statutes 1987 Supplement, section 273.1393, is amended to read:

Notwithstanding any other provisions to the contrary, "net" property taxes are determined by subtracting the credits in the order listed from the gross tax:

(1) ~~small business property tax transition credit as provided in section 273.1195;~~

~~(2) disaster credit as provided in section 273.123;~~

~~(3) (2) powerline credit as provided in section 273.42;~~

~~(4) (3) agricultural preserves credit as provided in section 473H.10;~~

~~(5) (4) enterprise zone credit as provided in section 469.171;~~

(5) state agricultural credit as provided in section 273.132;

~~(6) state paid homestead credit as provided in section 273.13; subdivision 23;~~

(7) taconite homestead credit as provided in section 273.135;

(8) supplemental homestead credit as provided in section 273.1391.

The combination of all property tax credits must not exceed the gross tax amount.

Sec. 26. [273.1398] TRANSITION AND DISPARITY REDUCTION AID; CREDIT GUARANTEE.

Subdivision 1. DEFINITIONS. (a) In this section, the terms defined in this subdivision have the meanings given them.

(b) "Unique taxing jurisdiction" means the geographic area subject to the same set of mill rates.

(c) "Gross tax capacity" means the product of the appropriate percentages of market value listed as gross tax capacities in section 273.13 and equalized market values. "Total gross tax capacity" means the gross tax capacities for all property within the unique taxing jurisdiction. The total gross tax capacity used shall be reduced by the sum of (1) the unique taxing jurisdiction's gross tax capacity of commercial industrial property as defined in section 473F.02, subdivision 3, multiplied by the ratio determined pursuant to section 473F.08, subdivision 6, for the municipality, as defined in section 473F.02, subdivision 8, in which the unique taxing jurisdiction is located and (2) the gross tax capacity of the captured value of tax increment financing districts as defined in section 469.177, subdivision 2. For purposes of determining the gross tax capacity of property referred to in clauses (1) and (2) for disparity reduction aid payable in 1989, the gross tax capacity before equalization shall equal the property's 1987

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assessed value multiplied by 12 percent. Gross tax capacity cannot be less than zero.

(d) "Net tax capacity" means the product of the appropriate percentages of market value listed as net tax capacities in section 273.13 and equalized market values. "Total net tax capacity" means the net tax capacities for all property within the unique taxing jurisdiction. The total net tax capacity used shall be reduced by the sum of (1) the unique taxing jurisdiction's net tax capacity of commercial industrial property as defined in section 473F.02, subdivision 3, multiplied by the ratio determined pursuant to section 473F.08, subdivision 6, for the municipality, as defined in section 473F.02, subdivision 8, in which the unique taxing jurisdiction is located and (2) the net tax capacity of the captured value of tax increment financing districts as defined in section 469.177, subdivision 2. For purposes of determining the net tax capacity of property referred to in clauses (1) and (2), the net tax capacity before equalization shall equal the property's 1987 assessed value multiplied by 12 percent. Net tax capacity cannot be less than zero.

(e) "Equalized market values" are market values that have been equalized by dividing the assessor's estimated market value for the second year prior to that in which the aid is payable by the assessment sales ratios determined by class in the assessment sales ratio study conducted by the department of revenue pursuant to section 124.2131 in the second year prior to that in which the aid is payable. For computation of aids payable in 1989 only, if the aggregate assessment sales ratio is less than or equal to 92 percent, the assessment sales ratios by class shall be adjusted proportionally so that the aggregate ratio of the unequalized market values to the equalized market values equals 92 percent; otherwise the equalized market values shall equal the unequalized market values divided by the assessment sales ratio.

(f) "Homestead effective rate" means the product of (i) 46 percent; (ii) 2.17 percent; and (iii) the total tax capacity rate for taxes payable in 1989 within a unique taxing jurisdiction multiplied by the 1988 aggregate assessment sales ratio. A sales ratio of .92 is used if the actual sales ratio is less than .92.

(g) For purposes of calculating the transition aid authorized pursuant to subdivision 2, the "subtraction factor" is the product of (i) a unique taxing jurisdiction's homestead effective rate; (ii) its net tax capacity; and (iii) 103.

(h) For purposes of calculating and allocating transition aid authorized pursuant to subdivision 2 and the disparity reduction aid authorized in subdivision 3, "gross taxes levied on all properties" or "gross taxes" means the total gross taxes levied on all properties except that levied on the captured value of tax increment districts as defined in section 469.177, subdivision 2, and that levied on the portion of commercial industrial properties' assessed value, as defined in section 473F.02, subdivision 3, subject to the areawide tax as provided in section 473F.08, subdivision 6, in a unique taxing jurisdiction before reduction by any credits for taxes payable in the year prior to that in which the

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aids are payable. For purposes of disparity reduction aid only, total gross taxes shall be reduced by the taxes levied for any school district referendum levies authorized pursuant to section 124A.03, subdivision 2, and any school district debt levies authorized pursuant to section 475.61. Gross taxes levied cannot be less than zero.

(i) "Income maintenance aids" means:

(1) medical assistance under sections 256B.041, subdivision 5, and 256B.19, subdivision 1;

(2) preadmission screening and alternative care grants under section 256B.091, subdivision 8;

(3) general assistance, and work readiness under section 256D.03, subdivision 2;

(4) general assistance medical care under section 256D.03, subdivision 6;

(5) aid to families with dependent children under section 256.82, subdivision 1, including emergency assistance under section 256.871, subdivision 6; and funeral expense payments under section 256.935, subdivision 1; and

(6) supplemental aid under section 256D.36, subdivision 1.

Subd. 2. TRANSITION AID. (a) Transition aid for each unique taxing jurisdiction for taxes payable in 1990 equals the total gross taxes levied on all properties, minus the unique taxing jurisdiction's subtraction factor. Transition aid cannot be less than zero. The transition aid so determined for school districts for purposes of general education and transportation levies shall be multiplied by the ratio of the adjusted gross tax capacity based upon the 1988 adjusted gross tax capacity to the estimated 1987 adjusted gross tax capacity based upon the 1987 adjusted assessed value. Each county assessor and the city assessors of Minneapolis, Duluth, and St. Cloud shall furnish the commissioner of revenue with the 1988 market values for taxes payable in 1989 for any new classes of property established in this article. The commissioner shall use those values, and estimate values where needed, in developing the 1988 tax capacity for each unique taxing jurisdiction under this section.

(b)(1) The transition aid is allocated to each local government levying taxes in the unique taxing jurisdiction in the proportion that the local government's gross taxes bears to the total gross taxes levied within the unique taxing jurisdiction.

(2) If a local government's total tax capacity rate for all funds for taxes payable in 1989 varies within the area in which it exercises taxing authority, the local government's allocated transition aid must be further allocated between the part of its levy in respect to which the tax capacity rate is constant throughout the area in which it exercises taxing authority and the part of its levy in respect to which the tax capacity rate varies throughout the area in which it exercises taxing authority.

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(c) In 1991 and subsequent years, a local government shall receive transition aid equal to that it received in 1990 subject to the requirement of the last sentence of subdivision 6.

(d) The difference between (1) the income maintenance aids payable to a county and (2) the income maintenance aids that would be payable to the county pursuant to the rates in effect for calendar year 1989 shall be reduced by the sum of the amount of transition aid a county receives under this subdivision for all unique taxing jurisdictions located within its borders. The reduction must not reduce the difference to less than zero. The reduction shall be prorated among all payments of the increased income maintenance aids so that each payment is reduced by an equal percentage amount. The commissioner of revenue shall certify each county's transition aid to the commissioner of human services for purposes of this adjustment.

Subd. 3. DISPARITY REDUCTION AID. (a) For taxes payable in 1989, a disparity reduction aid shall be calculated for each unique taxing jurisdiction. The aid is the greater of:

(1) the difference between (i) the total 1988 gross tax payable on all taxable property within the unique taxing jurisdiction, and (ii) the gross tax capacity of the unique taxing jurisdiction; or

(2) 20 percent of the difference between (i) the 1988 gross tax of the city or township, and (ii) 23 percent of the city's or township's gross tax capacity.

In no case can the aid be less than \$0.

(b) The disparity reduction aid is allocated to each local government levying taxes in the unique taxing jurisdiction in the proportion that the local government's payable gross taxes bears to the total payable gross taxes levied within the unique taxing jurisdiction.

(c) In 1990 and subsequent years, a local government shall receive disparity reduction aid equal to that it received in 1989.

Subd. 4. DISPARITY REDUCTION CREDIT. (a) Beginning with taxes payable in 1989, class 4a, class 3a, and class 3b property located in a border city enterprise zone designated pursuant to section 469.168, subdivision 4, located in cities with a population greater than 2,500 and less than 35,000 according to the 1980 decennial census which are adjacent to cities in another state or immediately adjacent to a city adjacent to a city in another state qualify for disparity reduction credits, if the adjacent city in the other state has a population of greater than 5,000 and less than 75,000. The credit is an amount sufficient to reduce (i) the taxes levied on class 4a property to three percent of the property's market value and (ii) the tax on class 3a and class 3b property to 3.3 percent of market value.

(b) The county auditor shall annually certify the costs of the credits to the

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department of revenue. The department shall reimburse local governments for the property taxes foregone as the result of the credits in proportion to their total levies.

Subd. 5. HOMESTEAD AND AGRICULTURAL CREDIT GUARANTEE. Beginning with taxes payable in 1990, each unique taxing jurisdiction may receive additional homestead and agricultural credit payments.

(1) Each year, the commissioner shall certify to the county auditor the total education aids paid under chapters 124 and 124A, transition aid and disparity reduction aid paid under section 273.1398, local government aid to cities, counties, and towns paid under chapter 477A, and income maintenance aid paid to counties for each taxing jurisdiction. The county auditor shall apportion each local government's aids to the unique taxing jurisdiction based upon the proportion that the unique taxing jurisdiction's tax capacity bears to the total tax capacity of the local government.

(2) Each year, the county auditor will compute a gross tax capacity rate for each taxing jurisdiction equal to its total levy divided by its gross tax capacity. For each unique taxing jurisdiction, a total gross tax capacity rate will be determined. This total gross tax capacity rate will be applied against the gross tax capacity of each property that would have been eligible for the homestead credit or the agricultural credit for taxes payable in 1989. A credit amount will be determined for each parcel based upon the credit rate structure in effect for taxes payable in 1989. The resulting credit amounts will be summed for all parcels in the unique taxing jurisdiction.

If the amount determined in clause (2) is greater than the amount determined in clause (1), the difference will be additional homestead and agricultural credit payments for the unique taxing jurisdiction. The additional credit amount shall proportionately reduce the tax capacity rates of all local governments levying taxes within the unique taxing jurisdiction. The county auditor shall certify the amounts of all additional credits determined under this section in a form prescribed by the commissioner.

Subd. 6. PAYMENT. The commissioner shall certify the aids provided in subdivisions 2 and 3 before September 30 of the year preceding the distribution year to the county auditor of the affected local government and pay them and the credit reimbursements to local governments other than school districts at the times provided in section 477A.015 for payment of local government aid to taxing jurisdictions. Aids and credit reimbursements to school districts must be certified to the commissioner of education and paid under section 273.1392. Payment shall not be made to any taxing jurisdiction that has ceased to levy a property tax nor shall transition aid be payable on the part of a levy to which transition aid was separately allocated under subdivision 2, paragraph (b), clause (2) which is no longer levied.

Subd. 7. APPROPRIATION. An amount sufficient to pay the aids and credits provided under this section is annually appropriated from the general fund to the commissioner of revenue.

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Sec. 27. Minnesota Statutes 1987 Supplement, section 273.165, subdivision 2, is amended to read:

Subd. 2. **IRON ORE.** Unmined iron ore included in class 5, paragraph (b), must be assessed with and as a part of the real estate in which it is located, but at the rate its gross tax capacity would be as established in section 273.13, subdivision 30 31. The real estate in which iron ore is located, other than the ore, must be classified and assessed in accordance with the provisions of the appropriate classes. In assessing any tract or lot of real estate in which iron ore is known to exist, the assessable value of the ore exclusive of the land in which it is located, and the assessable value of the land exclusive of the ore must be determined and set down separately and the aggregate of the two must be assessed against the tract or lot.

Sec. 28. Minnesota Statutes 1987 Supplement, section 273.37, subdivision 2, is amended to read:

Subd. 2. Transmission lines of less than 69 kv, transmission lines of 69 kv and above located in an unorganized township, and distribution lines, and equipment attached thereto, having a fixed situs outside the corporate limits of cities except distribution lines taxed as provided in sections 273.40 and 273.41, shall be listed with and assessed by the commissioner of revenue in the county where situated. The commissioner shall assess such property at the percentage of market value fixed by law; and, on or before the 15th day of November, shall certify to the auditor of each county in which such property is located the amount of the assessment made against each company and person owning such property.

Sec. 29. Minnesota Statutes 1986, section 273.40, is amended to read:

273.40 ANNUAL TAX ON COOPERATIVE ASSOCIATIONS.

Cooperative associations organized under the provisions of Laws 1923, chapter 326, and laws amendatory thereof and laws supplemental thereto, and engaged in electrical heat, light or power business upon a mutual, nonprofit, and cooperative plan in rural areas, as hereinafter defined, are hereby recognized as quasi-public in their nature and purposes; but such cooperative associations, which operate within the corporate limits of any city shall ~~be assessed on the basis of 43 percent~~ have a tax capacity of the market value of that portion of its property located within the corporate limits of any city as provided for in section 273.13, subdivisions 24 and 31.

Sec. 30. [275.065] **PROPOSED PROPERTY TAXES; NOTICE.**

Subdivision 1. PROPOSED LEVY. On or before August 1, each taxing authority shall adopt a proposed budget and certify to the county auditor the proposed property tax levy for taxes payable in the following year. For purposes of this section, "taxing authority" shall include all home rule and statutory cities with a population of over 2,500, counties, school districts, the metropolitan council, and the metropolitan regional transit commission.

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Subd. 2. TAX RATE COMPUTATIONS. (a) The county auditor shall compute each taxing authority's tax capacity rate that when applied to the net tax capacity of the taxing district as of January 2 of the current year, excluding new construction, additions to structures, or property added to or deleted from the assessment rolls since the previous year's assessment, yields the taxing authority the same levy as the taxing authority levied the previous year. This tax capacity rate is the "no-increase tax rate."

(b) The county auditor shall compute a tax capacity rate that when applied to the net tax capacity of the taxing authority as of January 2 of the current year, including new construction, additions to structures, or property added to or deleted from the assessment rolls since the previous year's assessment, yields the authority's proposed levy for taxes levied in the current year. This tax capacity rate is the "proposed tax rate."

(c) The county auditor shall notify the taxing authority of its no-increase tax capacity rate and its proposed tax capacity rate on or before August 8. The taxing authority may amend its proposed levy but must certify to the county auditor by August 15 its final proposed levy and the date the taxing authority will hold a public hearing to adopt its budget and property tax levy.

(d) The county auditor shall recompute the taxing authority's proposed tax capacity rate to reflect any adjustments made by the taxing authority under paragraph (c), and notify the taxing authority of the proposed tax capacity rate and the percent, if any, by which the recomputed proposed tax capacity rate exceeds the no-increase tax capacity rate. That percent is the percentage increase in property taxes proposed by the taxing authority.

Subd. 3. NOTICE OF PROPOSED PROPERTY TAXES. (a) If there is a percentage increase in property taxes proposed by the taxing authority, on or before September 15, the county auditor shall compute for each parcel of property on the assessment rolls within the taxing authority the proposed property tax for taxes levied in the current year. In the case of cities under 2,500 population, and all special taxing districts except the metropolitan council and the metropolitan regional transit commission, the auditor shall use the taxing district's previous year tax capacity rate for use in computing the total property tax. The county auditor shall prepare and deliver by first class mail to each taxpayer at the address listed on the city's current year's assessment roll, a notice of the taxpayer's proposed property taxes.

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

(c) A notice in substantially the following form shall be sufficient.

NOTICE OF PROPOSED PROPERTY TAXES

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DO NOT PAY - THIS IS NOT A BILL

This notice shows the amount your next property tax bill will be if proposed budgets are approved by the local government districts you live in. It also shows the amount of your next property tax bill if the local government districts you live in do not change their budgets from this year.

<u>Name of property owner</u>	<u>Description of property</u>	<u>Market value of property</u>	<u>Class of property</u>
<u>John Q. and Mary W. Smith</u>	<u>Lot 1, Block 1 Pleasant Acres sub-division Middletown, Minnesota</u>	<u>\$65,000</u>	<u>residential homestead</u>

Based on their proposed budgets, next year the governing bodies of the county, city, school district, and special tax districts you live in are proposing to collect from you the amount of property tax shown below. At the meetings listed below, the governing bodies will discuss and vote on the amount of their budgets for next year. The larger the amount of the budget, the more property tax you will pay. You can attend the meetings and express your opinions about the amount of the budget before the budget is voted on.

<u>These local governments collect property tax from you</u>	<u>Amount of your tax next year if they do not change their budgets from this year</u>	<u>Amount of your tax next year if they adopt their proposed budgets</u>	<u>Time and place of meetings on proposed budgets</u>
<u>County: Spruce</u>	<u>\$218.55</u>	<u>\$257.75</u>	<u>September 1, 1988, 7:30 pm Room 123, Spruce Co. Courthouse</u>
<u>City or Town: Middletown</u>	<u>\$168.63</u>	<u>\$184.09</u>	<u>October 1, 1988, 8:00 pm Middletown Town Hall</u>
<u>Public School: Ind. Dist. 123 set by school board</u>	<u>\$47.56</u>	<u>\$146.88</u>	<u>September 25, 1988,</u>
<u>set by state law</u>	<u>\$300.00</u>	<u>\$300.00</u>	<u>Cafeteria, Middletown Town Hall</u>

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Special Tax Districts

<u>Metropolitan Council</u>	<u>\$25.00</u>	<u>\$50.00</u>	<u>October 5,</u> <u>1988, 3:00 pm</u> <u>Board Room,</u> <u>Tri-County</u> <u>Hospital</u>
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<u>Metropolitan</u> <u>Regional Transit</u> <u>Board</u>	<u>\$10.00</u>	<u>\$12.00</u>	<u>October 12,</u> <u>1988, 6:00 pm</u> <u>Common Room,</u> <u>Tri-County</u> <u>Library</u>
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<u>Tax before State</u> <u>payments:</u>	<u>\$769.74</u>	<u>\$950.72</u>
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Payments by

State: (subtract: \$215.00) (subtract: \$235.00)

Your tax if budget is not changed: \$554.74

Your tax if proposed budget is adopted: \$715.72

Subd. 4. COSTS. The taxing authority shall pay the county for the reasonable cost of the county auditor's services and for the costs of preparing and mailing the notice required in this section.

Subd. 5. PUBLIC ADVERTISEMENT. (a) On or before September 15, the taxing authority shall advertise in a qualified newspaper a notice of its intent to adopt a budget and property tax levy at a public hearing.

The advertisement must be no less than one-quarter page in size of a standard-size or a tabloid-size newspaper, and the headline in the advertisement shall be in a type no smaller than 18 point. The advertisement must not be placed in the part of the newspaper where legal notices and classified advertisements appear. The advertisement must be published in a newspaper of general paid circulation in the city. Whenever possible, the advertisement must appear in a newspaper that is published at least five days a week, unless the only newspaper in the city is published less than five days a week. The newspaper selected must be one of general interest and readership in the community, and not one of limited subject matter.

(b) If the taxing authority proposes a percentage increase in property taxes, the advertisement must be in the following form:

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“NOTICE OF TAX INCREASE

The ... (name of taxing authority) ... has tentatively adopted a measure to increase its property tax levy by ... (percentage of increase over no-increase rate) ... percent.

All concerned citizens are invited to attend a public hearing on the tax increase to be held on ... (date and time) ... at ... (meeting place) ...

A FINAL DECISION on the proposed tax increase and the budget will be made at this hearing.”

Subd. 6. PUBLIC HEARING; ADOPTION OF BUDGET AND LEVY. Prior to October 25, the governing body of the city shall hold a public hearing to adopt its final budget and property tax levy for taxes payable in the following year. The hearing must be held not less than two days or more than five days after the day the notice is first published.

At the hearing the taxing authority may amend the proposed budget and property tax levy and must adopt a final budget and property tax levy. The property tax levy adopted may not exceed the final proposed levy determined under subdivision 2, paragraph (c).

At the hearing the percentage increase in property taxes proposed by the taxing authority, if any, and the specific purposes for which property tax revenues are being increased must be discussed. During the discussion, the governing body shall hear comments regarding a proposed increase and explain the reasons for the proposed increase. The public shall be allowed to speak and to ask questions prior to adoption of any measures by the governing body. The governing body shall adopt its final property tax levy prior to adopting its final budget.

The hearing must be held after 5:00 p.m. if scheduled on a day other than Saturday. No hearing may be held on a Sunday. The school board and county board shall not schedule public meetings on days scheduled for the hearing by the governing body of the city.

If the hearing is recessed, the taxing authority shall publish a notice in a qualified newspaper of general paid circulation in the city. The notice must state the time and place for the continuation of the hearing and must be published at least two days but not more than five days prior to the date the hearing will be continued.

Subd. 7. CERTIFICATION OF COMPLIANCE. At the time the taxing authority certifies its tax levy under section 275.07, it shall certify to the commissioner of revenue its compliance with this section. The certification must contain copies of the advertisement required under subdivision 5, the resolution adopting the final property tax levy under subdivision 6, and any other information required by the commissioner of revenue. If the commissioner determines

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that the taxing authority has failed to substantially comply with the requirements of this section, the commissioner of revenue shall notify the county auditor. When fixing rates under section 275.08 for a taxing authority that has not complied with this section, the county auditor must use the no-increase tax rate.

Sec. 31. Minnesota Statutes 1987 Supplement, section 275.07, subdivision 1, is amended to read:

Subdivision 1. The taxes voted by cities ~~and~~, towns, counties, school districts, and special districts shall be certified by the proper authorities to the county auditor on or before October 10 25 in each year. The taxes of a school district must be certified to the commissioner of education by October 10 in each year certified shall not be adjusted by the aid received under section 273.1398, subdivisions 2 and 3. If a city, town, county, school district, or special district fails to certify its levy by that date, its levy shall be the amount levied by it for the preceding year. If the local unit notifies the commissioner of revenue, ~~or the commissioner of education in the case of a school district,~~ before October 10 25 of its inability to certify its levy by that date, and the commissioner is satisfied that the delay is unavoidable and is not due to the negligence of the local unit's officials or staff, the commissioner shall extend the time within which the local unit shall certify its levy up to 15 calendar days beyond the date of request for extension. ~~For 1988 only, the commissioner may extend the certification time to November 7 if the requirements of this subdivision are met.~~

Sec. 32. Minnesota Statutes 1986, section 275.07, is amended by adding a subdivision to read:

Subd. 3. The county auditor shall adjust each local government's levy certified under subdivision 1 by the amount of transition aid certified by section 273.1398, subdivision 2. If a local government's transition aid was further allocated between portions of its levy pursuant to section 273.1398, subdivision 2, paragraph (b)(2), the levy or fund to which the transition aid was allocated is the levy or fund which must be adjusted.

Sec. 33. Minnesota Statutes 1986, section 275.08, is amended by adding a subdivision to read:

Subd. 1a. For taxes payable in 1989, the county auditor shall compute the gross tax capacity for each parcel according to the rates specified in section 273.13. The gross tax capacity will be the appropriate rate multiplied by the parcel's market value. For taxes payable in 1990 and subsequent years, the county auditor shall compute the net tax capacity for each parcel according to the rates specified in section 273.13. The net tax capacity will be the appropriate rate multiplied by the parcel's market value.

Sec. 34. Minnesota Statutes 1986, section 275.08, is amended by adding a subdivision to read:

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Subd. 1b. The amounts certified under section 275.07 after adjustment under section 275.07, subdivision 3 by an individual local government unit shall be divided by the total gross tax capacity of all taxable properties within the local government unit's taxing jurisdiction for tax payable in 1989 and by the total net tax capacity of all taxable properties within the local government unit's taxing jurisdiction, for taxes payable in 1990 and thereafter. The resulting ratio, the local government's tax capacity rate, multiplied by each property's gross tax capacity for taxes payable in 1989 and net tax capacity for taxes payable in 1990 and subsequent years shall be each property's total tax for that local government unit before reduction by any credits.

Sec. 35. Minnesota Statutes 1986, section 275.08, is amended by adding a subdivision to read:

Subd. 1c. After the tax capacity rate of a local government has been determined pursuant to subdivision 1b, the auditor shall adjust the local government's tax capacity rate within each unique taxing jurisdiction as defined in section 273.1398, subdivision 1, in which the local government exercises taxing authority. The adjustment shall equal the unique taxing jurisdiction's disparity reduction aids allocated to the local government pursuant to section 273.1398, subdivision 3 divided by the total tax capacity of all taxable property within the unique taxing jurisdiction. The adjustment shall reduce the tax capacity rate of the local government within the unique taxing jurisdiction for which the adjustment was calculated.

Sec. 36. [275.011] MILL RATE LEVY LIMITATIONS; CONVERSION FROM MILLS TO DOLLARS.

Subdivision 1. The property tax levied for any purpose subject to a mill rate limitation imposed by statute or special law, excluding levies subject to mill rate limitations that use adjusted assessed values determined by the commissioner of revenue under section 124.2131, must not exceed the following amount for the years specified:

(a) for taxes payable in 1988, the product of the applicable mill rate limitation imposed by statute or special law multiplied by the total assessed valuation of all taxable property subject to the tax as adjusted by the provisions of Minnesota Statutes 1986, sections 272.64; 273.13, subdivision 7a; and 275.49;

(b) for taxes payable in 1989, the product of (1) the property tax levy limitation for the taxes payable year 1988 determined under clause (a) multiplied by (2) an index for market valuation changes equal to the assessment year 1988 total market valuation of all taxable property subject to the tax divided by the assessment year 1987 total market valuation of all taxable property subject to the tax; and

(c) for taxes payable in 1990 and subsequent years, the product of (1) the property tax levy limitation for the previous year determined pursuant to this subdivision multiplied by (2) an index for market valuation changes equal to the total market valuation of all taxable property subject to the tax for the current assessment year divided by the total market valuation of all taxable property subject to the tax for the previous assessment year.

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For the purpose of determining the property tax levy limitation for the taxes payable year 1988 and subsequent years under this subdivision, "total market valuation" means the total market valuation of all taxable property subject to the tax 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).

Subd. 2. A mill rate levy limitation imposed by statute or special law that is presently in effect, excluding those mill rate levy limitations that use adjusted assessed values determined by the commissioner of revenue under section 124.2131, shall be construed to allow no more and no less property taxes than the amount determined under this section.

Subd. 3. COUNTY CAPITAL IMPROVEMENT MILL LIMITS. For purposes of determining the mill rate limits applicable to county capital improvement programs under section 373.40, the mill rate limit applicable to the county must be divided by 0.45 and multiplied by the county's assessed value for taxes payable in 1988. The resulting dollar amount must be used in determining the limitation under the procedures provided by this section.

Sec. 37. Minnesota Statutes 1987 Supplement, section 275.50, subdivision 2, is amended to read:

Subd. 2. **GOVERNMENTAL SUBDIVISION.** (a) "Governmental subdivision" means a county, a home rule charter city, or a statutory city, except a home rule charter or statutory city that has a population of less than 2,500 according to the most recent federal census.

(b) "Governmental subdivision" also includes any home rule charter or statutory city or town that receives a distribution from the taconite municipal aid account in the levy year.

Sec. 38. Minnesota Statutes 1987 Supplement, section 275.50, subdivision 5, is amended to read:

Subd. 5. Notwithstanding any other law to the contrary for taxes levied in ~~1983~~ 1988 payable in ~~1984~~ 1989 and subsequent years, "special levies" means those portions of ad valorem taxes levied by governmental subdivisions to:

(a) ~~satisfy judgments rendered against the governmental subdivision by a court of competent jurisdiction in any tort action, or to pay the costs of settlements out of court against the governmental subdivision in a tort action when substantiated by a stipulation for the dismissal of the action filed with the court of competent jurisdiction and signed by both the plaintiff and the legal representative of the governmental subdivision, but only to the extent of the increase in levy for such judgments and out of court settlements over levy year 1970; taxes payable in 1971;~~

(b) pay the costs of complying with any written lawful order initially issued

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prior to January 1, 1977, by the state of Minnesota, or the United States, or any agency or subdivision thereof, which is authorized by law, statute, special act or ordinance and is enforceable in a court of competent jurisdiction, or any stipulation agreement or permit for treatment works or disposal system for pollution abatement in lieu of a lawful order signed by the governmental subdivision and the state of Minnesota, or the United States, or any agency or subdivision thereof which is enforceable in a court of competent jurisdiction. The commissioner of revenue shall in consultation with other state departments and agencies, develop a suggested form for use by the state of Minnesota, its agencies and subdivisions in issuing orders pursuant to this subdivision;

(e) pay the costs to a governmental subdivision for their minimum required share of any program otherwise authorized by law for which matching funds have been appropriated by the state of Minnesota or the United States, excluding the administrative costs of public assistance programs, to the extent of the increase in levy over the amount levied for the local share of the program for the taxes payable year 1971. This clause shall apply only to those programs or projects for which matching funds have been designated by the state of Minnesota or the United States on or before September 1, of the previous year and only when the receipt of these matching funds is contingent upon the initiation or implementation of the project or program during the year in which the taxes are payable or those programs or projects approved by the commissioner;

(d) (a) pay the costs not reimbursed by the state or federal government, of payments made to or on behalf of recipients of aid under any public assistance program authorized by law, and the costs of purchase or delivery of social services. Except for the costs of general assistance as defined in section 256D.02, subdivision 4, general assistance medical care under section 256D.03 and the costs of hospital care pursuant to section 261.21, the aggregate amounts levied pursuant to this clause are subject to a maximum increase of 18 percent over the amount levied for these purposes in the previous year. Effective with taxes levied in 1989, the portion of this special levy for income maintenance programs identified in section 273.1398, subdivision 1, paragraph (i), is eliminated;

(e) (b) pay the costs of principal and interest on bonded indebtedness except on bonded indebtedness issued under section 471.981, subdivisions 4 to 4c or to reimburse for the amount of liquor store revenues used to pay the principal and interest due in the year preceding the year for which the levy limit is calculated on municipal liquor store bonds;

(f) (c) pay the costs of principal and interest on certificates of indebtedness, except tax anticipation or aid anticipation certificates of indebtedness, issued for any corporate purpose except current expenses or funding an insufficiency in receipts from taxes or other sources or funding extraordinary expenditures resulting from a public emergency; and to pay the cost for certificates of indebtedness issued pursuant to sections 298.28 and 298.282;

(g) (d) fund the payments made to the Minnesota state armory building

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commission pursuant to section 193.145, subdivision 2, to retire the principal and interest on armory construction bonds;

~~(h)~~ (e) provide for the bonded indebtedness portion of payments made to another political subdivision of the state of Minnesota;

(i) pay the amounts required to compensate for a decrease in manufactured homes property tax receipts to the extent that the governmental subdivision's portion of the total levy in the current levy year, pursuant to section 274.19, subdivision 8, as amended, is less than the distribution of the manufactured homes tax to the governmental subdivision pursuant to Minnesota Statutes 1969, section 273.13, subdivision 3, in calendar year 1971;

(j) (f) pay the amounts required, in accordance with section 275.075, to correct for a county auditor's error of omission 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 275.50 to 275.56 in the preceding levy year;

(k) (g) pay amounts required to correct for an error of omission in the levy certified to the appropriate county auditor or auditors by the governing body of a city or town with statutory city powers 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 275.50 to 275.56 in the preceding levy year;

(l) pay the increased cost of municipal services as the result of an annexation or consolidation ordered by the Minnesota municipal board but only to the extent and for the levy years as provided by the board in its order pursuant to section 414.01, subdivision 15. Special levies authorized by the board shall not exceed 50 percent of the levy limit base of the governmental subdivision and may not be in effect for more than three years after the board's order;

(m) pay the increased costs of municipal services provided to new private industrial and nonresidential commercial development, to the extent that the extension of such services are not paid for through bonded indebtedness or special assessments, and not to exceed the amount determined as follows: The governmental subdivision may calculate the aggregate of:

(1) the increased expenditures necessary in preparation for the delivering of municipal services to new private industrial and nonresidential commercial development, but limited to one year's expenditures one time for each such development;

(2) the amount determined by dividing the overall levy limitation established pursuant to sections 275.50 to 275.56, and exclusive of special levies and special assessments, by the total taxable value of the governmental subdivision, and then multiplying this quotient times the total increase in assessed value of

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private industrial and nonresidential commercial development within the governmental subdivision. For the purpose of this clause, the increase in the assessed value of private industrial and nonresidential commercial development is calculated as the increase in assessed value over the assessed value of the real estate parcels subject to such private development as most recently determined before the building permit was issued. In the fourth levy year subsequent to the levy year in which the building permit was issued, the increase in assessed value of the real estate parcels subject to such private development shall no longer be included in determining the special levy.

The aggregate of the foregoing amounts, less any costs of extending municipal services to new private industrial and nonresidential commercial development which are paid by bonded indebtedness or special assessments, equals the maximum amount that may be levied as a "special levy" for the increased costs of municipal services provided to new private industrial and nonresidential commercial development. In the levy year following the levy year in which the special levy made pursuant to this clause is discontinued, one-half of the amount of that special levy made in the preceding year shall be added to the permanent levy base of the governmental subdivision;

(n) recover a loss or refunds in tax receipts incurred in nonspecial levy funds resulting from abatements or court action in the previous year pursuant to section 275.48;

(o) (h) pay amounts required by law to be paid to pay the interest on and to reduce the unfunded accrued liability of public pension funds in accordance with the actuarial standards and guidelines specified in sections 356.215 and 356.216 reduced by 106 percent of the amount levied for that purpose in 1976, payable in 1977. For the purpose of this special levy, the estimated receipts expected from the state of Minnesota pursuant to sections 69.011 to 69.031 or any other state aid expressly intended for the support of public pension funds shall be considered as a deduction in determining the required levy for the normal costs of the public pension funds. No amount of these aids shall be considered as a deduction in determining the governmental subdivision's required levy for the reduction of the unfunded accrued liability of public pension funds;

(p) the amounts allowed under section 174.27 to establish and administer a commuter van program;

(q) pay the costs of financial assistance to local governmental units and certain administrative, engineering, and legal expenses pursuant to Laws 1979, chapter 253, section 3;

(r)(i) to compensate for revenue lost as a result of abatements or court action pursuant to section 270.07, 270.17 or 278.01 due to the state for the cost of a reassessment ordered by the commissioner of revenue pursuant to section 270.16;

(s) pay the total operating cost of a county jail as authorized in section 641.01. If the county government utilizes this special levy, then any amount levied by the county government in the previous year for operating its county jail and included in its previous year's levy limitation computed pursuant to section 275.51 shall be deducted from the current levy limitation;

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(t) pay the costs of implementing section 18.023, including sanitation and reforestation;

(u) pay the estimated cost for the following calendar year of the county's share of funding the Minnesota cooperative soil survey;

(v) pay the costs of meeting the planning requirements of section 115A.46; the requirements of section 115A.917; the planning requirements of the metropolitan plan adopted under section 473.149 and county master plans adopted under section 473.803; waste reduction and source separation programs and facilities; response actions that are financed in part by service charges under section 400.08 or 115A.15, subdivision 6; closure and postclosure care of a solid waste facility closed by order of the pollution control agency or by expiration of an agency permit before January 1, 1989; and current operating and maintenance costs of a publicly-owned solid waste processing facility financed with general obligation bonds issued after a referendum before March 25, 1986;

(w) pay the annual principal and interest due on a loan made under section 116J.37;

(x) pay the annual principal and interest due on a loan from money received from litigation or settlement of alleged violations of federal petroleum pricing regulations; and

(y) pay the costs of constructing public libraries; and

(i) pay the debt service on tax increment financing revenue bonds to the extent that revenue to pay the bonds or to maintain reserves for the bonds is insufficient as a result of the provisions of this article.

Sec. 39. Minnesota Statutes 1986, section 275.51, subdivision 3f, is amended to read:

Subd. 3f. **LEVY LIMIT BASE.** (a) The property tax levy limit base for governmental subdivisions for taxes levied in 1983 1988 shall be calculated by adding the following amounts: equal to the total actual levy for taxes payable in 1988 plus the amount of any payments the governmental subdivision was certified to receive in 1988 under sections 477A.011 to 477A.014 and minus any special levies claimed for taxes payable in 1988 pursuant to Laws 1987, chapter 268, article 5, section 12, subdivision 4, clauses (1), (2), (3), and (4). A county's levy limit base will be increased by the amount of any increase in its levy under section 134.07 over that levied under section 134.07 for taxes payable in 1988 which is required under Laws 1987, chapter 398, article 9, section 2. For governmental subdivisions located in the seven-county metropolitan area, the total actual levy for taxes payable in 1988 shall include the fiscal disparities distribution levy pursuant to Minnesota Statutes 1986, section 473F.08, subdivision 7a.

(1) the property tax permitted to be levied in 1982 for taxes payable in 1983 pursuant to Minnesota Statutes 1982, section 275.51, subdivision 3e; plus

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(2) the amount of any payments the governmental subdivision was certified to receive in 1983 pursuant to Minnesota Statutes 1982, sections 477A.011 to 477A.03; plus

(3) the amount of any payments certified to the governmental subdivision in 1983 pursuant to Minnesota Statutes 1982, sections 298.28 and 298.282; plus

(4) the difference between the amount certified to the governmental subdivision in 1983 and the amount certified in 1984 pursuant to section 273.138; plus

(5) any amount levied as a special assessment to cover the costs of municipal operation and maintenance activities for the taxes payable year 1983; and

(6) the amount of any base adjustment authorized by the commissioner of revenue pursuant to subdivision 3g.

(b) For taxes levied in 1984 1989 and subsequent years, a governmental subdivision's levy limit base is equal to its adjusted levy limit base for the preceding year provided that, for taxes levied in 1984, the levy limit base of a county containing a city of the first class shall be increased by the amount paid to the county under section 273.138 in 1984 less the amount that will be paid to it under section 273.138 in 1985 not including the adjustment made under subdivision 3h, paragraph (c), plus for taxes levied in 1989 the administrative reimbursement aid received in 1988.

(c) The property tax levy limit base for cities and towns defined as a governmental subdivision only under section 275.50, subdivision 2, paragraph (b); for taxes levied in 1986 shall be calculated by adding the following amounts:

(1) the property tax levied in 1985 for taxes payable in 1986, exclusive of any levies for debt service; plus

(2) the amount of any payments the governmental subdivision was certified to receive in 1986 pursuant to Minnesota Statutes 1985 Supplement, sections 477A.011 to 477A.03; plus

(3) the amount of any payments certified to the governmental subdivision in 1986 pursuant to Minnesota Statutes 1984, section 298.282, and Minnesota Statutes 1985 Supplement, section 298.28; plus

(4) any amount levied as a special assessment to cover the costs of municipal operation and maintenance activities for the taxes payable year 1986.

For taxes levied in 1987 and subsequent years, the levy limit base of a governmental subdivision defined only in section 275.50, subdivision 2, paragraph (b); is equal to its adjusted levy limit base for the preceding year.

Sec. 40. Minnesota Statutes 1987 Supplement, section 275.51, subdivision 3h, is amended to read:

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Subd. 3h. **ADJUSTED LEVY LIMIT BASE.** For taxes levied in 1988 and thereafter, the adjusted levy limit base is equal to the levy limit base computed pursuant to ~~Laws 1987, article 5, section 12, or subdivision 3f,~~ increased by:

(a) a percentage equal to the ~~percentage growth in the implicit price deflator, or three four percent, whichever is lesser for taxes levied in 1988 and three percent for taxes levied in 1989 and subsequent years; and~~

(b) a percentage equal to the greater of the percentage increases in population or in number of households, if any, for the most recent 12-month period for which data is available, using figures derived pursuant to subdivision 6~~2~~;

(c) ~~one-half of the amount levied as a special levy in the previous year for paying the costs of municipal services provided to new private industrial and nonresidential commercial development pursuant to section 275.50, subdivision 5, clause (m); if the special levy is discontinued;~~

(d) ~~the amount of any permanent increase in the levy limit base approved at a general or special election held during the 12-month period ending September 30 of the levy year, pursuant to section 275.58, subdivisions 1 and 2; and~~

(e) ~~the amount, if known, equal to the decrease in federal revenue sharing allotment from the levy year to the year in which the levy is payable; otherwise the amount equal to the decrease in federal revenue sharing allotment in the levy year as compared to the previous year if the levy base for the previous year has not been adjusted for a decrease in federal revenue sharing allotment.~~

For taxes levied in 1989 and subsequent years, to the resulting product must be added the estimated reduction in a county's income maintenance aids as defined in section 273.1398, subdivision 1, pursuant to section 273.1398, subdivision 2, paragraph (d). The department of human services shall annually estimate the increase in income maintenance aids referred to in section 273.1398, subdivision 2, paragraph (d) and certify it by county to the department of revenue by July 15 of the levy year preceding that in which the aids are payable. If the actual increase in a county's income maintenance aid referred to in section 273.1398, subdivision 2, paragraph (d) is less than or greater than the amount added to a county's adjusted levy limit base in the prior year, its adjusted levy limit base for the subsequent year will be increased or decreased by the appropriate amount.

Sec. 41. Minnesota Statutes 1987 Supplement, section 275.51, subdivision 3i, is amended to read:

Subd. 3i. **LEVY LIMITATION.** The levy limitation for a governmental subdivision shall be equal to the adjusted levy limit base determined pursuant to subdivision 3h, reduced by

(a) ~~the total amount of local government aid that the governmental subdivision has been certified to receive pursuant to sections 477A.011 to 477A.014;~~

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(b) taconite aids pursuant to sections 298.28 and 298.282 including any aid received in the levy year which was required to be placed in a special fund for expenditure in the next succeeding year;

(c) state reimbursements for wetlands and native prairie property tax exemptions pursuant to sections 273.115, subdivision 3, and 273.116, subdivision 3; (d) payments in lieu of taxes to a county pursuant to section 477A.12 which are required to be used to provide property tax levy reduction certified to be paid in the calendar year in which property taxes are payable; and (e) payments from the proceeds of the net proceeds tax under section 298.018. If the sum of the taconite aids deducted exceeds the adjusted levy limit base, the excess must be used to reduce the amounts levied as special levies pursuant to section 275.50, subdivisions 5 and 7. The commissioner of revenue shall notify a governmental subdivision of any excess taconite aids to be used to reduce special levies.

As provided in section 298.28, one cent per taxable ton of the amount distributed under section 298.28, subdivision 5, paragraph (d), shall not be deducted from the levy limit base of the counties that receive that aid. The resulting figure This amount is the amount of property taxes which a governmental subdivision may levy for all purposes other than those for which special levies and special assessments are made.

For taxes levied in 1987 and subsequent years, the levy limit for a county as calculated under paragraph (b) shall be decreased by an additional amount equal to the reduction in the distribution to the county under section 298.28, from the 1986 distribution to the 1987 distribution.

Sec. 42. Minnesota Statutes 1986, section 275.51, is amended by adding a subdivision to read:

Subd. 3j. APPEALS. A governmental subdivision subject to the limitations in this section may appeal to the commissioner of revenue for an adjustment in its levy limit base under this section. If the governmental subdivision can provide evidence satisfactory to the commissioner that its levy for taxes payable in 1988 had been reduced because it had made expenditures from reserve funds, the commissioner may permit the governmental subdivision to increase its levy limit base under this section by the amount determined by the commissioner. The commissioner's decision is final.

Sec. 43. Minnesota Statutes 1987 Supplement, section 276.04, is amended to read:

276.04 NOTICE OF RATES; PROPERTY TAX STATEMENTS.

Subdivision 1. AUDITOR TO PUBLISH RATES. On receiving the tax lists from the county auditor, the county treasurer shall, if directed by the county board, give three weeks' published notice in a newspaper specifying the rates of taxation for all general purposes and the amounts raised for each specific purpose.

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Subd. 2. CONTENTS OF TAX STATEMENTS. (a) The treasurer shall, whether or not directed by the county board, cause to be printed on all tax statements, or on an attachment, a tabulated statement of the dollar amount due to each taxing authority from the parcel of real property for which a particular tax statement is prepared. The dollar amounts due the county, township or municipality and school district ~~shall~~ must be separately stated ~~but~~. The amounts due other taxing districts, if any, may be aggregated. The dollar amounts, including the dollar amount of any special assessments, may be rounded to the nearest even whole dollar. For purposes of this section whole odd-numbered dollars may be adjusted to the next higher even-numbered dollar. The statement shall include the following sentence, printed in upper case letters in boldface print: "THE STATE OF MINNESOTA DOES NOT RECEIVE ANY PROPERTY TAX REVENUES. THE STATE OF MINNESOTA REDUCES YOUR PROPERTY TAX BY PAYING CREDITS AND REIMBURSEMENTS TO LOCAL UNITS OF GOVERNMENT."

(b) The property tax statements for manufactured homes and sectional structures taxed as personal property shall contain the same information that is required on the tax statements for real property.

(c) For taxes payable in 1990 and thereafter, real and personal property tax statements must contain (1) the property's market value, as defined in section 272.03, subdivision 8, (2) the net tax capacity rate applicable to the property's classification under section 273.13, and the product of (1) and (2), the property's initial tax. The statement must show the difference between a property's gross tax capacity and net tax capacity multiplied by the tax capacity rate as "state paid homestead and agricultural credit." The statement must also show the decrease in tax attributable to that portion of the sum of the following aids attributable to the property as "state paid tax relief": (i) education aids payable under chapters 124 and 124A, (ii) local government aid for cities, towns, and counties under chapter 477A, (iii) disparity reduction aid paid under section 273.1398, and (iv) income maintenance aids as defined in section 273.1398, subdivision 1, paragraph (i). The commissioner of revenue shall certify to the county auditor the actual or estimated aids local governments will receive in the following year.

(d) For taxes payable in 1989 only, the statement must show the property's market value, as defined in section 272.03, subdivision 8, and the amount attributable to section 273.13, subdivisions 22 and 23 as "state paid homestead credit" and the amount attributable to section 273.132 as "state paid agricultural credit." The statement must also show the decrease in tax attributable to that portion of the sum of the following aids attributable to the property as "state paid tax relief": (i) education aids under chapters 124 and 124A, (ii) local government aid for cities, towns, and counties under chapter 477A, and (iii) disparity reduction aid under section 273.1398. The commissioner of revenue shall certify to the county auditor the actual or estimated aids local governments will receive in the following year.

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Subd. 3. MAILING OF TAX STATEMENTS. The county treasurer shall mail to taxpayers statements of their personal property taxes due; ~~such statements to be mailed~~ not later than February 15 ~~(, except in the case of manufactured homes and sectional structures taxed as personal property);~~. Statements of the real property taxes due shall be mailed not later than January 31; ~~provided, that,~~ The validity of the tax shall not be affected by failure of the treasurer to mail ~~such~~ the statement. The taxpayer is defined as the owner who is responsible for the payment of the tax. ~~Such real and personal property tax statements shall contain the market value, as defined in section 272.03, subdivision 8, used in determining the tax. The statement shall show the amount attributable to the decrease in tax under section 275.082 attributable to Minnesota Statutes 1986, section 124.2137 as "state paid agricultural credit amount" and the amount attributable to the decrease in tax under section 275.082 attributable to Minnesota Statutes 1986, section 273.13, subdivisions 22 and 23 as "state paid home-
stead credit amount."~~ The statement must state the amount deducted under section 273.1195 and identify it as "state paid small business transition credit."

Subd. 4. COLLECTION SITE. If so directed by the county board, the treasurer shall visit places in the county as the treasurer deems expedient for the purpose of receiving taxes and the county board is authorized to pay the expenses of such visits and of preparing duplicate tax lists. Failure to mail the tax statement shall not be deemed a material defect to affect the validity of any judgment and sale for delinquent taxes.

Sec. 44. Minnesota Statutes 1987 Supplement, section 276.06, is amended to read:

276.06 TAX STATEMENTS TO STATE APPORTIONMENT OF TAXES.

The treasurer of each county may cause to be printed, stamped, or written on the back of all current tax statements, or on a separate sheet or card to be furnished with the statements, a statement showing the ~~number of mills tax capacity rate~~ number of mills tax capacity rate of the current tax apportioned to the state, county, city, town, or school district.

Sec. 45. Minnesota Statutes 1986, section 298.28, subdivision 6, is amended to read:

Subd. 6. PROPERTY TAX RELIEF. (a) ~~22~~ 12 cents per taxable ton, less any amount required to be distributed under paragraphs (b) and (c), must be allocated to St. Louis county acting as the counties' fiscal agent, to be distributed as provided in sections 273.134 to 273.136.

(b) If an electric power plant owned by and providing the primary source of power for a taxpayer mining and concentrating taconite is located in a county other than the county in which the mining and the concentrating processes are conducted, .1875 cent per taxable ton of the tax imposed and collected from such taxpayer shall be paid to the county.

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(c) If an electric power plant owned by and providing the primary source of power for a taxpayer mining and concentrating taconite is located in a school district other than a school district in which the mining and concentrating processes are conducted, .5625 cent per taxable ton of the tax imposed and collected from the taxpayer shall be paid to the school district.

Sec. 46. TAX INCREMENT ADJUSTMENT.

The county auditor shall determine a tax increment district's original tax capacity by multiplying the district's market values by class in the year of original certification or year of certification for any modification, as the case may be, by the tax capacity rates in section 273.13. The original tax capacity of an economic development district shall also be inflated to reflect the annual adjustment required by section 469.177 for prior years. The original tax capacities of the districts under this section shall be certified to authorities by July 1, 1988.

Sec. 47. Minnesota Statutes 1987 Supplement, section 473.446, subdivision 1, is amended to read:

Subdivision 1. **TAXATION WITHIN TRANSIT TAXING DISTRICT.** For the purposes of sections 473.401 to 473.451 and the metropolitan transit system, except as otherwise provided in this subdivision the regional transit board shall levy each year upon all taxable property within the metropolitan transit taxing district, defined in subdivision 2, a transit tax consisting of:

(a) an amount up to two mills times the assessed value of all such property, based upon the level of transit service provided for the property, the proceeds of which shall be used for payment of the expenses of operating transit and para-transit service and to provide for payment of obligations issued by the commission under section 473.436, subdivision 6;

(b) an additional amount, if any, as the board determines to be necessary to provide for the full and timely payment of its certificates of indebtedness and other obligations outstanding on July 1, 1985, to which property taxes under this section have been pledged; and

(c) an additional amount necessary to provide full and timely payment of certificates of indebtedness, bonds, including refunding bonds or other obligations issued or to be issued under section 473.39 by the council for purposes of acquisition and betterment of property and other improvements of a capital nature and to which the council or board has specifically pledged tax levies under this clause.

The county auditor shall reduce the tax levied pursuant to this subdivision on all property within statutory and home rule charter cities and towns that receive full peak service and limited off-peak service by an amount equal to the tax levy that would be produced by applying a rate of 0.5 mills on the property. The county auditor shall reduce the tax levied pursuant to this subdivision on all

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property within statutory and home rule charter cities and towns that receive limited peak service by an amount equal to the tax levy that would be produced by applying a rate of 0.75 mills on the property. The amounts so computed by the county auditor shall be submitted to the commissioner of revenue as part of the abstracts of tax lists required to be filed with the commissioner under section 275.29. Any prior year adjustments shall also be certified in the abstracts of tax lists. The commissioner shall review the certifications to determine their accuracy and may make changes in the certification as necessary or return a certification to the county auditor for corrections. The commissioner shall pay to the regional transit board the amounts certified by the county auditors on the dates provided in section ~~273.1394~~ 273.1398. There is annually appropriated from the general fund in the state treasury to the department of revenue the amounts necessary to make these payments in fiscal year 1987 and thereafter.

For the purposes of this subdivision, "full peak and limited off-peak service" means peak period regular route service, plus weekday midday regular route service at intervals longer than 60 minutes on the route with the greatest frequency; and "limited peak period service" means peak period regular route service only.

Sec. 48. Minnesota Statutes 1987 Supplement, section 473F.02, subdivision 4, is amended to read:

Subd. 4. "Residential property" means the following categories of property, as defined in section 273.13, excluding that portion of such property exempt from taxation pursuant to section 272.02:

(a) Class 1, 1b, 2a, 4a, 4b, 4c, and 4d property except resorts and property classified under section 273.13, subdivision 25, paragraph (c), clause (6);

(b) and that portion of class 3a, 3b, and 5 property used exclusively for residential occupancy.

Sec. 49. Minnesota Statutes 1986, section 473F.02, is amended by adding a subdivision to read:

Subd. 23. "Gross tax capacity" means the market value of real and personal property multiplied by its gross tax capacity rates in section 273.13.

Sec. 50. Minnesota Statutes 1987 Supplement, section 473F.05, is amended to read:

473F.05 ASSESSED VALUATION GROSS TAX CAPACITY; ~~1972~~ 1988 AND SUBSEQUENT YEARS.

On or before November 20 of ~~1972~~ 1988 and each subsequent year, the assessors within each county in the area shall determine and certify to the county auditor the assessed valuation gross tax capacity in that year of commercial-industrial property subject to taxation within each municipality in the county, determined without regard to section 469.177, subdivision 3.

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Sec. 51. Minnesota Statutes 1987 Supplement, section 473F.06, is amended to read:

473F.06 INCREASE IN ASSESSED VALUATION GROSS TAX CAPACITY.

On or before September 1 of 1976 and each subsequent year, the auditor of each county in the area shall determine the amount, if any, by which the ~~assessed valuation gross tax capacity~~ determined in the preceding year pursuant to section 473F.05, of commercial-industrial property subject to taxation within each municipality in the auditor's county exceeds the ~~assessed valuation gross tax capacity~~ in 1971 of commercial-industrial property subject to taxation within that municipality. If a municipality is located in two or more counties within the area, the auditors of those counties shall certify the data required by section 473F.05 to the county auditor who is responsible under other provisions of law for allocating the levies of that municipality between or among the affected counties. That county auditor shall determine the amount of the net excess, if any, for the municipality under this section, and certify that amount under section 473F.07. Notwithstanding any other provision of sections 473F.01 to 473F.13 to the contrary, in the case of a municipality which is designated on July 24, 1971, as a redevelopment area pursuant to section 401(a)(4) of the Public Works and Economic Development Act of 1965, Public Law Number 89-136, the increase in its ~~assessed valuation gross tax capacity~~ of commercial-industrial property for purposes of this section shall be determined in each year subsequent to the termination of such designation by using as a base the ~~assessed valuation gross tax capacity~~ of commercial-industrial property in that municipality in the year following that in which such designation is terminated, rather than the ~~assessed valuation gross tax capacity~~ of such property in 1971. The increase in ~~assessed valuation gross tax capacity~~ determined by this section shall be reduced by the amount of any decreases in the ~~assessed valuation gross tax capacity~~ of commercial-industrial property resulting from any court decisions, court related stipulation agreements, or abatements for a prior year, and only in the amount of such decreases made during the 12-month period ending on June 30 of the current assessment year, where such decreases, if originally reflected in the determination of a prior year's ~~valuation gross tax capacity~~ under section 473F.05, would have resulted in a smaller contribution from the municipality in that year. An adjustment for such decreases shall be made only if the municipality made a contribution in a prior year based on the higher ~~valuation gross tax capacity~~ of the commercial-industrial property.

Sec. 52. Minnesota Statutes 1987 Supplement, section 473F.07, subdivision 1, is amended to read:

Subdivision 1. Each county auditor shall certify the determinations pursuant to sections 473F.05 and 473F.06 to the administrative auditor on or before November 20 of each year. The administrative auditor shall determine the sum of the amounts certified pursuant to section 473F.06, and divide that sum by 2-1/2. The resulting amount shall be known as the "areawide gross tax base capacity for(year)."

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Sec. 53. Minnesota Statutes 1986, section 473F.07, subdivision 4, is amended to read:

Subd. 4. The administrative auditor shall determine the proportion which the index of each municipality bears to the sum of the indices of all municipalities and shall then multiply this proportion in the case of each municipality, by the areawide gross tax base capacity.

Sec. 54. Minnesota Statutes 1986, section 473F.07, subdivision 5, is amended to read:

Subd. 5. The product of the multiplication prescribed by subdivision 4 shall be known as the "areawide gross tax base capacity for(year) attributable to(municipality)." The administrative auditor shall certify such product to the auditor of the county in which the municipality is located on or before November 25.

Sec. 55. Minnesota Statutes 1986, section 473F.08, subdivision 1, is amended to read:

Subdivision 1. The county auditor shall determine the ~~taxable value~~ gross tax capacity of each governmental unit within the auditor's county in the manner prescribed by this section.

Sec. 56. Minnesota Statutes 1987 Supplement, section 473F.08, subdivision 2, is amended to read:

Subd. 2. The ~~taxable value~~ gross tax capacity of a governmental unit is its ~~assessed valuation~~ gross tax capacity, as determined in accordance with other provisions of law including section 469.177, subdivision 3, subject to the following adjustments:

(a) There shall be subtracted from its ~~assessed valuation~~ gross tax capacity, in each municipality in which the governmental unit exercises ad valorem taxing jurisdiction, an amount which bears the same proportion to 40 percent of the amount certified in that year pursuant to section 473F.06 in respect to that municipality as the total preceding year's ~~assessed valuation~~ gross tax capacity of commercial-industrial property which is subject to the taxing jurisdiction of the governmental unit within the municipality, determined without regard to section 469.177, subdivision 3, bears to the total preceding year's ~~assessed valuation~~ gross tax capacity of commercial-industrial property within the municipality, determined without regard to section 469.177, subdivision 3;

(b) There shall be added to its ~~assessed valuation~~ gross tax capacity, in each municipality in which the governmental unit exercises ad valorem taxing jurisdiction, an amount which bears the same proportion to the areawide ~~base~~ gross tax capacity for the year attributable to that municipality as the total preceding year's ~~assessed valuation~~ gross tax capacity of residential property which is subject to the taxing jurisdiction of the governmental unit within the municipali-

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ty bears to the total preceding year's ~~assessed valuation~~ gross tax capacity of residential property of the municipality.

Sec. 57. Minnesota Statutes 1986, section 473F.08, subdivision 3, is amended to read:

Subd. 3. On or before October 15 of 1976 and each subsequent year, the county auditor shall apportion the levy of each governmental unit in the auditor's county in the manner prescribed by this subdivision. The auditor shall:

(a) Determine the areawide portion of the levy for each governmental unit by multiplying the ~~nonagricultural mill rate~~ tax capacity rate of the governmental unit for the preceding levy year times the distribution value set forth in subdivision 2, clause (b); and

(b) Determine the local portion of the current year's levy by subtracting the resulting amount from clause (a) from the governmental unit's current year's levy.

Sec. 58. Minnesota Statutes 1986, section 473F.08, subdivision 3a, is amended to read:

Subd. 3a. Beginning in 1987 and each subsequent year through 1998, the city of Bloomington shall determine the interest payments for that year for the bonds which have been sold for the highway improvements pursuant to Laws 1986, chapter 391, section 2, paragraph (g). Effective for property taxes payable in 1988 through property taxes payable in 1999, after the Hennepin county auditor has computed the areawide portion of the levy for the city of Bloomington pursuant to subdivision 3, clause (a), the auditor shall annually add a dollar amount to the city of Bloomington's areawide portion of the levy equal to the amount which has been certified to the auditor by the city of Bloomington for the interest payments for that year for the bonds which were sold for highway improvements. The total areawide portion of the levy for the city of Bloomington including the additional amount for interest repayment certified pursuant to this subdivision shall be certified by the Hennepin county auditor to the administrative auditor pursuant to subdivision 5. The Hennepin county auditor shall distribute to the city of Bloomington the additional areawide portion of the levy computed pursuant to this subdivision at the same time that payments are made to the other counties pursuant to subdivision 7a. This additional areawide portion of the levy which is distributed to the city of Bloomington shall be exempt from the city's levy limit provisions contained in sections 275.50 to 275.56. For property taxes payable from the year 2000 through 2009, the Hennepin county auditor shall adjust Bloomington's contribution to the areawide gross tax base capacity upward each year by a value equal to ten percent of the total additional areawide levy distributed to Bloomington under this subdivision from 1988 to 1999, divided by the areawide ~~mill rate~~ tax capacity rate for taxes payable in the previous year.

Sec. 59. Minnesota Statutes 1987 Supplement, section 473F.08, subdivision 4, is amended to read:

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Subd. 4. In 1972 and subsequent years, the county auditor shall divide that portion of the levy determined pursuant to subdivision 3, clause (b), by the ~~assessed valuation gross tax capacity~~ of the governmental unit, taking section 469.177, subdivision 3, into account, less that portion subtracted from ~~assessed valuation gross tax capacity~~ pursuant to subdivision 2, clause (a). The resulting rate shall apply to all taxable property except commercial-industrial property, which shall be taxed in accordance with subdivision 6.

Sec. 60. Minnesota Statutes 1986, section 473F.08, subdivision 5, is amended to read:

Subd. 5. On or before November 30 of 1972 and each subsequent year, the county auditor shall certify to the administrative auditor that portion of the levy of each governmental unit determined pursuant to subdivision 3, clause (a). The administrative auditor shall then determine the rate of taxation tax capacity sufficient to yield an amount equal to the sum of such levies from the areawide gross tax base capacity. On or before December 5 the administrative auditor shall certify said rate to each of the county auditors.

Sec. 61. Minnesota Statutes 1987 Supplement, section 473F.08, subdivision 6, is amended to read:

Subd. 6. The rate of taxation determined in accordance with subdivision 5 shall apply in the taxation of each item of commercial-industrial property subject to taxation within a municipality, including property located within any tax increment financing district, as defined in section 469.174, subdivision 9, to that portion of the assessed valuation gross tax capacity of the item which bears the same proportion to its total ~~assessed valuation gross tax capacity~~ as 40 percent of the amount determined pursuant to section 473F.06 in respect to the municipality in which the property is taxable bears to the amount determined pursuant to section 473F.05. The rate of taxation determined in accordance with subdivision 4 shall apply in the taxation of the remainder of the ~~assessed valuation gross tax capacity~~ of the item.

Sec. 62. Minnesota Statutes 1986, section 473F.08, subdivision 10, is amended to read:

Subd. 10. For the purpose of computing the amount or rate of any salary, aid, tax, or debt authorized, required, or limited by any provision of any law or charter, where such authorization, requirement, or limitation is related in any manner to any value or valuation of taxable property within any governmental unit, such value or valuation gross tax capacity shall be adjusted to reflect the adjustments to valuation gross tax capacity effected by subdivision 2, provided that: (1) in determining the market value of commercial-industrial property or any class thereof within a governmental unit for any purpose other than section 473F.07, (a) the reduction required by this subdivision shall be that amount which bears the same proportion to the amount subtracted from the governmental unit's ~~assessed valuation gross tax capacity~~ pursuant to subdivision 2, clause (a), as the market value of commercial-industrial property, or such class thereof, located within the governmental unit bears to the ~~assessed valuation gross tax~~

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capacity of commercial-industrial property, or such class thereof, located within the governmental unit, and (b) the increase required by this subdivision shall be that amount which bears the same proportion to the amount added to the governmental unit's ~~assessed valuation~~ gross tax capacity pursuant to subdivision 2, clause (b), as the market value of commercial-industrial property, or such class thereof, located within the governmental unit bears to the ~~assessed valuation~~ gross tax capacity of commercial-industrial property, or such class thereof, located within the governmental unit; and (2) in determining the market value of real property within a municipality for purposes of section 473F.07, the adjustment prescribed by clause (1) (a) hereof shall be made and that prescribed by clause (1) (b) hereof shall not be made.

Sec. 63. Minnesota Statutes 1986, section 473F.10, is amended to read:

473F.10 REASSESSMENTS AND OMITTED PROPERTY.

Subdivision 1. If the commissioner of revenue orders a reassessment of all or any portion of the property in a municipality other than in the form of a mathematically prescribed adjustment of valuation, or if omitted property is placed upon the tax rolls, and the reassessment has not been completed or the property placed upon the rolls, as the case may be, by November 15, the ~~assessed valuation~~ gross tax capacity of the affected property shall, for purposes of sections 473F.03 to 473F.08, be determined from the abstracts filed by the county auditor with the commissioner of revenue.

Subd. 2. If the reassessment, when completed and incorporated in the commissioner of revenue's certification of the ~~assessed valuation~~ gross tax capacity of the municipality, or the listing of omitted property, when placed on the rolls, results in an increase in the ~~assessed valuation~~ gross tax capacity of commercial-industrial property in the municipality which differs from that used, pursuant to subdivision 1, for purposes of sections 473F.03 to 473F.08, the increase in the ~~assessed valuation~~ gross tax capacity of commercial-industrial property in that municipality in the succeeding year, as otherwise computed under section 473F.06, shall be adjusted in a like amount, by an increase if the reassessment or listing discloses a larger increase than was used for purposes of sections 473F.03 to 473F.08, or by a decrease if the reassessment or listing discloses a smaller increase than was used for those purposes, provided that no adjustment shall reduce the amount determined under section 473F.06 to an amount less than zero.

Subd. 3. Subdivisions 1 and 2 shall not apply to the determination of the tax rate under section 473F.08, subdivision 4, or to the determination of the ~~assessed valuation~~ gross tax capacity of commercial-industrial property and each item thereof for purposes of section 473F.08, subdivision 6.

Sec. 64. FISCAL DISPARITIES ADJUSTMENT.

For purposes of determining the areawide levy and local levies under section 473F.08, subdivisions 3, 4, 5, and 6, for taxes payable in 1989, the initial computation shall be done based on chapter 473F as codified in Minnesota Statutes 1986 and Minnesota Statutes 1987 Supplement. However, after the dollar amount of the areawide and local levies has been determined under

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section 473F.08, subdivisions 3, 4, 5, and 6, the dollar amount of the levies shall be spread on the basis of this act. The dollar amount of the areawide tax shall be levied against the portion of commercial-industrial gross tax capacity equal to the portion of commercial-industrial assessed value that would have been subject to the areawide tax under Minnesota Statutes 1986. Prior to November 20, 1988, the county auditors with the assistance of the county assessors shall determine the gross tax capacity of commercial-industrial property in each municipality as of the January 2, 1971, assessment. The gross tax capacity shall be computed by multiplying the municipality's market value of commercial-industrial assessed value by class by the gross tax capacity rates in section 273.13.

Sec. 65. Minnesota Statutes 1987 Supplement, section 475.53, subdivision 4, is amended to read:

Subd. 4. **SCHOOL DISTRICTS.** Except as otherwise provided by law, no school district shall be subject to a net debt in excess of ten percent of the actual market value of all taxable property ~~and of exempt property referred to in section 275.49~~, situated within its corporate limits, as computed in accordance with this subdivision. The county auditor of each county containing taxable real or personal property situated within any school district shall certify to the district upon request the market value of all such property. ~~The county auditor of each county containing exempt property referred to in section 275.49, situated within any school district, shall certify to the district upon request the total market value of all such property as determined under section 275.49.~~ The commissioner of revenue shall certify to the district upon request the market value of railroad property within the district as most recently determined under section 270.87. Whenever the commissioner of revenue, in accordance with section 124.2131, subdivision 1, has determined that the assessed valuation of any district furnished by county auditors is not based upon the market value of taxable property in the district, the commissioner of revenue shall certify to the district upon request the ratio most recently ascertained to exist between such value and the actual market value of property within the district. The actual market value of property within a district, on which its debt limit under this subdivision is based, is (a) the value certified by the county auditors and, where applicable, by the commissioner of revenue under section 270.87, or (b) this value divided by the ratio certified by the commissioner of revenue, whichever results in a higher value.

Sec. 66. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 15. **CITY REVENUE.** "City revenue" equals the sum of (i) the city's aid payable under section 477A.013, in the year prior to that for which aids are being calculated, and (ii) its levy for taxes payable in the year prior to that for which aids are being calculated, and (iii) for aids payable in 1991 and subsequent years, the city's transition aid payable under section 273.1398, subdivision 2, in the year prior to that for which aids are being calculated.

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Sec. 67. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 16. BASE REVENUE GUARANTEE. "Base revenue guarantee" is the sum of (1) \$160 per household plus (2) \$150 multiplied by each tenfold increase in households, or fraction thereof, above ten rounded to the nearest dollar.

Sec. 68. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 17. REVENUE GUARANTEE INCREASE. "Revenue guarantee increase" is the sum of:

(1) \$190 per household for cities of the first class located in the metropolitan area and \$190 per household for cities located outside the metropolitan area; and

(2) 15 percent of a city's base revenue guarantee for cities in which the population has declined since the estimate for the third year preceding the most recent estimate.

Sec. 69. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 18. CITY REVENUE GUARANTEE. "City revenue guarantee" is the product of:

(1) the sum of a city's base revenue guarantee and the city's revenue guarantee increase;

(2) the number of households in the city; and

(3) 108 percent for aids payable in 1989 and 104 percent for aids payable in 1990 and subsequent years.

Sec. 70. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 19. METROPOLITAN AREA. "Metropolitan area" is the metropolitan area as defined in section 473.121, subdivision 2.

Sec. 71. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 20. CITY TAX CAPACITY. "City tax capacity" means (1) 23 percent of the net tax capacity computed using the net tax capacity rates listed in section 273.13 for all taxable property within the city based on the assessment two years prior to that for which aids are being calculated, plus (2) a city's levy on the fiscal disparities distribution under section 473F.08, subdivision 3, paragraph (a), for taxes payable in the year prior to that for which aids are being calculated. The market value utilized in computing net tax capacity shall be

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reduced by the sum of (1) a city's market value of commercial industrial property as defined in section 473F.02, subdivision 3, multiplied by the ratio determined pursuant to section 473F.08, subdivision 2, paragraph (a), and (2) the market value of the captured value of tax increment financing districts as defined in section 469.177, subdivision 2. The net tax capacity will be computed using equalized market values.

Sec. 72. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 21. EQUALIZED MARKET VALUES. Equalized market values are equalized market values as defined in section 273.1398, subdivision 1.

Sec. 73. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 22. CITY INITIAL AID. "Initial aid" for a city is its city revenue guarantee minus the city's tax capacity. Initial aid cannot be less than \$0.

Sec. 74. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 23. CITY EXPENDITURE/UNLIMITED AID RATIO. "Expenditure/unlimited aid ratio" for a city is the ratio of its city revenue to its city revenue guarantee.

Sec. 75. Minnesota Statutes 1986, section 477A.011, is amended by adding a subdivision to read:

Subd. 24. LOCAL GOVERNMENT AID INCREASE. "Local government aid increase" is aid payable in 1989 pursuant to section 477A.013, subdivision 3, minus the city's 1988 local government aid.

Sec. 76. Minnesota Statutes 1987 Supplement, section 477A.013, subdivision 1, is amended to read:

Subdivision 1. TOWNS. In calendar year 1988 and calendar years thereafter, each town which had levied for taxes payable in the previous year at least one mill on the dollar of the assessed value of the town shall receive a distribution equal to the greater of: (a) 60 percent of the amount received in 1983 pursuant to Minnesota Statutes 1982, sections 273.138, 273.139, and 477A.011 to 477A.03; or (b) the amount certified in 1987 pursuant to sections 477A.011 to 477A.03. In calendar year 1989, each town that had levied for taxes payable in 1988 at least one mill on the dollar of the assessed value of the town shall receive a distribution equal to 106 percent of the distribution received under Minnesota Statutes 1987 Supplement, section 477A.013, subdivision 1, in 1988. In calendar year 1990 and subsequent years, each town that had levied for taxes payable in the prior year a tax capacity rate of at least .0125 shall receive a distribution equal to the amount received in 1989 under this subdivision.

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Sec. 77. Minnesota Statutes 1987 Supplement, section 477A.013, subdivision 2, is amended to read:

Subd. 2. **CITIES.** In calendar year 1988 ~~and calendar years thereafter~~, each city shall receive a local government aid distribution equal to the amount that the city was certified to receive for calendar year 1987 under this subdivision.

Sec. 78. Minnesota Statutes 1987 Supplement, section 477A.013, is amended by adding a subdivision to read:

Subd. 3. CITY AID DISTRIBUTION. In 1989, a city whose initial aid is greater than \$0 will receive the following aid increases in addition to an amount equal to the local government aid it received in 1988 under Minnesota Statutes 1987 Supplement, section 477A.013:

(1) for a city whose expenditure/unlimited aid ratio is at least 1.5, two percent of city revenue;

(2) for a city whose expenditure/unlimited aid ratio is at least 1.4 but less than 1.5, 2.5 percent of city revenue;

(3) for a city whose expenditure/unlimited aid ratio is at least 1.3 but less than 1.4, three percent of city revenue;

(4) for a city whose expenditure/unlimited aid ratio is at least 1.2 but less than 1.3, four percent of city revenue;

(5) for a city whose expenditure/unlimited aid ratio is at least 1.1 but less than 1.2, five percent of city revenue;

(6) for a city whose expenditure/unlimited aid ratio is at least 1.05 but less than 1.1, six percent of city revenue;

(7) for a city whose expenditure/unlimited aid ratio is at least 1.0 but less than 1.05, seven percent of city revenue;

(8) for a city whose expenditure/unlimited aid ratio is at least .95 but less than 1.0, 7.5 percent of city revenue;

(9) for a city whose expenditure/unlimited aid ratio is at least .75 but less than .95, 8.5 percent of city revenue; and

(10) for a city whose expenditure/unlimited aid ratio is less than .75, nine percent of city revenue.

In 1990 and subsequent years, a city whose initial aid is greater than \$0 will receive an amount equal to the aid it received under this subdivision and subdivision 4 in the year prior to that for which aids are being calculated plus an aid increase equal to 50 percent of the rates listed in clauses 1 to 10 multiplied by city revenue.

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A city's aid increase under this subdivision is limited to the lesser of (1) 20 percent of its levy for taxes payable in the year prior to that for which aids are being calculated after the adjustments provided in section 273.1398, subdivision 2, or (2) its initial aid amount, provided that no city will receive an increase that is less than two percent of its 1988 local government aid for aids payable in 1989.

A city whose initial aid is \$0 will receive in 1989 an amount equal to 102 percent of the local government aid it received in 1988 under Minnesota Statutes 1987 Supplement, section 477A.013. A city whose initial aid is \$0 will receive in 1990 and subsequent years an amount equal to the aid it received in the previous year under this subdivision and subdivision 4.

Sec. 79. Minnesota Statutes 1987 Supplement, section 477A.013, is amended by adding a subdivision to read:

Subd. 4. ADDITIONAL DISTRIBUTION. A city with a population over 2,500 is eligible for additional aid in 1989 only. The amount of additional aid is equal to (1) the product of (i) the lesser of 50 percent of a city's "city revenue guarantee" or 50 percent of a city's "city revenue" and (ii) one minus the ratio of the city's tax capacity per household to 435; less (2) the sum of (i) the disparity reduction aid payable to all unique taxing jurisdictions within a city and (ii) the local government aid increase for the city. The additional aid under this section cannot be less than zero.

Sec. 80. NOTIFICATION OF ADMINISTRATIVE DIRECTIVES.

The commissioner of revenue shall notify the chairs of the senate committee on taxes and tax laws and the house committee on taxes of administrative directives or interpretations of the provisions of this article. The notice must be given at least five days before a directive or interpretation is released to the public or provided to a local government to allow time for the chairs to provide advice or to comment on the commissioner's directive or interpretation of the law. An administrative directive or interpretation includes an explanation of a provision, a clarification of its application to a particular circumstance, a directive on how to apply or administer a provision, and other similar communications that are intended to direct or guide local government officials in administering the law. This section applies only to written materials that are either released to the public or mailed, sent or provided to a local government or a local government official.

Sec. 81. REPEALER.

(a) Minnesota Statutes 1986, sections 272.64; 273.13, subdivisions 7a and 30; 275.49; 477A.011, subdivisions 4, 5, 6, 7a, 10, 11, 12, 13, and 14; and Minnesota Statutes 1987 Supplement, sections 273.1102, subdivision 2; 273.1195; 273.13, subdivision 9; 273.1394; 273.1395; 273.1396; 273.1397; 275.081; 275.082; 275.125, subdivision 22; and 477A.011, subdivision 7; and Laws 1987, chapter 268, article 6, section 19, are repealed.

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(b) Minnesota Statutes 1986, section 275.50, subdivisions 3, 7, and 8 are repealed.

(c) Minnesota Statutes 1987 Supplement, section 273.13, subdivision 15a, and section 21 are repealed.

Sec. 82. Laws 1987, chapter 268, article 6, section 53, is amended to read:

Sec. 53. **REPEALER.**

Minnesota Statutes 1986, sections 13.58; 124.2131, subdivision 4; 124.2137; ~~124.2139~~; 124A.031, subdivision 4; 273.112, subdivision 9; 273.115; 273.116; 273.13, subdivisions 26, 27, 28, and 29; and 273.1311; ~~273.1315~~; 273.135, subdivision 5; and 273.1391, subdivision 4, are repealed.

Sec. 83. **REENACTMENT.**

Notwithstanding Minnesota Statutes, section 645.36, Minnesota Statutes, sections 124.2139; 273.1315; 273.135, subdivision 5; and 273.1391, subdivision 4, are reenacted and are effective as amended in this article for taxes levied in 1988 and thereafter, payable in 1989 and thereafter.

Sec. 84. **INSTRUCTION TO REVISOR.**

The revisor of statutes shall change the words "assessed value" or "assessed valuation" wherever they appear in Minnesota Statutes to "gross tax capacity" in Minnesota Statutes 1988 and "net tax capacity" in Minnesota Statutes 1989 Supplement and subsequent editions of the statutes except section 275.011. The revisor of statutes shall change the words "mill rate" wherever they appear in Minnesota Statutes to "tax capacity rate" in Minnesota Statutes 1988 and subsequent editions of the statutes except section 275.011.

Sec. 85. **APPROPRIATION.**

\$4,000,000 is appropriated to the commissioner of revenue from the general fund for the biennium ending June 30, 1989. This money is to be used by the commissioner to provide grants and other assistance to all counties for the purpose of developing, upgrading, and maintaining county property tax administrative data collection and processing systems and for the costs of administering this article.

Sec. 86. **EFFECTIVE DATE.**

Sections 1 to 29, 31 to 79, 81, paragraphs (a) and (b), 82 and 83 are effective for taxes levied in 1988, payable in 1989, and thereafter, except as otherwise provided. Sections 30 and 81, paragraph (c) are effective for taxes levied in 1989, payable in 1990, and thereafter. Sections 80 and 85 are effective the day following final enactment.

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ARTICLE 6

PROPERTY TAX TECHNICAL AND ADMINISTRATION

Section 1. Minnesota Statutes 1986, section 270.075, subdivision 2, is amended to read:

Subd. 2. As soon as practicable and not later than ~~November~~ December 1 next following the levy of the tax, the commissioner shall give actual notice to the airline company of the assessed valuation and of the tax. The taxes imposed under sections 270.071 to 270.079 shall become due and payable on January 1 following the levy thereof. If any tax is not paid on the due date or, if an appeal is made pursuant to section 270.076, within 60 days after notice of an increased tax, a late payment penalty of ten percent of the unpaid tax shall be assessed. The unpaid tax and penalty shall bear interest at the rate specified in section 270.75 from the time such tax should have been paid until paid. All interest and penalties shall be added to the tax and collected as a part thereof.

Sec. 2. Minnesota Statutes 1987 Supplement, section 272.01, subdivision 2, is amended to read:

Subd. 2. (a) When any real or personal property which for any reason is exempt from ad valorem taxes, and taxes in lieu thereof, is leased, loaned, or otherwise made available and used by a private individual, association, or corporation in connection with a business conducted for profit, there shall be imposed a tax, for the privilege of so using or possessing such real or personal property, in the same amount and to the same extent as though the lessee or user was the owner of such property.

(b) The tax imposed by this subdivision shall not apply to (1) property leased or used by way of a concession in or relative to the use in whole or part of a public park, market, fairgrounds, port authority, economic development authority established under chapter 458C, municipal auditorium, airport owned by a city, town, county, or group thereof but not the airports owned or operated by the metropolitan airports commission or a city of over 50,000 population or an airport authority therein, municipal museum or municipal stadium or (2) property constituting or used as a public pedestrian ramp or concourse in connection with a public airport or (3) property constituting or used as a passenger check-in area or ticket sale counter, boarding area, or luggage claim area in connection with a public airport but not the airports owned or operated by the metropolitan airports commission or cities of over 50,000 population or an airport authority therein. Real estate owned by a municipality in connection with the operation of a public airport and leased or used for agricultural purposes shall not be exempt.

(c) Taxes imposed by this subdivision shall be due and payable as in the case of personal property taxes and such taxes shall be assessed to such lessees or users of real or personal property in the same manner as taxes assessed to owners of real or personal property, except that such taxes shall not become a

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lien against the property. When due, the taxes shall constitute a debt due from the lessee or user to the state, township, city, county and school district for which the taxes were assessed and shall be collected in the same manner as personal property taxes. If property subject to the tax imposed by this subdivision is leased or used jointly by two or more persons, each lessee or user shall be jointly and severally liable for payment of the tax.

Sec. 3. Minnesota Statutes 1987 Supplement, section 272.02, subdivision 1, is amended to read:

Subdivision 1. All property described in this section to the extent herein limited shall be exempt from taxation:

- (1) all public burying grounds;
- (2) all public schoolhouses;
- (3) all public hospitals;
- (4) all academies, colleges, and universities, and all seminaries of learning;
- (5) all churches, church property, and houses of worship;
- (6) institutions of purely public charity except parcels of property containing structures and the structures described in section 273.13, subdivision 25, paragraph (c), clause (1) or (2), or paragraph (d), clause (2);
- (7) all public property exclusively used for any public purpose;
- (8) except for the taxable personal property enumerated below, all personal property and the property described in section 272.03, subdivision 1, paragraphs (c) and (d) shall be exempt.

The following personal property shall be taxable:

(a) personal property which is part of an electric generating, transmission, or distribution system or a pipeline system transporting or distributing water, gas, crude oil, or petroleum products or mains and pipes used in the distribution of steam or hot or chilled water for heating or cooling buildings and structures;

(b) railroad docks and wharves which are part of the operating property of a railroad company as defined in section 270.80;

(c) personal property defined in section 272.03, subdivision 2, clause (3);

(d) leasehold or other personal property interests which are taxed pursuant to section 272.01, subdivision 2; 273.124, subdivision 7; or 273.19, subdivision 1; or any other law providing the property is taxable as if the lessee or user were the fee owner;

(e) manufactured homes and sectional structures; and

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(f) flight property as defined in section 270.071.

(9) Real and personal property used primarily for the abatement and control of air, water, or land pollution to the extent that it is so used, other than real property used primarily as a solid waste disposal site.

Any taxpayer requesting exemption of all or a portion of any equipment or device, or part thereof, operated primarily for the control or abatement of air or water pollution shall file an application with the commissioner of revenue. The equipment or device shall meet standards, rules or criteria prescribed by the Minnesota pollution control agency, and must be installed or operated in accordance with a permit or order issued by that agency. The Minnesota pollution control agency shall upon request of the commissioner furnish information or advice to the commissioner. On determining that property qualifies for exemption, the commissioner shall issue an order exempting the property from taxation. The equipment or device shall continue to be exempt from taxation as long as the permit issued by the Minnesota pollution control agency remains in effect.

(10) Wetlands. For purposes of this subdivision, "wetlands" means (1) land described in section 105.37, subdivision 15, or (2) land which is mostly under water, produces little if any income, and has no use except for wildlife or water conservation purposes, provided it is preserved in its natural condition and drainage of it would be legal, feasible, and economically practical for the production of livestock, dairy animals, poultry, fruit, vegetables, forage and grains, except wild rice. "Wetlands" shall include adjacent land which is not suitable for agricultural purposes due to the presence of the wetlands. "Wetlands" shall not include woody swamps containing shrubs or trees, wet meadows, meandered water, streams, rivers, and floodplains or river bottoms. Exemption of wetlands from taxation pursuant to this section shall not grant the public any additional or greater right of access to the wetlands or diminish any right of ownership to the wetlands.

(11) Native prairie. The commissioner of the department of natural resources shall determine lands in the state which are native prairie and shall notify the county assessor of each county in which the lands are located. Pasture land used for livestock grazing purposes shall not be considered native prairie for the purposes of this clause and section 273.116. Upon receipt of an application for the exemption and credit provided in this clause and section 273.116 for lands for which the assessor has no determination from the commissioner of natural resources, the assessor shall refer the application to the commissioner of natural resources who shall determine within 30 days whether the land is native prairie and notify the county assessor of the decision. Exemption of native prairie pursuant to this clause shall not grant the public any additional or greater right of access to the native prairie or diminish any right of ownership to it.

(12) Property used in a continuous program to provide emergency shelter for victims of domestic abuse, provided the organization that owns and sponsors

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the shelter is exempt from federal income taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1986, notwithstanding the fact that the sponsoring organization receives funding under section 8 of the United States Housing Act of 1937, as amended.

(13) If approved by the governing body of the municipality in which the property is located, property not exceeding one acre which is owned and operated by any senior citizen group or association of groups that in general limits membership to persons age 55 or older and is organized and operated exclusively for pleasure, recreation, and other nonprofit purposes, no part of the net earnings of which inures to the benefit of any private shareholders; provided the property is used primarily as a clubhouse, meeting facility or recreational facility by the group or association and the property is not used for residential purposes on either a temporary or permanent basis.

(14) To the extent provided by section 295.44, real and personal property used or to be used primarily for the production of hydroelectric or hydromechanical power on a site owned by the state or a local governmental unit which is developed and operated pursuant to the provisions of section 105.482, subdivisions 1, 8, and 9.

(15) If approved by the governing body of the municipality in which the property is located, and if construction is commenced after June 30, 1983:

(a) a "direct satellite broadcasting facility" operated by a corporation licensed by the federal communications commission to provide direct satellite broadcasting services using direct broadcast satellites operating in the 12-ghz. band; and

(b) a "fixed satellite regional or national program service facility" operated by a corporation licensed by the federal communications commission to provide fixed satellite-transmitted regularly scheduled broadcasting services using satellites operating in the 6-ghz. band.

An exemption provided by paragraph (15) shall apply for a period not to exceed five years. When the facility no longer qualifies for exemption, it shall be placed on the assessment rolls as provided in subdivision 4. Before approving a tax exemption pursuant to this paragraph, the governing body of the municipality shall provide an opportunity to the members of the county board of commissioners of the county in which the facility is proposed to be located and the members of the school board of the school district in which the facility is proposed to be located to meet with the governing body. The governing body shall present to the members of those boards its estimate of the fiscal impact of the proposed property tax exemption. The tax exemption shall not be approved by the governing body until the county board of commissioners has presented its written comment on the proposal to the governing body, or 30 days has passed from the date of the transmittal by the governing body to the board of the information on the fiscal impact, whichever occurs first.

(16) Real and personal property owned and operated by a private, nonprofit

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corporation exempt from federal income taxation pursuant to United States Code, title 26, section 501(c)(3), primarily used in the generation and distribution of hot water for heating buildings and structures.

(17) Notwithstanding section 273.19, state lands that are leased from the department of natural resources under section 92.46.

(18) Electric power distribution lines and their attachments and appurtenances, that are used primarily for supplying electricity to farmers at retail.

(19) Transitional housing facilities. "Transitional housing facility" means a facility that meets the following requirements. (i) It provides temporary housing to parents and children who are receiving AFDC or parents of children who are temporarily in foster care. (ii) It has the purpose of reuniting families and enabling parents to advance their education, get job training, or become employed in jobs that provide a living wage. (iii) It provides support services such as child care, work readiness training, and career development counseling; and a self-sufficiency program with periodic monitoring of each resident's progress in completing the program's goals. (iv) It provides services to a resident of the facility for at least six months but no longer than one year, except residents enrolled in an educational or vocational institution or job training program. These residents may receive services during the time they are enrolled but in no event longer than four years. (v) It is sponsored by an organization that has received a grant under section 256.7365 for the biennium ending June 30, 1989, for the purposes of providing the services in items (i) to (iv). (vi) It is sponsored by an organization that is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1987. This exemption applies notwithstanding the fact that the sponsoring organization receives financing by a direct federal loan or federally insured loan or a loan made by the Minnesota housing finance agency under the provisions of either Title II of the National Housing Act or the Minnesota housing finance agency law of 1971 or rules promulgated by the agency pursuant to it, and notwithstanding the fact that the sponsoring organization receives funding under Section 8 of the United States Housing Act of 1937, as amended.

Sec. 4. Minnesota Statutes 1987 Supplement, section 272.121, is amended to read:

272.121 CURRENT TAX ON DIVIDED PARCELS.

Subdivision 1. CERTIFICATION OF PAYMENT. Except as provided in subdivision 2, if a deed or other instrument conveys a parcel of land that is less than a whole parcel of land as described in the current tax list, the county auditor shall not transfer or divide the land in the auditor's official records, and the county recorder shall not file and record the instrument, unless the instrument of conveyance contains a certification by the county treasurer that the taxes due in the current tax year for the whole parcel have been paid. This certification is in addition to the certification for delinquent tax required by section 272.12.

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Subd. 2. EXCEPTIONS. No certification of current tax paid is required when the land is being conveyed to the federal government, the state, or a home rule charter or statutory city or any other political subdivision, or for any sheriff's or referee's certificate of sale or other instrument if a certification of delinquent tax for the instrument is not required under section 272.12.

Sec. 5. Minnesota Statutes 1986, section 273.112, subdivision 3, is amended to read:

Subd. 3. Real estate shall be entitled to valuation and tax deferment under this section only if it is:

(a) actively and exclusively devoted to golf, skiing or archery or firearms range recreational use or uses and other recreational uses carried on at the establishment;

(b) five acres in size or more, except in the case of an archery or firearms range;

(c)(1) operated by private individuals and open to the public; or

(2) operated by firms or corporations for the benefit of employees or guests; or

(3) operated by private clubs having a membership of 50 or more, provided that the club does not discriminate in membership requirements or selection on the basis of sex; and

(d) made available, in the case of real estate devoted to golf, for use without discrimination on the basis of sex during the time when the facility is open to use by the public or by members, except that use for golf may be restricted on the basis of sex no more frequently than one, or part of one, weekend each calendar month for each sex and no more than two, or part of two, weekdays each week for each sex.

If a golf club membership allows use of golf course facilities by more than one adult per membership, the use must be equally available to all adults entitled to use of the golf course under the membership, except that use may be restricted on the basis of sex as permitted in this section. Memberships that permit play during restricted times may be allowed only if the restricted times apply to all adults using the membership.

A golf club may have or create an individual membership category which entitles a member for a reduced rate to play during restricted hours as established by the club. The club must have on record a written request by the member for such membership.

For purposes of this subdivision and subdivision 7a, discrimination means a pattern or course of conduct and not linked to an isolated incident.

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Sec. 6. Minnesota Statutes 1986, section 273.112, subdivision 6, is amended to read:

Subd. 6. Application for deferment of taxes and assessment under this section shall be made at least 60 days prior to January 2 of each year. Such application shall be filed with the assessor of the taxing district in which the real property is located on such form as may be prescribed by the commissioner of revenue. The assessor may require proof by affidavit or other written verification that the property qualifies under subdivision 3. In the case of property operated by private clubs pursuant to subdivision 3, clause (c)(3), in order to qualify for valuation and tax deferment under this section, the taxpayer must submit to the assessor proof by affidavit or other written verification that the bylaws or rules and regulations of the club meet the eligibility requirements provided under this section. The signed affidavit or other written verification shall be sufficient demonstration of eligibility for the assessor unless the county attorney determines otherwise.

The county assessor shall refer any question regarding the eligibility for valuation and deferment under this section to the county attorney for advice and opinion under section 388.051, subdivision 1. Upon request of the county attorney, the taxpayer shall furnish information that the county attorney considers necessary in order to determine eligibility under this section.

Real estate is not entitled to valuation and deferment under this section unless the county assessor has filed with the assessor's tax records prior to October 16 a statement that the application has been accepted.

Sec. 7. Minnesota Statutes 1987 Supplement, section 273.1195, is amended to read:

273.1195 STATE PAID SMALL BUSINESS PROPERTY TAX TRANSITION CREDIT.

For property taxes payable in 1988 only, class 3a commercial industrial property is eligible for a state paid small business transition property tax credit if the payable 1988 property taxes on the first \$120,000 of market value of the property exceed three percent of the January 2, 1987, market value. The credit is equal to 50 percent of the property tax amount which is in excess of three percent of market value. Only the first \$120,000 of market value of a qualifying parcel and the taxes attributable to the first \$120,000 of market value are eligible for the computation of this credit. Only a parcel that qualifies for the 28 percent assessment ratio contained in section 273.13, subdivision 24, paragraph (a), qualifies for the credit provided in this section. Only the market value and property tax attributable to the part of the parcel that is class 3a must be used in computing the credit provided in this section.

~~In the case of taxes paid in installments pursuant to section 279.01, subdivision 1, the credit under this section must be deducted from the second one-half installment payable October 15. The amount of the reduction must be reported~~

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to the commissioner of revenue as part of the abstracts of tax lists required to be filed with the commissioner under section 275.29.

There is annually appropriated from the general fund to the commissioners of revenue and education the amount necessary to replace the revenue lost to local units of government and school districts as a result of the reduction in property taxes provided in this section. The payment amounts must be determined and the installments paid under the provisions of sections 273.13, subdivision 15a, and 273.1392.

Sec. 8. Minnesota Statutes 1986, section 273.121, is amended to read:

273.121 VALUATION OF REAL PROPERTY, NOTICE.

Any county assessor or city assessor having the powers of a county assessor, valuing or classifying taxable real property shall in each year notify those persons whose property is to be assessed or reclassified that year if the person's address is known to the assessor, otherwise the occupant of the property. ~~In the case of property owned by a married couple in joint tenancy or tenancy in common, the assessor shall not deny homestead treatment in whole or in part if only one of the spouses is occupying the property and the other spouse is absent due to divorce or separation, or is a resident of a nursing home or a boarding care facility.~~ The notice shall be in writing and shall be sent by ordinary mail at least ten days before the meeting of the local board of review or equalization. It shall contain the amount of the valuation in terms of market value, the new classification, the assessor's office address, and the dates, places, and times set for the meetings of the local board of review or equalization and the county board of equalization. If the assessment roll is not complete, the notice shall be sent by ordinary mail at least ten days prior to the date on which the board of review has adjourned. The assessor shall attach to the assessment roll a statement that the notices required by this section have been mailed. Any assessor who is not provided sufficient funds from the assessor's governing body to provide such notices, may make application to the commissioner of revenue to finance such notices. The commissioner of revenue shall conduct an investigation and, if satisfied that the assessor does not have the necessary funds, issue a certification to the commissioner of finance of the amount necessary to provide such notices. The commissioner of finance shall issue a warrant for such amount and shall deduct such amount from any state payment to such county or municipality. The necessary funds to make such payments are hereby appropriated. Failure to receive the notice shall in no way affect the validity of the assessment, the resulting tax, the procedures of any board of review or equalization, or the enforcement of delinquent taxes by statutory means.

Sec. 9. Minnesota Statutes 1986, section 273.124, subdivision 1, is amended to read:

Subdivision 1. **GENERAL RULE.** Residential real estate that is occupied and used for the purposes of a homestead by its owner, who must be a Minnesota resident, is a homestead. Dates for establishment of a homestead and home-

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stead treatment provided to particular types of property are as provided in this section.

The assessor shall require proof, by affidavit or otherwise, of the facts upon which classification as a homestead may be determined.

For purposes of this section, homestead property shall include property which is used for purposes of the homestead but is separated from the homestead by a road, street, lot, waterway, or other similar intervening property. The term "used for purposes of the homestead" shall include but not be limited to uses for gardens, garages, or other outbuildings commonly associated with a homestead, but shall not include vacant land held primarily for future development. In order to receive homestead treatment for the noncontiguous property, the owner shall apply for it to the assessor by July 1 of the year when the treatment is initially sought. After initial qualification for the homestead treatment, additional applications for subsequent years are not required.

In the case of property owned by a married couple in joint tenancy or tenancy in common, the assessor must not deny homestead treatment in whole or in part if only one of the spouses is occupying the property and the other spouse is absent due to divorce or separation, or is a resident of a nursing home or a boarding care facility.

If an individual is purchasing property with the intent of claiming it as a homestead, and is required by the terms of the financing agreement to have one or both parents shown on the deed as coowners, the assessor shall allow a full homestead classification and extend full homestead credit. This provision only applies to first time purchasers, whether married or single, or to a person who had previously been married and is purchasing as a single individual for the first time. The application for homestead benefits must be on a form prescribed by the commissioner and must contain the data necessary for the assessor to determine if full homestead benefits are warranted.

Sec. 10. Minnesota Statutes 1986, section 273.124, subdivision 6, is amended to read:

Subd. 6. **LEASEHOLD COOPERATIVES.** When one or more dwellings or one or more buildings which each contain several dwelling units is owned by a nonprofit corporation subject to the provisions of chapter 317 or a limited partnership which corporation or partnership operates the property in conjunction with a cooperative association, homestead treatment may be claimed by the cooperative association on behalf of the members of the cooperative for each dwelling unit occupied by a member of the cooperative. The cooperative association must provide the assessor with the social security numbers of those members. To qualify for the treatment provided by this subdivision, the following conditions must be met: (a) the cooperative association must be organized under sections 308.05 to 308.18; (b) the cooperative association must have a lease for occupancy of the property for a term of at least 20 years; (c) to the extent permitted under state or federal law, the cooperative association must

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have a right under a written agreement with the owner to purchase the property if the owner proposes to sell it; if the cooperative association does not purchase the property when it is offered for sale, the owner may not subsequently sell the property to another purchaser at a price lower than the price at which it was offered for sale to the cooperative association unless the cooperative association approves the sale; and (d) if a limited partnership owns the property, it must include as the managing general partner either the cooperative association or a nonprofit organization operating under the provisions of chapter 317. Homestead treatment must be afforded to units occupied by members of the cooperative association and the units must be assessed as provided in subdivision 3, provided that any unit not so occupied shall be classified and assessed pursuant to the appropriate class. No more than three acres of land may, for assessment purposes, be included with each dwelling unit that qualifies for homestead treatment under this subdivision.

Sec. 11. Minnesota Statutes 1986, section 277.05, is amended to read:

277.05 SHERIFF TO FILE LIST OF UNCOLLECTED TAXES.

If the sheriff is unable, for want of goods and chattels whereon to levy, to collect by a distress, or otherwise, the taxes, or any part thereof, assessed upon the personal property of any persons, the sheriff shall file with the court administrator of the district court, on September first following, a list of such taxes, with an affidavit of the sheriff, or of the deputy sheriff entrusted with the collection thereof, stating that the affiant has made diligent search and inquiry for goods and chattels from which to collect such taxes, and is unable to collect the same. The list of such taxes as they apply to manufactured homes shall be filed on December 1. The sheriff shall note on the margin of such list the place to which any delinquent taxpayer may have removed, with the date of removal, if known. At the time of filing the list the sheriff shall also return all the warrants with endorsements thereon showing the doings of the sheriff or deputy in the premises, and the court administrator shall file and preserve the same. On or before September tenth thereafter, the court administrator shall deliver such list and affidavit to the county treasurer, who shall, by comparison of such list with the tax duplicates in the treasurer's office, ascertain whether or not all personal property taxes reported by the treasurer to the court administrator as delinquent, except those included in such list, have been paid into the treasurer's office, and shall attach to the list a certificate stating whether or not all taxes reported by the treasurer to the court administrator as delinquent and not included in the list have been received, and stating the items of such taxes, if any, as have been received. The court administrator shall deliver such list and affidavit as they apply to manufactured homes on or before December 10. The treasurer shall deliver such list and affidavit, with the certificate attached, to the county board at its first session thereafter, which shall cancel such taxes as it is satisfied cannot be collected. A copy of the tax list so revised, and also a separate list of the taxes so canceled, shall be included in the records of the proceedings of the board, and published in full, as a part of the proceedings.

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Sec. 12. Minnesota Statutes 1986, section 277.06, is amended to read:

277.06 CITATION TO DELINQUENTS; DEFAULT JUDGMENT.

On October 20, or within ten days after the adjournment of the county board, whichever occurs first, the county auditor shall file a copy of such revised list with the court administrator of the district court; ~~and~~. The county auditor shall file a copy of the revised list as it applies to manufactured homes on January 20. Within ten days ~~thereafter~~ after the list has been filed, the court administrator shall issue a citation to each delinquent named in the list, stating the amount of tax and penalty, and requiring such delinquent to appear on a day to be set by the district court in the county, appointed to be held at a time not less than 30 days after the issuance of such citation, and show cause, if any there be, why the delinquent should not pay the tax and penalty. The citation shall be delivered for service to the sheriff of the county where such person may at the time reside or be. If such person, after service of the citation, fails to pay such tax, penalty, and costs to the sheriff before the first day of the term, or on such day to show cause as aforesaid, the court shall direct judgment against the person for the amount of such tax, penalty, and costs. When unable to serve the citation, the sheriff shall return the same to the court administrator, with a return thereto to that effect, and thereupon, or if the court decides that the service of such citation made or attempted to be made, or the issuance thereof by the court administrator, was illegal, the court administrator shall issue another like citation, requiring such delinquent to appear on the first day of the next general term to be held in the county, and show cause as aforesaid, and if the delinquent fails to pay or to show cause, the court shall direct judgment as aforesaid. Whenever the sheriff has been unable to serve any such citation theretofore issued in any year or years, or whenever the court decides that the service of any such citation theretofore made or attempted to be made, or the issuance thereof by the court administrator, was illegal, the court administrator shall issue another like citation requiring such delinquent to appear, as in the case last provided, and with like effect; provided, that all citations other than the first shall be issued only on the request of the county attorney.

Sec. 13. Minnesota Statutes 1987 Supplement, section 279.01, subdivision 1, is amended to read:

Subdivision 1. Except as provided in subdivision 3, on May 16, of each year, with respect to property actually occupied and used as a homestead by the owner of the property, a penalty of three percent shall accrue and thereafter be charged upon all unpaid taxes on real estate on the current lists in the hands of the county treasurer, and a penalty of seven percent on nonhomestead property, except that this penalty shall not accrue until June 1 of each year on commercial use real property used for seasonal residential recreational purposes and classified as class 4d or 4c, and on other commercial use real property classified as class 3a, provided that over 60 percent of the gross income earned by the enterprise on the class 3a property is earned during the months of May, June, July, and August. Any property owner of such class 3a property who pays the first half of

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the tax due on the property after May 15 and before June 1 shall attach an affidavit to the payment attesting to compliance with the income provision of this subdivision. Thereafter, for both homestead and nonhomestead property, on the ~~16th~~ first day of each month, up to and including October ~~16~~ 1 following, an additional penalty of one percent for each month shall accrue and be charged on all such unpaid taxes. When the taxes against any tract or lot exceed \$50, one-half thereof may be paid prior to May 16; and, if so paid, no penalty shall attach; the remaining one-half shall be paid at any time prior to October 16 following, without penalty; but, if not so paid, then a penalty of four percent shall accrue thereon for homestead property and a penalty of four percent on nonhomestead property. Thereafter, for homestead property, on the ~~16th day of each month up to and including December 16~~ first day of November and December following, an additional penalty of two percent for each month shall accrue and be charged on all such unpaid taxes. Thereafter, for nonhomestead property, on the ~~16th day of each month up to and including December 16~~ first day of November and December following, an additional penalty of four percent for each month shall accrue and be charged on all such unpaid taxes. If one-half of such taxes shall not be paid prior to May 16, the same may be paid at any time prior to October 16, with accrued penalties to the date of payment added, and thereupon no penalty shall attach to the remaining one-half until October 16 following.

A county may provide by resolution that in the case of a property owner that has multiple tracts or parcels with aggregate taxes exceeding \$50, payments may be made in installments as provided in this subdivision.

The county treasurer may accept payments of more or less than the exact amount of a tax installment due. If the accepted payment is less than the amount due, payments must be applied first to the penalty accrued for the year the payment is made. Acceptance of partial payment of tax does not constitute a waiver of the minimum payment required as a condition for filing an appeal under section 278.03 or any other law, nor does it affect the order of payment of delinquent taxes under section 280.39.

Sec. 14. Minnesota Statutes 1986, section 279.01, subdivision 3, is amended to read:

Subd. 3. In the case of class 1b agricultural homestead, class 2a agricultural homestead property, and class 2c agricultural nonhomestead property, no penalties shall attach to the second one-half property tax payment as provided in this section if paid by November 15. Thereafter for class 1b agricultural homestead and class 2a homestead property, on November 16 following, a penalty of six percent shall accrue and be charged on all such unpaid taxes and on December ~~16~~ 1 following, an additional two percent shall be charged on all such unpaid taxes. Thereafter for class 2c agricultural nonhomestead property, on November 16 following, a penalty of eight percent shall accrue and be charged on all such unpaid taxes and on December ~~16~~ 1 following, an additional four percent shall be charged on all such unpaid taxes.

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If the owner of class 1b agricultural homestead, class 2a, or class 2c agricultural property receives a consolidated property tax statement that shows only an aggregate of the taxes and special assessments due on that property and on other property not classified as class 1b agricultural homestead, class 2a, or class 2c agricultural property, the aggregate tax and special assessments shown due on the property by the consolidated statement will be due on November 15 provided that at least 50 percent of the property's market value is classified class 1b agricultural, class 2a, or class 2c agricultural.

Sec. 15. [375.1691] JUDICIAL ORDER AFTER BUDGET PREPARATION.

Notwithstanding any law to the contrary, a judicial order compelling payment out of county funds shall not be paid unless approved by the county board, if a budget request for the item was not submitted to the county board prior to adoption of the budget in effect for the fiscal year. If the county board refuses to approve payment, the order may be paid in the first fiscal year for which a budget is approved after receipt of the order. This section does not apply to a judgment or other award against the county that is a result of litigation to which the county or a county official in an official capacity was a party.

Sec. 16. Minnesota Statutes 1986, section 375.192, subdivision 1, is amended to read:

Subdivision 1. Notwithstanding section 270.07, upon written application by the owner of the property, the county board may grant a reduction, for the current year, of the assessed valuation of any real property in that county which erroneously has been classified, for tax purposes, as nonhomestead property, as is necessary to give it the assessed valuation which it would have received if it had been classified correctly. The application shall be made on a form prescribed by the commissioner of revenue. It shall include the social security number of the applicant and a statement of facts of ownership and occupancy. The social security number of the property owner is private data on individuals as defined by section 13.02, subdivision 12. It shall be sworn to by the owner of the property before an officer authorized to take acknowledgments. Before it is acted upon by the county board, the application shall be referred to the county assessor, or if the property is located in a city of the first class having a city assessor, to the city assessor, who shall investigate the facts and attach a report of the investigation to the application.

With respect to abatements relating to the current year's tax processed through June 30, the county auditor shall notify the commissioner of revenue on or before July 31 of that same year of all applications granted pursuant to this subdivision. With respect to abatements relating to the current year's tax processed after June 30 through the balance of the year, the county auditor shall notify the commissioner of revenue on or before the following January 31 of all applications granted pursuant to this subdivision. The form submitted by the county auditor shall be prescribed by the commissioner of revenue and shall contain the information which the commissioner deems necessary.

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Sec. 17. Minnesota Statutes 1987 Supplement, section 475.61, subdivision 3, is amended to read:

Subd. 3. **IRREVOCABILITY.** Tax levies so made and filed shall be irrevocable, except as provided in this subdivision.

In each year when there is on hand any excess amount in the debt redemption fund of a school district at the time the district makes its property tax levies, the amount of the excess shall be certified by the school board to the commissioner of education ~~who shall compute the reduced tax levy, after adjustment for the homestead credit replacement aid paid pursuant to section 273.1394, the agricultural credit replacement aid paid pursuant to section 273.1395, and the tax base adjustment pursuant to section 273.1396.~~ The commissioner of education shall certify the adjusted reduced tax levy to the county auditor and the auditor shall reduce the tax levy otherwise to be included in the rolls next prepared by the amount certified, unless the school board determines that the excess amount is necessary to ensure the prompt and full payment of the obligations and any call premium on the obligations, or will be used for redemption of the obligations in accordance with their terms. An amount shall be presumed to be excess for a school district in the amount that it, together with the levy required by subdivision 1, will exceed 106 percent of the amount needed to meet when due the principal and interest payments on the obligations due before the second following July 1. This subdivision shall not limit a school board's authority to specify a tax levy in a higher amount if necessary because of anticipated tax delinquency or for cash flow needs to meet the required payments from the debt redemption fund.

If the governing body, including the governing body of a school district, in any year makes an irrevocable appropriation to the debt service fund of moneys actually on hand or if there is on hand any excess amount in the debt service fund, the recording officer may certify to the county auditor the fact and amount thereof and the auditor shall reduce by the amount so certified the amount otherwise to be included in the rolls next thereafter prepared.

Sec. 18. Minnesota Statutes 1986, section 477A.015, is amended to read:

477A.015 PAYMENT DATES.

The commissioner of revenue shall make the payments of local government aid to affected taxing authorities in two installments on July ~~15~~ 20 and December 15 annually.

The commissioner may pay all or part of the payment due on December 15 at any time after August 15 upon the request of a city that requests such payment as being necessary for meeting its cash flow needs.

Sec. 19. ADJUSTMENT FOR CREDITS.

Subdivision 1. A county auditor may make a final certification of prior year adjustments not previously claimed for wetlands credit and reimbursement, native prairie credit and reimbursement, and the small business credit in the

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1989 abstract of tax lists. The commissioner of revenue shall review the certifications to determine their accuracy and make the changes deemed necessary. After they have been reviewed, the commissioner shall include these prior year adjustments in the 1989 aid payments.

Subd. 2. A county auditor may make a final certification of prior year adjustments not previously claimed for homestead credit and agricultural credit in the 1990 abstract of tax lists. The commissioner of revenue shall review the certifications to determine their accuracy and make the changes deemed necessary. After they have been reviewed, the commissioner shall include these prior year adjustments in the 1990 aid payments.

Sec. 20. Laws 1987, chapter 268, article 6, section 54, is amended to read:

Sec. 54. **EFFECTIVE DATE.**

Except where provided otherwise, sections 1 to 13, and 15 to 53 are effective for taxes levied in 1988, payable in 1989, and thereafter. Section 14 is effective for taxes payable in 1987 and thereafter.

Sec. 21. **REPEALER.**

Minnesota Statutes 1986, section 275.035, is repealed.

Sec. 22. **EFFECTIVE DATE.**

Sections 2, 3, 9, 10, 13, 14, and 17 are effective for taxes levied in 1988 and thereafter, payable in 1989 and thereafter.

Sections 4 and 20 are effective the day following final enactment.

Sections 5 and 6 are effective for assessment year 1988 and thereafter, taxes payable in 1989 and thereafter. Notwithstanding Minnesota Statutes, section 273.112, subdivision 6, in order to qualify for the valuation and tax deferment for the 1988 assessment, the taxpayer of the property operated by private clubs under Minnesota Statutes, section 273.112, subdivision 3, clause (c)(3), must submit an affidavit or other written verification to the assessor by September 1, 1988, showing that the bylaws or rules and regulations of the private club meet the eligibility requirements of section 5 by September 1, 1988.

Section 7 is effective only for taxes payable in 1988.

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ARTICLE 7

ASSESSORS

Section 1. **[270.185] REASSESSMENT FUND; COMPENSATION.**

Subdivision 1. A permanent reassessment revolving fund of \$250,000 is created. \$250,000 is appropriated from the general fund to the permanent reassessment revolving fund. The fund is annually appropriated to the commissioner of revenue for the purposes of this section.

Subd. 2. Each special assessor or deputy appointed under sections 270.11, subdivision 3, or 270.16 shall be compensated from the revolving fund for costs of assessment in an amount fixed by the commissioner. The commissioner shall certify the amounts to the commissioner of finance who shall make payment from the revolving fund. Each county shall reimburse the revolving fund within two years after the expenses are paid. The commissioner shall notify each county auditor of the reimbursable amount and the auditor shall levy a tax upon all taxable property in the assessment district or districts where the reassessment was made to pay the expenses. The amounts reimbursed shall be deposited in the revolving fund and are annually appropriated for its purposes.

Sec. 2. Minnesota Statutes 1986, section 270.41, is amended to read:

270.41 BOARD OF ASSESSORS.

(a) A board of assessors is hereby created. The board shall be for the purpose of establishing, conducting, reviewing, supervising, coordinating or approving courses in assessment practices, and establishing criteria for determining assessor's qualifications. The board shall also have authority and responsibility to consider other matters relating to assessment administration brought before it by the commissioner of revenue. The board may grant, renew, suspend, or revoke an assessor's license. The board shall consist of nine members, who shall be appointed by the commissioner of revenue, in the manner provided herein.

1. Two from the department of revenue,
2. Two county assessors,
3. Two assessors who are not county assessors, one of whom shall be a township assessor, and
4. One from the private appraisal field holding a professional appraisal designation,
5. Two public members as defined by section 214.02.

The appointment provided in 2 and 3 may be made from two lists of not less than three names each, one submitted to the commissioner of revenue by the Minnesota association of assessing officers or its successor organization con-

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taining recommendations for the appointment of appointees described in 2, and one by the Minnesota association of assessors, inc. or its successor organization containing recommendations for the appointees described in 3. The lists must be submitted 30 days before the commencement of the term. In the case of a vacancy, a new list shall be furnished to the commissioner by the respective organization immediately. A member of the board who shall no longer be engaged in the capacity listed above shall automatically be disqualified from membership in the board.

The board shall annually elect a chair and a secretary of the board.

(b) The board may refuse to grant or renew, or may suspend or revoke, a license of an applicant or licensee for any of the following causes or acts:

(1) failure to complete required training;

(2) inefficiency or neglect of duty;

(3) "unprofessional conduct" which means knowingly neglecting to perform a duty required by law, or violation of the laws of this state relating to the assessment of property or unlawfully exempting property or knowingly and intentionally listing property on the tax list at substantially less than its market value or the level required by law in order to gain favor or benefit, or knowingly and intentionally misclassifying property in order to gain favor or benefit; or

(4) conviction of a crime involving moral turpitude; or

(5) any other cause or act that in the board's opinion warrants a refusal to issue or suspension or revocation of a license.

(c) The board of assessors may adopt rules under chapter 14, defining or interpreting grounds for refusing to grant or renew, and for suspending or revoking a license under this section. An action of the board of assessors in refusing to grant or renew a license or in suspending or revoking a license is subject to review in accordance with chapter 14.

Sec. 3. Minnesota Statutes 1987 Supplement, section 270.485, is amended to read:

270.485 SENIOR ACCREDITATION.

The legislature finds that the property tax system would be enhanced by requiring that every county assessor and senior appraiser in the department of revenue's ~~property tax review~~ local government services division obtain senior accreditation from the state board of assessors. By January 1, ~~1989~~ 1990, or in the case of a county assessor within one year of the first appointment under section 273.061, whichever is later, every county assessor and senior appraiser, including the department's regional representatives, must obtain senior accreditation from the state board of assessors. The board shall provide the necessary courses or training. If a department senior appraiser or regional representative

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fails to obtain senior accreditation by January 1, ~~1989~~ 1990, the failure shall be grounds for dismissal, disciplinary action, or corrective action. Except as provided in section 273.061, subdivision 2, paragraph (c), after December 30, ~~1988~~ 1989, the commissioner must not approve the appointment of a county assessor who is not senior accredited by the state board of assessors. No employee hired by the commissioner as a senior appraiser or regional representative after June 30, 1987, shall attain permanent status until the employee obtains senior accreditation.

Sec. 4. Minnesota Statutes 1986, section 273.01, is amended to read:

273.01 LISTING AND ASSESSMENT, TIME.

All real property subject to taxation shall be listed and at least one-fourth of the parcels listed shall be appraised each year with reference to their value on January 2 preceding the assessment so that each parcel shall be reappraised at maximum intervals of four years. All real property becoming taxable in any year shall be listed with reference to its value on January 2 of that year. ~~Except for the corrections permitted herein as provided in section 274.01, subdivision 1,~~ all real property assessments shall be completed two weeks prior to the date scheduled for the local board of review or equalization and no valuations entered thereafter shall be of any force and effect. In the event a valuation and classification is not placed on any real property by the dates scheduled for the local board of review or equalization the valuation and classification determined in the preceding assessment shall be continued in effect and the provisions of section 273.13 shall, in such case, not be applicable, except with respect to real estate which has been constructed since the previous assessment. ~~The county assessor or any assessor in any city of the first class may either before or after the dates specified herein correct any errors in valuation of any parcels of property, that may have been incurred in the assessment; provided, that in the case of such correction it increases the valuation of any parcel of property, the assessor shall notify the owner of record or the person to whom the tax statement is mailed. Not more than two percent of the total number of parcels in the assessor's jurisdiction may be corrected after the dates specified herein and in the event of any corrections in excess of the authorized number of such corrections, all corrections shall be void.~~ Real property containing iron ore, the fee to which is owned by the state of Minnesota, shall, if leased by the state after January 2 in any year, be subject to assessment for that year on the value of any iron ore removed under said lease prior to January 2 of the following year. Personal property subject to taxation shall be listed and assessed annually with reference to its value on January 2; and, if acquired on that day, shall be listed by or for the person acquiring it.

Sec. 5. Minnesota Statutes 1986, section 273.05, subdivision 1, is amended to read:

Subdivision 1. **APPOINTMENT OF TOWN AND CITY ASSESSORS.** Notwithstanding any other provision of law all town assessors shall be appointed

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by the town board, and notwithstanding any charter provisions to the contrary, all city assessors shall be appointed by the city council or other appointing authority as provided by law or charter. Such assessors shall be residents of the state but need not be a resident of the town or city for which they are appointed. They shall be selected and appointed because of their knowledge and training in the field of property taxation. All town and statutory city assessors shall be appointed for indefinite terms. The term of the town or city assessors may be terminated at any time by the town board or city council on charges by the commissioner of revenue of inefficiency or neglect of duty. Vacancies in the office of town or city assessor shall be filled within 90 days by appointment of the respective appointing authority indicated above. If the vacancy is not filled within 90 days, the office shall be terminated. When a vacancy in the office of town or city assessor is not filled by appointment, and it is imperative that the office of assessor be filled, the county auditor shall appoint some resident of the county as assessor for such town or city. The county auditor may appoint the county assessor as assessor for such town or city, in which case the town or city shall pay to the county treasurer the amount determined by the county auditor to be due for the services performed and expenses incurred by the county assessor in acting as assessor for such town or city. The term of any town or statutory city assessor in a county electing in accordance with section 273.052 shall be terminated as provided in section 273.055.

The commissioner of revenue may recommend to the state board of assessors the nonrenewal, suspension, or revocation of an assessor's license as provided in sections 270.41 to 270.53.

Sec. 6. Minnesota Statutes 1987 Supplement, section 273.061, subdivision 1, is amended to read:

Subdivision 1. **OFFICE CREATED; APPOINTMENT, QUALIFICATIONS.** Every county in this state shall have a county assessor. The county assessor shall be appointed by the board of county commissioners and shall be a resident of this state. The assessor shall be selected and appointed because of knowledge and training in the field of property taxation and appointment shall be approved by the commissioner of revenue before the same shall become effective. Upon receipt by the county commissioners of the commissioner of revenue's refusal to approve an appointment, the term of the appointee shall terminate at the end of that day. Notwithstanding any law to the contrary, a county assessor must have senior accreditation from the state board of assessors by January 1, ~~1989~~ 1990, or within one year of the assessor's first appointment under this section, whichever is later.

Sec. 7. Minnesota Statutes 1986, section 273.061, subdivision 2, is amended to read:

Subd. 2. **TERM; VACANCY.** (a) The terms of county assessors appointed under this section shall be four years. A new term shall begin on January 1 of every fourth year after 1973. When any vacancy in the office occurs, the board

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of county commissioners, within 30 days thereafter, shall fill the same by appointment for the remainder of the term, following the procedure prescribed in subdivision 1. The term of the county assessor may be terminated by the board of county commissioners at any time, on charges of inefficiency or neglect of duty by the commissioner of revenue. If the board of county commissioners does not intend to reappoint a county assessor who has been certified by the state board of assessors, the board shall present written notice to the county assessor not later than 90 days prior to the termination of the assessor's term, that it does not intend to reappoint the assessor. If written notice is not timely made, the county assessor will automatically be reappointed by the board of county commissioners.

The commissioner of revenue may recommend to the state board of assessors the nonrenewal, suspension, or revocation of an assessor's license as provided in sections 270.41 to 270.53.

(b) In the event of a vacancy in the office of county assessor, through death, resignation or other reasons, the deputy (or chief deputy, if more than one) shall perform the functions of the office. If there is no deputy, the county auditor shall designate a person to perform the duties of the office until an appointment is made as provided in clause (a). Such person shall perform the duties of the office for a period not exceeding 30 days during which the county board must appoint a county assessor. Such 30-day period may, however, be extended by written approval of the commissioner of revenue.

(c) In the case of the first appointment under paragraph (a) of a county assessor who is accredited but who does not have senior accreditation, an approval of the appointment by the commissioner shall be for a term of one year. A county assessor appointed to a one-year term under this paragraph must reapply to the commissioner at the end of the one-year term. The commissioner shall not approve the appointment for the remainder of the four-year term unless the assessor has obtained senior accreditation.

Sec. 8. Minnesota Statutes 1987 Supplement, section 274.01, subdivision 1, is amended to read:

Subdivision 1. **ORDINARY BOARD; MEETINGS, DEADLINES, GRIEVANCES.** (a) The town board of a town, or the council or other governing body of a city, is the board of review except in cities whose charters provide for a board of equalization. The county assessor shall fix a day and time when the board or the board of equalization shall meet in the assessment districts of the county. On or before February 15 of each year the assessor shall give written notice of the time to the city or town clerk. Notwithstanding the provisions of any charter to the contrary, the meetings must be held between April 1 and May 31 each year. The clerk shall give published and posted notice of the meeting at least ten days before the date of the meeting. The board shall meet at the office of the clerk to review the assessment and classification of property in the town or city. No changes in valuation may be made by the county assessor after the

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board of review or the county board of equalization has adjourned. This restriction does not apply to corrections of errors that are merely clerical or administrative in nature.

(b) The board shall determine whether the taxable property in the town or city has been properly placed on the list and properly valued by the assessor. If real or personal property has been omitted, the board shall place it on the list with its market value, and correct the assessment so that each tract or lot of real property, and each article, parcel, or class of personal property, is entered on the assessment list at its market value. No assessment of the property of any person may be raised unless the person has been duly notified of the intent of the board to do so. On application of any person feeling aggrieved, the board shall review the assessment or classification, or both, and correct it as appears just.

(c) A local board of review may reduce assessments upon petition of the taxpayer but the total reductions must not reduce the aggregate assessment made by the county assessor by more than one percent. If the total reductions would lower the aggregate assessments made by the county assessor by more than one percent, none of the adjustments may be made. The assessor shall correct any clerical errors or double assessments discovered by the board of review without regard to the one percent limitation.

(d) A majority of the members may act at the meeting, and adjourn from day to day until they finish hearing the cases presented. The assessor shall attend, with the assessment books and papers, and take part in the proceedings, but must not vote. The county assessor, or an assistant delegated by the county assessor shall attend the meetings. The board shall list separately, on a form appended to the assessment book, all omitted property added to the list by the board and all items of property increased or decreased, with the market value of each item of property, added or changed by the board, placed opposite the item. The county assessor shall enter all changes made by the board in the assessment book.

(e) If a person fails to appear in person, by counsel, or by written communication before the board after being duly notified of the board's intent to raise the assessment of the property, or if a person feeling aggrieved by an assessment or classification fails to apply for a review of the assessment or classification, the person may not appear before the county board of equalization for a review of the assessment or classification. This paragraph does not apply if an assessment was made after the board meeting, as provided in section 273.01, or if the person can establish not having received notice of market value at least five days before the local board of review meeting.

(f) The board of review or the board of equalization must complete its work and adjourn within 20 days from the time of convening stated in the notice of the clerk, unless a longer period is approved by the commissioner of revenue. No action taken after that date is valid. All complaints about an assessment or classification made after the meeting of the board must be heard and determined

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by the county board of equalization. A nonresident may, at any time, before the meeting of the board of review file written objections to an assessment or classification with the county assessor. The objections must be presented to the board of review at its meeting by the county assessor for its consideration.

Sec. 9. COUNTY ASSESSORS; SENIOR ACCREDITATION.

Notwithstanding Minnesota Statutes, section 273.061, the commissioner of revenue's approval on January 1, 1989, of appointments of assessors who are not senior accredited on January 1, 1989, shall be for a term of one year. A county assessor appointed for a one-year term must reapply to the commissioner by January 1, 1990, to obtain the approval of the commissioner for the remainder of the four-year term.

Sec. 10. APPROPRIATION.

There is appropriated to the state board of assessors from the general fund the amount of \$10,000 to be used in fiscal year 1989 for adopting rules under section 2.

Sec. 11. EFFECTIVE DATE.

Section 1 is effective the day after final enactment.

ARTICLE 8

HUMAN SERVICES PROGRAMS

Section 1. Minnesota Statutes 1987 Supplement, section 256.01, subdivision 2, is amended to read:

Subd. 2. **SPECIFIC POWERS.** Subject to the provisions of section 241.021, subdivision 2, the commissioner of human services shall:

(1) Administer and supervise all forms of public assistance provided for by state law and other welfare activities or services as are vested in the commissioner. Administration and supervision of human services activities or services includes, but is not limited to, assuring timely and accurate distribution of benefits, completeness of service, and quality program management. In addition to administering and supervising human services activities vested by law in the department, the commissioner shall have the authority to:

(a) require local agency participation in training and technical assistance programs to promote compliance with statutes, rules, federal laws, regulations and policies governing human services;

(b) monitor, on an ongoing basis, the performance of local agencies in the operation and administration of human services, enforce compliance with stat-

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utes, rules, federal laws, regulations, and policies governing welfare services and promote excellence of administration and program operation;

(c) develop a quality control program or other monitoring program to review county performance and accuracy of benefit determinations;

(d) require local agencies to make an adjustment to the public assistance benefits issued to any individual consistent with federal law and regulation and state law and rule and to issue or recover benefits as appropriate;

(e) delay or deny payment of all or part of the state and federal share of benefits and administrative reimbursement according to the procedures set forth in section 256.016; and

(f) make contracts with and grants to public and private agencies and organizations, both profit and nonprofit, and individuals, using appropriated funds.

(2) Inform local agencies, on a timely basis, of changes in statute, rule, federal law, regulation, and policy necessary to local agency administration of the programs.

(3) Administer and supervise all child welfare activities; promote the enforcement of laws protecting handicapped, dependent, neglected and delinquent children, and children born to mothers who were not married to the children's fathers at the times of the conception nor at the births of the children; license and supervise child-caring and child-placing agencies and institutions; supervise the care of children in boarding and foster homes or in private institutions; and generally perform all functions relating to the field of child welfare now vested in the state board of control.

(3) (4) Administer and supervise all noninstitutional service to handicapped persons, including those who are visually impaired, hearing impaired, or physically impaired or otherwise handicapped. The commissioner may provide and contract for the care and treatment of qualified indigent children in facilities other than those located and available at state hospitals when it is not feasible to provide the service in state hospitals.

(4) (5) Assist and actively cooperate with other departments, agencies and institutions, local, state, and federal, by performing services in conformity with the purposes of Laws 1939, chapter 431.

(5) (6) Act as the agent of and cooperate with the federal government in matters of mutual concern relative to and in conformity with the provisions of Laws 1939, chapter 431, including the administration of any federal funds granted to the state to aid in the performance of any functions of the commissioner as specified in Laws 1939, chapter 431, and including the promulgation of rules making uniformly available medical care benefits to all recipients of public assistance, at such times as the federal government increases its participation in assistance expenditures for medical care to recipients of public assistance, the

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cost thereof to be borne in the same proportion as are grants of aid to said recipients.

~~(6)~~ (7) Establish and maintain any administrative units reasonably necessary for the performance of administrative functions common to all divisions of the department.

~~(7) Administer and supervise any additional welfare activities and services as are vested by law in the department.~~

(8) The commissioner is designated as guardian of both the estate and the person of all the wards of the state of Minnesota, whether by operation of law or by an order of court, without any further act or proceeding whatever, except as to persons committed as mentally retarded.

(9) Act as coordinating referral and informational center on requests for service for newly arrived immigrants coming to Minnesota.

(10) The specific enumeration of powers and duties as hereinabove set forth shall in no way be construed to be a limitation upon the general transfer of powers herein contained.

(11) Establish county, regional, or statewide schedules of maximum fees and charges which may be paid by local agencies for medical, dental, surgical, hospital, nursing and nursing home care and medicine and medical supplies under all programs of medical care provided by the state and for congregate living care under the income maintenance programs.

(12) Have the authority to conduct and administer experimental projects to test methods and procedures of administering assistance and services to recipients or potential recipients of public welfare. To carry out such experimental projects, it is further provided that the commissioner of human services is authorized to waive the enforcement of existing specific statutory program requirements, rules, and standards in one or more counties. The order establishing the waiver shall provide alternative methods and procedures of administration, shall not be in conflict with the basic purposes, coverage, or benefits provided by law, and in no event shall the duration of a project exceed four years. It is further provided that no order establishing an experimental project as authorized by the provisions of this section shall become effective until the following conditions have been met:

(a) The proposed comprehensive plan including estimated project costs and the proposed order establishing the waiver shall be filed with the secretary of the senate and chief clerk of the house of representatives at least 60 days prior to its effective date.

(b) The secretary of health, education, and welfare of the United States has agreed, for the same project, to waive state plan requirements relative to state-wide uniformity.

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(c) A comprehensive plan, including estimated project costs, shall be approved by the legislative advisory commission and filed with the commissioner of administration.

(13) In accordance with federal requirements establish procedures to be followed by local welfare boards in creating citizen advisory committees, including procedures for selection of committee members.

(14) Allocate federal fiscal disallowances or sanctions which are based on quality control error rates for the aid to families with dependent children, medical assistance, or food stamp program in the following manner:

(a) One-half of the total amount of the disallowance shall be borne by the county boards responsible for administering the programs. For the medical assistance and AFDC programs, disallowances shall be shared by each county board in the same proportion as that county's expenditures for the sanctioned program are to the total of all counties' expenditures for the AFDC and medical assistance programs. For the food stamp program, sanctions shall be shared by each county board, with 50 percent of the sanction being distributed to each county in the same proportion as that county's administrative costs for food stamps are to the total of all food stamp administrative costs for all counties, and 50 percent of the sanctions being distributed to each county in the same proportion as that county's value of food stamp benefits issued are to the total of all benefits issued for all counties. Each county shall pay its share of the disallowance to the state of Minnesota. When a county fails to pay the amount due hereunder, the commissioner may deduct the amount from reimbursement otherwise due the county, or the attorney general, upon the request of the commissioner, may institute civil action to recover the amount due.

(b) Notwithstanding the provisions of paragraph (a), if the disallowance results from knowing noncompliance by one or more counties with a specific program instruction, and that knowing noncompliance is a matter of official county board record, the commissioner may require payment or recover from the county or counties, in the manner prescribed in paragraph (a), an amount equal to the portion of the total disallowance which resulted from the noncompliance, and may distribute the balance of the disallowance according to paragraph (a).

(15) Develop and implement special projects that maximize reimbursements and result in the recovery of money to the state. For the purpose of recovering state money, the commissioner may enter into contracts with third parties. Any recoveries that result from projects or contracts entered into under this paragraph shall be deposited in the state treasury and credited to a special account until the balance in the account reaches \$400,000. When the balance in the account exceeds \$400,000, the excess shall be transferred and credited to the general fund. All money in the account is appropriated to the commissioner for the purposes of this paragraph.

(16) Have the authority to make direct payments to facilities providing

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shelter to women and their children pursuant to section 256D.05, subdivision 3. Upon the written request of a shelter facility that has been denied payments under section 256.05, subdivision 3, the commissioner shall review all relevant evidence and make a determination within 30 days of the request for review regarding issuance of direct payments to the shelter facility. Failure to act within 30 days shall be considered a determination not to issue direct payments.

Sec. 2. [256.017] COMPLIANCE SYSTEM.

Subdivision 1. AUTHORITY AND PURPOSE. The commissioner shall administer a compliance system for aid to families with dependent children, the food stamp program, emergency assistance, general assistance, work readiness, medical assistance, general assistance medical care, emergency general assistance, Minnesota supplemental assistance, preadmission screening, and alternative care grants under the powers and authorities named in section 256.01, subdivision 2. The purpose of the compliance system is to permit the commissioner to supervise the administration of public assistance programs and to enforce timely and accurate distribution of benefits, completeness of service and efficient and effective program management and operations, to increase uniformity and consistency in the administration and delivery of public assistance programs throughout the state, and to reduce the possibility of sanctions and fiscal disallowances for noncompliance with federal regulations and state statutes.

The commissioner shall utilize training, technical assistance, and monitoring activities, as specified in section 256.01, subdivision 2, to encourage local agency compliance with written policies and procedures.

Subd. 2. DEFINITIONS. The following terms have the meanings given for the purpose of this section.

(a) "Administrative penalty" means an adjustment against the local agency's state and federal benefit and federal administrative reimbursement when the commissioner determines that the local agency is not in compliance with the policies and procedures established by the commissioner.

(b) "Quality control case penalty" means an adjustment against the local agency's federal administrative reimbursement and state and federal benefit reimbursement when the commissioner determines through a quality control review that the local agency has made incorrect payments, terminations, or denials of benefits as determined by state quality control procedures for the aid to families with dependent children, food stamp, or medical assistance programs, or any other programs for which the commissioner has developed a quality control system. Quality control case penalties apply only to agency errors as defined by state quality control procedures.

(c) "Quality control" means a review system of a statewide random sample of cases, designed to provide data on the accuracy with which state and federal policies are being applied in issuing benefits and as a fiscal audit to ensure the accuracy of expenditures. The quality control system is administered by the department. For the aid to families with dependent children, food stamp,

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and medical assistance programs, the quality control system is that required by federal regulation.

Subd. 3. QUALITY CONTROL CASE PENALTY. The department shall disallow, withhold, or deny state and federal benefit reimbursement and federal administrative reimbursement payment to a county when the commissioner determines that the county has incorrectly issued benefits or incorrectly denied or terminated benefits. These cases shall be identified by state quality control reviews.

Subd. 4. DETERMINING THE AMOUNT OF THE QUALITY CONTROL CASE PENALTY. (a) The amount of the quality control case penalty is limited to the amount of the dollar error for the quality control sample month in a reviewed case as determined by the state quality control review procedures for the aid to families with dependent children and food stamp programs or for any other income transfer program for which the commissioner develops a quality control program.

(b) Payment errors in medical assistance or any other medical services program for which the department develops a quality control program are subject to set rate penalties based on the average cost of the specific quality control error element for a sample review month for that household size and status of institutionalization and as determined from state quality control data in the preceding fiscal year for the corresponding program.

(c) Errors identified in negative action cases, such as incorrect terminations or denials of assistance are subject to set rate penalties based on the average benefit cost of that household size as determined from state quality control data in the preceding fiscal year for the corresponding program.

Subd. 5. ADMINISTRATIVE PENALTIES. The department shall disallow or withhold state and federal benefit reimbursement and federal administrative reimbursement from local agencies when the actions performed by the local agency are not in compliance with the written policies and procedures established by the commissioner. The policies and procedures must be previously communicated to the local agency. A local agency shall not be penalized for complying with a written policy or procedure, even if the policy or procedure is found to be erroneous and is subsequently rescinded by the commissioner.

Subd. 6. DETERMINING THE AMOUNT OF THE ADMINISTRATIVE PENALTY. The amount of the penalty imposed on any local agency is based on the numbers of public assistance applicants and recipients that may be affected by the local agency's failure to comply with the policies and procedures established by the commissioner, the fiscal impact of the local agency's action, and the duration of the noncompliance as determined by the commissioner. Administrative penalties shall be imposed independent of any quality control case penalties.

Subd. 7. PROCESS AND EXCEPTION. (a)(1) The department shall notify the local agency in writing of all proposed quality control case penalties.

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(2) The local agency may submit a written exception of the quality control error claim and proposed penalty. The exception must be submitted to the commissioner within ten calendar days of the receipt of the penalty notice.

(3) Within 20 calendar days of receipt of the written exception, the commissioner shall sustain, dismiss, or amend the quality control findings and case penalty and notify the local agency, in writing, of the decision and the amount of any penalty. The commissioner's decision is not subject to judicial review.

(b)(1) The department shall notify the local agency in writing of any proposed administrative penalty, the date by which the local agency must correct the issues noted in the penalty, and the time period within which the local agency must submit a corrective action plan for compliance.

(2) If the local agency fails to submit a corrective action plan within the stated time period, or if the corrective action plan does not bring the agency into compliance as determined by the department, or if the local agency fails to meet the commitments in the corrective action plan, the department shall issue the administrative penalty and notify the local agency in writing.

(3) The local agency may file written exception to the administrative penalty with the commissioner within 30 days of the receipt of the department's notice of issuing the administrative penalty. The local agency must notify the commissioner of its intent to file a written exception within ten days of the delivery of the department's notice of the administrative penalty. If the local agency does not notify the commissioner of its intent to file and does not file a written exception within the prescribed time periods, the department's initial decision shall be final.

(4) The commissioner shall sustain, dismiss, or amend the administrative penalty findings, and shall issue a written order to the local agency within 30 calendar days after receiving the local agency's written exception.

Subd. 8. JUDICIAL REVIEW. A local agency that is aggrieved by the order of the commissioner in an administrative penalty of over \$75,000, or 1.5 percent of the total benefit expenditures for the income maintenance programs listed in subdivision 1, for that county, whichever is the lesser amount, may appeal the order to the court of appeals by serving a written copy of a notice of appeal upon the commissioner within 30 days after the date the commissioner issued the administrative penalty order, and by filing the original notice and proof of service with the court administrator of the court of appeals. Service may be made personally or by mail. Service by mail is complete upon mailing. The record of review shall consist of the advance notice of the administrative penalty to the local agency, the local agency corrective action plan if any, the final notice of the administrative penalty, the local agency's written exception to the administrative penalty order, and any other material submitted for the commissioner's consideration, and the commissioner's final written order. The court may affirm the commissioner's decision or remand the case for further proceedings, or it may reverse or modify the decision if the substantial rights of the local agency have been prejudiced because the decision is: (1) in excess of

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the statutory authority or jurisdiction of the agency; (2) unsupported by substantial evidence in view of the entire record as submitted; (3) arbitrary or capricious; or (4) in violation of constitutional provisions.

Subd. 9. TIMING AND DISPOSITION OF PENALTY AND CASE DISALLOWANCE FUNDS. Quality control case penalty and administrative penalty amounts shall be disallowed or withheld from the next regular reimbursement made to the county agency for state and federal benefit reimbursements and federal administrative reimbursements for all programs covered in this section, according to procedures established in statute, but shall not be imposed sooner than 30 calendar days from the date of written notice of such penalties. All penalties must be deposited in the county incentive fund provided in section 256.017. All penalties must be imposed according to this provision until a decision is made regarding the status of a written exception. Penalties must be returned to local agencies when a review of a written exception results in a decision in their favor.

Subd. 10. COUNTY OBLIGATION TO MAKE BENEFIT PAYMENTS. Counties subject to fiscal penalties shall not reduce or withhold benefits from eligible recipients of programs listed in subdivision 1 in order to cover the cost of penalties under this section. County funds shall be used to cover the cost of any penalties.

Sec. 3. [256.018] COUNTY PUBLIC ASSISTANCE INCENTIVE FUND.

Beginning in 1990, \$1,000,000 is appropriated from the general fund to the department in each fiscal year for awards to counties: (1) that have not been assessed an administrative penalty under section 256.016 in the corresponding fiscal year; and (2) that perform satisfactorily according to indicators established by the commissioner.

After consultation with local agencies, the commissioner shall inform local agencies in writing of the performance indicators that govern the awarding of the incentive fund for each fiscal year by April of the preceding fiscal year.

The commissioner may set performance indicators to govern the awarding of the total fund, may allocate portions of the fund to be awarded by unique indicators, or may set a sole indicator to govern the awarding of funds.

The funds shall be awarded to qualifying local agencies according to their share of benefits for the programs related to the performance indicators governing the distribution of the fund or part of it as compared to the total benefits of all qualifying local agencies for the programs related to the performance indicators governing the distribution of the fund or part of it.

Sec. 4. Minnesota Statutes 1986, section 256.72, is amended to read:

256.72 DUTIES OF COUNTY AGENCIES.

The county agencies shall:

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(1) Administer the provisions of sections 256.72 to 256.87 in the respective counties subject to the rules prescribed by the state agency pursuant to the provisions of those sections and to the supervision of the commissioner of human services specified in section 256.01;

(2) Report to the state agency at such times and in such manner and form as the state agency may from time to time direct; and

(3) Submit quarterly and annually to the county board of commissioners a budget containing an estimate and supporting data setting forth the amount of money needed to carry out the provisions of those sections.

(4) In addition to providing financial assistance, provide such services as will help to maintain and strengthen family life and promote the support and personal independence of parents and relatives insofar as such help is consistent with continuing parental care and protection.

Sec. 5. Minnesota Statutes 1986, section 256.81, is amended to read:

256.81 COUNTY AGENCY, DUTIES.

(1) The county agency shall keep such records, accounts, and statistics in relation to aid to families with dependent children as the state agency shall prescribe.

(2) Each grant of aid to families with dependent children shall be paid to the recipient by the county agency except in those instances in which the county agency subject to the rules of the state agency determines that payments for care shall be made to an individual other than the parent or relative with whom the dependent child is living or to vendors of goods and services for the benefit of the child because such parent or relative is unable to properly manage the funds in the best interests and welfare of the child.

(3) The county shall be paid from state and federal funds available therefor the amount provided for in section 256.82.

(4) Federal funds available for administrative purposes shall be distributed between the state and the counties in the same proportion that expenditures were made except as provided for in section 256.016.

Sec. 6. Minnesota Statutes 1986, section 256.82, subdivision 1, is amended to read:

Subdivision 1. **MONTHLY PAYMENTS.** For the period from January 1 to June 30, based upon estimates submitted by the county agency to the state agency, which shall state the estimated required expenditures for the succeeding month, upon the direction of the state agency payment shall be made monthly in advance by the state to the counties of all federal funds available for that purpose for such succeeding month, together with an amount of state funds equal to ~~70~~ 85 percent of the difference between the total estimated cost and the federal funds so available for payments made ~~after December 31, 1979 and before January 1, 1981,~~ and 85 percent of the difference for payments made

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after December 31, 1980 except as provided for in section 256.016. Adjustment of any overestimate or underestimate made by any county shall be made upon the direction of the state agency in any succeeding month. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period except as provided for in section 256.016. For the period from July 1 to December 31 based upon the estimates submitted by the county agency to the state agency, which shall state the estimated required expenditures for the succeeding month, upon the direction of the state agency, payment shall be made monthly in advance by the state to the counties of all state and federal funds available for that purpose for the succeeding month except as provided for in section 256.016. Payment shall be made on the basis of federal and state participation rates described in this subdivision. Adjustment of any overestimate or underestimate made by any county shall be made upon the direction of the state agency in any succeeding month. Effective January 1, 1989, the state rate of participation shall be determined as a percentage that equals the difference between 100 percent and the percentage rate of federal financial participation.

Sec. 7. Minnesota Statutes 1986, section 256.863, is amended to read:

256.863 RECOVERY OF MONEYS; APPORTIONMENT.

When any amount shall be recovered from any source for assistance furnished under the provisions of sections 256.72 to 256.87, except as provided in sections 256.018 and 256.98, subdivision 7, there shall be paid to the United States the amount which shall be due under the terms of the Social Security Act and the balance thereof shall be paid into the treasury of the state or county substantially in the proportion in which they have respectively contributed toward the total assistance paid. ~~The amount due the respective participating units of government shall be determined by rule adopted by the commissioner of human services pursuant to a formula of reimbursement prescribed or authorized by the federal Social Security Administration.~~

Sec. 8. Minnesota Statutes 1986, section 256.871, subdivision 6, is amended to read:

Subd. 6. **ESTIMATED EXPENDITURES; PAYMENTS.** The county agency shall submit to the state agency an estimate of expenditures for each succeeding month in such form as required by the state agency. For the period from January 1 to June 30, payment shall be made monthly in advance by the state agency to the counties, of federal funds available for that purpose for each succeeding month, together with an amount of state funds equal to ten percent of the difference between the total estimated cost and the federal funds so available, except as provided for in section 256.016. Subsequent to July 1 of each year the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period, except as provided for in section 256.016. For the period from July 1 to December 31, payment shall be made monthly in advance by the state agency to the counties, of all state and federal funds available for that purpose for the succeeding month, except as

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provided for in section 256.016. Payment shall be made on the basis of federal and state participation rates described in this subdivision. Effective January 1, 1989, the state rate of participation shall be determined as a percentage that equals the difference between 100 percent and the percentage rate of federal financial participation. Adjustment of any overestimate or underestimate made by any county shall be made upon the direction of the state agency in any succeeding month.

Sec. 9. Minnesota Statutes 1986, section 256.935, subdivision 1, is amended to read:

Subdivision 1. On the death of any person receiving public assistance through aid to dependent children, the county agency shall pay an amount for funeral expenses not exceeding \$370 and actual cemetery charges. No funeral expenses shall be paid if the estate of the deceased is sufficient to pay such expenses or if the children, or spouse, who were legally responsible for the support of the deceased while living, are able to pay such expenses; provided, that the additional payment or donation of the cost of cemetery lot, interment, religious service, or for the transportation of the body into or out of the community in which the deceased resided, shall not limit payment by the county agency as herein authorized. Freedom of choice in the selection of a funeral director shall be granted to persons lawfully authorized to make arrangements for the burial of any such deceased recipient. In determining the sufficiency of such estate, due regard shall be had for the nature and marketability of the assets of the estate. The county agency may grant funeral expenses where the sale would cause undue loss to the estate. Any amount paid for funeral expenses shall be a prior claim against the estate, as provided in section 524.3-805, and any amount recovered shall be reimbursed to the agency which paid the expenses. For the period from January 1 to June 30, the state shall reimburse the county for 50 percent of any payments made for funeral expenses except as provided for in section 256.016. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period. For the period from July 1 to December 31, the state shall reimburse the county for 100 percent of any payments made for funeral expenses except as provided for in section 256.016.

Sec. 10. Minnesota Statutes 1986, section 256.991, is amended to read:

256.991 RULES.

The commissioner of human services may promulgate emergency and permanent rules as necessary to implement sections 256.01, subdivision 2; 256.82, subdivision 3; 256.966, subdivision 1; 256.968; 256D.03, subdivisions 3, 4, 6, and 7; and 261.23. The commissioner shall promulgate emergency and permanent rules to establish standards and criteria for deciding which medical assistance services require prior authorization and for deciding whether a second medical opinion is required for an elective surgery. The commissioner shall promulgate permanent and emergency rules as necessary to establish the meth-

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ods and standards for determining inappropriate utilization of medical assistance services.

The commissioner of human services shall adopt emergency rules which meet the requirements of sections 14.29 to 14.36 for the medical assistance demonstration project. Notwithstanding the provisions of section 14.35, the emergency rules promulgated to implement section 256B.69 shall be effective for 360 days and may be continued in effect for an additional 900 days if the commissioner gives notice by publishing a notice in the state register and mailing notice to all persons registered with the commissioner to receive notice of rulemaking proceedings in connection with the project. The emergency rules shall not be effective beyond December 31, 1986, without meeting the requirements of sections 14.13 to 14.20.

Sec. 11. Minnesota Statutes 1986, section 256B.041, subdivision 5, is amended to read:

Subd. 5. **PAYMENT BY COUNTY TO STATE TREASURER.** If required by federal law or rules promulgated thereunder, or by authorized rule of the state agency, each county shall pay to the state treasurer the portion of medical assistance paid by the state for which it is responsible. ~~The county's share of cost shall be ten percent of that portion not met by federal funds.~~ Effective January 1, 1989, the state rate of participation shall be determined as a percentage that equals the difference between 100 percent and the percentage rate of federal financial participation.

For the period from January 1 to June 30, the county shall advance its portion ten percent of that portion of medical assistance costs not met by federal funds, based upon estimates submitted by the state agency to the county agency, stating the estimated expenditures for the succeeding month. Upon the direction of the county agency, payment shall be made monthly by the county to the state for the estimated expenditures for each month. Adjustment of any overestimate or underestimate based on actual expenditures shall be made by the state agency by adjusting the estimate for any succeeding month. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period, except as provided for in section 256.016. For the period from July 1 to December 31, payments will be made by the state agency, except as provided for in section 256.016, and the county agency will be advised of the amounts paid monthly.

Sec. 12. Minnesota Statutes 1986, section 256B.041, subdivision 7, is amended to read:

Subd. 7. Federal funds available for administrative purposes shall be distributed between the state and the county on the same basis that reimbursements are earned, except as provided for under section 256.016.

Sec. 13. Minnesota Statutes 1986, section 256B.05, subdivision 1, is amended to read:

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Subdivision 1. The county agencies shall administer medical assistance in their respective counties under the supervision of the state agency and the commissioner of human services as specified in section 256.01, and shall make such reports, prepare such statistics, and keep such records and accounts in relation to medical assistance as the state agency may require.

Sec. 14. Minnesota Statutes 1987 Supplement, section 256B.091, subdivision 8, is amended to read:

Subd. 8. **ALTERNATIVE CARE GRANTS.** The commissioner shall provide grants to counties participating in the program to pay costs of providing alternative care to individuals screened under subdivision 4 and nursing home or boarding care home residents who request a screening. Prior to July of each year, the commissioner shall allocate state funds available for alternative care grants to each local agency. This allocation must be made as follows: half of the state funds available for alternative care grants must be allocated to each county according to the total number of adults in that county who are recipients age 65 or older who are reported to the department by March 1 of each state fiscal year and half of the state funds available for alternative care grants must be allocated to a county according to that county's number of Medicare enrollments age 65 or older for the most recent statistical report. Payment is available under this subdivision only for individuals (1) for whom the screening team would recommend nursing home or boarding care home admission, or continued stay if alternative care were not available; (2) who are receiving medical assistance or who would be eligible for medical assistance within 180 days of admission to a nursing home; (3) who need services that are not available at that time in the county through other public assistance; and (4) who are age 65 or older.

The commissioner shall establish by rule, in accordance with chapter 14, procedures for determining grant reallocations, limits on the rates for payment of approved services, including screenings, and submittal and approval of a biennial county plan for the administration of the preadmission screening and alternative care grants program. Grants may be used for payment of costs of providing care-related supplies, equipment, and services such as, but not limited to, foster care for elderly persons, day care whether or not offered through a nursing home, nutritional counseling, or medical social services, which services are provided by a licensed health care provider, a home health service eligible for reimbursement under Titles XVIII and XIX of the federal Social Security Act, or by persons employed by or contracted with by the county board or the local welfare agency. The county agency shall ensure that a plan of care is established for each individual in accordance with subdivision 3, clause (e)(2), and that a client's service needs and eligibility is reassessed at least every six months. The plan shall include any services prescribed by the individual's attending physician as necessary and follow up services as necessary. The county agency shall provide documentation to the commissioner verifying that the individual's alternative care is not available at that time through any other public assistance or service program and shall provide documentation in each individual's plan of care and to the commissioner that the most cost-effective

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alternatives available have been offered to the individual and that the individual was free to choose among available qualified providers, both public and private. The county agency shall document to the commissioner that the agency made reasonable efforts to inform potential providers of the anticipated need for services under the alternative care grants program, including a minimum of 14 days written advance notice of the opportunity to be selected as a service provider and an annual public meeting with providers to explain and review the criteria for selection, and that the agency allowed potential providers an opportunity to be selected to contract with the county board. Grants to counties under this subdivision are subject to audit by the commissioner for fiscal and utilization control.

The county must select providers for contracts or agreements using the following criteria and other criteria established by the county:

- (1) the need for the particular services offered by the provider;
- (2) the population to be served, including the number of clients, the length of time services will be provided, and the medical condition of clients;
- (3) the geographic area to be served;
- (4) quality assurance methods, including appropriate licensure, certification, or standards, and supervision of employees when needed;
- (5) rates for each service and unit of service exclusive of county administrative costs;
- (6) evaluation of services previously delivered by the provider; and
- (7) contract or agreement conditions, including billing requirements, cancellation, and indemnification.

The county must evaluate its own agency services under the criteria established for other providers. The county shall provide a written statement of the reasons for not selecting providers.

The commissioner shall establish a sliding fee schedule for requiring payment for the cost of providing services under this subdivision to persons who are eligible for the services but who are not yet eligible for medical assistance. The sliding fee schedule is not subject to chapter 14 but the commissioner shall publish the schedule and any later changes in the State Register and allow a period of 20 working days from the publication date for interested persons to comment before adopting the sliding fee schedule in final forms.

The commissioner shall apply for a waiver for federal financial participation to expand the availability of services under this subdivision. The commissioner shall provide grants to counties from the nonfederal share, unless the commissioner obtains a federal waiver for medical assistance payments, of medical assistance appropriations. A county agency may use grant money to supplement

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but not supplant services available through other public assistance or service programs and shall not use grant money to establish new programs for which public money is available through sources other than grants provided under this subdivision. A county agency shall not use grant money to provide care under this subdivision to an individual if the anticipated cost of providing this care would exceed the average payment, as determined by the commissioner, for the level of care that the recipient would receive if placed in a nursing home or boarding care home. For the period from January 1 to June 30, the nonfederal share may be used to pay up to 90 percent of the start-up and service delivery costs of providing care under this subdivision. Each county agency that receives a grant shall pay ten percent of the costs for persons who are eligible for the services but who are not yet eligible for medical assistance. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period, except as provided for in section 256.016. For the period from July 1 to December 31, the nonfederal share may be used to pay up to 100 percent of the start-up and service delivery costs of providing care under this subdivision.

The commissioner shall promulgate emergency rules in accordance with sections 14.29 to 14.36, to establish required documentation and reporting of care delivered.

Sec. 15. Minnesota Statutes 1987 Supplement, section 256B.15, is amended to read:

256B.15 CLAIMS AGAINST ESTATES.

If a person receives any medical assistance hereunder, on the person's death, if single, or on the death of the survivor of a married couple, either or both of whom received medical assistance, and only when there is no surviving child who is under 21 or is blind or totally disabled, the total amount paid for medical assistance rendered for the person and spouse, after age 65, without interest, shall be filed as a claim against the estate of the person or the estate of the surviving spouse in the court having jurisdiction to probate the estate. A claim against the estate of a surviving spouse who did not receive medical assistance, for medical assistance rendered for the predeceased spouse, is limited to the value of the assets of the estate that were marital property or jointly-owned property at any time during the marriage. The claim shall be considered an expense of the last illness of the decedent for the purpose of section 524.3-805. Any statute of limitations that purports to limit any county agency or the state agency, or both, to recover for medical assistance granted hereunder shall not apply to any claim made hereunder for reimbursement for any medical assistance granted hereunder. Counties ~~may retain~~ are entitled to one-half of the nonfederal share of medical assistance collections from estates that are directly attributable to county effort.

Sec. 16. Minnesota Statutes 1987 Supplement, section 256B.19, subdivision 1, is amended to read:

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Subdivision 1. **DIVISION OF COST.** The cost of medical assistance paid by each county of financial responsibility shall be borne as follows: For the period from January 1 to June 30, payments shall be made by the state to the county for that portion of medical assistance paid by the federal government and the state on or before the 20th day of each month for the succeeding month upon requisition from the county showing the amount required for the succeeding month. Ninety percent of the expense of assistance not paid by federal funds available for that purpose shall be paid by the state and ten percent shall be paid by the county of financial responsibility, except as provided for in section 256.016.

For the period from January 1 to June 30, for counties that participate in a Medicaid demonstration project under sections 256B.69 and 256B.71, the division of the nonfederal share of medical assistance expenses for payments made to prepaid health plans or for payments made to health maintenance organizations in the form of prepaid capitation payments, this division of medical assistance expenses shall be 95 percent by the state and five percent by the county of financial responsibility. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period, except as provided for in section 256.016.

For the period from July 1 to December 31, except as provided for in section 256.016, payments shall be made by the state to the county for that portion of medical assistance paid by the federal government and the state on or before the 20th day of each month for the succeeding month upon requisition from the county showing the amount required for the succeeding month. The expense of assistance not paid by federal funds available for that purpose shall be paid by the state.

In counties where prepaid health plans are under contract to the commissioner to provide services to medical assistance recipients, the cost of court ordered treatment ordered without consulting the prepaid health plan that does not include diagnostic evaluation, recommendation, and referral for treatment by the prepaid health plan is the responsibility of the county of financial responsibility.

Sec. 17. Minnesota Statutes 1986, section 256B.19, subdivision 2, is amended to read:

Subd. 2. Federal funds available for administrative purposes shall be distributed between the state and the county in the same proportion that expenditures were made, except as provided for in section 256.016.

Sec. 18. Minnesota Statutes 1987 Supplement, section 256D.03, subdivision 2, is amended to read:

Subd. 2. ~~After December 31, 1980,~~ For the period from January 1 to June 30, state aid shall be paid to local agencies for 75 percent of all general assistance and work readiness grants up to the standards of sections 256D.01, subdivision 1a, and 256D.051, and according to procedures established by the com-

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missioner, except as provided for under section 256.016. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period, except as provided for in section 256.016.

For the period from July 1 to December 31, state aid shall be paid to local agencies for ~~75~~ 100 percent of all general assistance and work readiness grants up to the standards of ~~section~~ sections 256D.01, subdivision 1a, and 256D.051, and according to procedures established by the commissioner, except as provided for under section 256.016 and except that, after December 31, ~~1987~~ 1988, state aid is reduced to 65 percent of all general assistance grants if the local agency does not make occupational or vocational literacy training available and accessible to recipients who are eligible for assistance under section 256D.05, subdivision 1, paragraph (a), clause (15).

After December 31, ~~1986~~ 1988, state aid must be paid to local agencies for 65 percent of work readiness assistance paid under section 256D.051 if the county does not have an approved and operating community investment program.

Any local agency may, from its own resources, make payments of general assistance: (a) at a standard higher than that established by the commissioner without reference to the standards of section 256D.01, subdivision 1; or, (b) to persons not meeting the eligibility standards set forth in section 256D.05, subdivision 1, but for whom the aid would further the purposes established in the general assistance program in accordance with rules promulgated by the commissioner pursuant to the administrative procedure act.

Sec. 19. Minnesota Statutes 1986, section 256D.03, subdivision 6, is amended to read:

Subd. 6. **DIVISION OF COSTS.** The state shall pay ~~90~~ 100 percent of the cost of general assistance medical care paid ~~by the local agency or county~~ pursuant to this section, in accordance with sections 256B.041, subdivision 5, and 256B.19, subdivision 1, except as provided for in section 256.016. In counties where prepaid health plans are under contract to the commissioner to provide services to general assistance medical care recipients, the cost of court ordered treatment that does not include diagnostic evaluation, recommendation, or referral for treatment by the prepaid health plan is the responsibility of the county of financial responsibility.

Sec. 20. Minnesota Statutes 1986, section 256D.04, is amended to read:

256D.04 DUTIES OF THE COMMISSIONER.

In addition to any other duties imposed by law, the commissioner shall:

(1) Supervise according to section 256.01 the administration of general assistance and general assistance medical care by local agencies as provided in sections 256D.01 to 256D.21;

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(2) Promulgate uniform rules consistent with law for carrying out and enforcing the provisions of sections 256D.01 to 256D.21 to the end that general assistance may be administered as uniformly as possible throughout the state; rules shall be furnished immediately to all local agencies and other interested persons; in promulgating rules, the provisions of sections 14.01 to 14.70, shall apply;

(3) Allocate moneys appropriated for general assistance and general assistance medical care to local agencies as provided in section 256D.03, subdivisions 2 and 3;

(4) Accept and supervise the disbursement of any funds that may be provided by the federal government or from other sources for use in this state for general assistance and general assistance medical care;

(5) Cooperate with other agencies including any agency of the United States or of another state in all matters concerning the powers and duties of the commissioner under sections 256D.01 to 256D.21;

(6) Cooperate to the fullest extent with other public agencies empowered by law to provide vocational training, rehabilitation, or similar services; and

(7) Gather and study current information and report at least annually to the governor and legislature on the nature and need for general assistance and general assistance medical care, the amounts expended under the supervision of each local agency, and the activities of each local agency and publish such reports for the information of the public.

Sec. 21. Minnesota Statutes 1986, section 256D.36, subdivision 1, is amended to read:

Subdivision 1. Commencing January 1, 1974, the commissioner shall certify to each local agency the names of all county residents who were eligible for and did receive aid during December, 1973 pursuant to a categorical aid program of old age assistance, aid to the blind, or aid to the disabled. ~~From and after January 1, 1980, until January 1, 1981, For the period from January 1 to June 30, the state shall pay 70 85 percent and the county shall pay 30 15 percent of the supplemental aid calculated for each county resident certified under this section who is an applicant for or recipient of supplemental security income, except as provided for in section 256.016. After December 31, 1980, the state shall pay 85 percent and the county shall pay 15 percent of the aid. Subsequent to July 1 of each year, the state agency shall reimburse the county agency for the funds expended during the January 1 to June 30 period, except as provided for in section 256.016. For the period from July 1 to December 31, the state agency shall pay 100 percent of the supplemental aid calculated for each county resident certified under this section who is an applicant for or recipient of supplemental security income, except as provided for in section 256.016.~~ The amount of supplemental aid for each individual eligible under this section shall be calculated pursuant to the formula prescribed in title II, section 212 (a) (3) of Public Law Number 93-66, as amended.

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Sec. 22. Minnesota Statutes 1987 Supplement, section 256G.01, subdivision 3, is amended to read:

Subd. 3. **PROGRAM COVERAGE.** This chapter applies to all programs administered by the commissioner in which residence is the determining factor in establishing financial responsibility. These include, but are not limited to: ~~aid to families with dependent children; medical assistance; general assistance; general assistance medical care; Minnesota supplemental aid;~~ commitment proceedings, including voluntary admissions; poor relief funded wholly through local agencies; and social services, including title XX, IV-E and other components of the community social services act, sections 256E.01 to 256E.12. It also applies to service responsibility in the income maintenance and health care programs administered by the commissioner.

Sec. 23. Minnesota Statutes 1987 Supplement, section 256G.02, subdivision 4, is amended to read:

Subd. 4. **COUNTY OF FINANCIAL RESPONSIBILITY.** (a) "County of financial responsibility" has the meanings in paragraphs (b) to ~~(h)~~ (e).

(b) For an applicant who resides in the state and is not in a facility described in subdivision 5, it means the county in which the applicant resides at the time of application.

(c) For an applicant who resides in a facility described in subdivision 5, it means the county in which the applicant last resided in nonexcluded status immediately before entering the facility.

(d) For an applicant who has not resided in this state for any time other than the excluded time, it means the county in which the applicant resides at the time of making application.

~~(e) For medical assistance purposes only, and for an infant who has resided only in an excluded time facility, it means the county that would have been responsible for the infant if eligibility had been established, based on that of the birth mother, at the time of application.~~

~~(f) Notwithstanding paragraphs (b) to (d), the county of financial responsibility for medical assistance recipients is the county from which a recipient is receiving a maintenance grant or money payment under the program of aid to families with dependent children or Minnesota supplemental aid.~~

~~(g) Notwithstanding paragraphs (b) to (f), the county of financial responsibility for social services for a person receiving aid to families with dependent children; general assistance; general assistance medical care; medical assistance; or Minnesota supplemental aid is the county from which that person is receiving the aid or assistance. If more than one named program is open concurrently, financial responsibility for social services attaches to the program that has the earliest date of application and has been open without interruption.~~

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(h) (f) Notwithstanding paragraphs (b) to (g) (e), the county of financial responsibility for semi-independent living services provided under section 252.275, and Minnesota Rules, parts 9525.0500 to 9525.0660, is the county of residence in nonexcluded status immediately before the placement into or request for those services.

Sec. 24. Minnesota Statutes 1987 Supplement, section 256G.04, subdivision 1, is amended to read:

Subdivision 1. **TIME OF DETERMINATION.** For purposes of establishing financial responsibility, residence must be determined as of the date a local agency receives a signed request or signed application or the date of eligibility, whichever is later. This subdivision extends to cases in which the applicant may move to another county after the date of application but before the grant or service is actually approved.

Sec. 25. Minnesota Statutes 1987 Supplement, section 256G.05, is amended to read:

256G.05 RESPONSIBILITY FOR EMERGENCIES.

~~Subdivision 1. RESIDENCE NOT A TEST.~~ In situations involving emergencies verified by a local agency, financial responsibility for aid to families with dependent children, general assistance, and Minnesota supplemental aid rests with the county in which an otherwise eligible person is physically present when the application is filed. The county of residence is not obligated to reimburse. Financial responsibility is limited to 30 days unless otherwise specified in the context of the affected program.

~~Subd. 2. NON-MINNESOTA RESIDENTS.~~

State residence is not required for receiving emergency assistance in the general assistance and Minnesota supplemental aid programs only. The receipt of emergency assistance must not be used as a factor in determining county or state residence.

Sec. 26. Minnesota Statutes 1987 Supplement, section 256G.07, is amended to read:

256G.07 MOVING TO ANOTHER COUNTY.

Subdivision 1. **EFFECT OF MOVING.** Except as provided in subdivision 4, a person who has applied for and is receiving assistance services under a program governed by this chapter, in any county in this state, and who moves to another county in this state, is entitled to continue to receive that assistance from the county from which that person has moved until that person has resided in nonexcluded status for two full calendar months in the county to which that person has moved.

~~For purposes of general assistance and general assistance medical care, this time period is, however, one full calendar month.~~

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Subd. 2. **TRANSFER OF RECORDS.** Before the person has resided in nonexcluded status for two calendar months; ~~or one calendar month in the case of general assistance or general assistance medical care;~~ in the county to which that person has moved, the local agency of the county from which the person has moved shall transfer all necessary records relating to that person to the local agency of the county to which the person has moved.

Subd. 3. **CONTINUATION OF CASE.** When the case is terminated for 30 days or less before the recipient reapplies, that case remains the financial responsibility of the county from which the recipient moved until the residence requirement in subdivision 1 is met.

Subd. 4. ~~**MULTIPLE FINANCIAL RESPONSIBILITY.** When more than one county becomes financially responsible for a case involving a single assistance unit, under a program covered by this chapter, that case must be immediately reconsidered by the affected local agencies. Beginning with the first day of the calendar month after that reconsideration, financial responsibility for the entire assistance unit belongs to the county that was initially responsible for the program with the earliest date of application.~~

Subd. 5. **SOCIAL SERVICE PROVISION.** The types and level of social services to be provided in any case governed by this chapter are those otherwise provided in the county in which the person is physically residing at the time those services are provided.

Sec. 27. Minnesota Statutes 1987 Supplement, section 256G.10, is amended to read:

256G.10 DERIVATIVE SETTLEMENT ELIMINATED.

~~Except as described in section 256G.02, subdivision 4, paragraph (d);~~ Residence under this chapter must be determined independently for each applicant. The residence of the parent or guardian does not determine the residence of the child or ward. Physical or legal custody has no bearing on residence determinations. This section does not, however, apply to situations involving another state or limit the application of an interstate compact.

Sec. 28. Minnesota Statutes 1987 Supplement, section 256G.11, is amended to read:

256G.11 NO RETROACTIVE EFFECT.

This chapter is ~~not retroactive and~~ does not require the retroactive redetermination of financial responsibility for cases existing on January 1, 1988. This chapter applies only to applications and redeterminations of eligibility taken or routinely made after January 1, 1988.

~~Notwithstanding this section, however, existing social service cases tie to cases for those programs outlined in section 256G.02, subdivision 4, paragraph (g); for which an application is taken or a redetermination is made after January 1, 1988.~~

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Sec. 29. **[256.019] RECOVERY OF MONEY; APPORTIONMENT.**

When an amount is recovered from any source for assistance given under the provisions governing public assistance programs including aid to families with dependent children, emergency assistance, general assistance, work readiness, and Minnesota supplemental aid, there shall be paid to the United States the amount due under the terms of the Social Security Act and the balance must be paid into the treasury of the state or county in accordance with current rates of financial participation; except if the recovery is directly attributable to county effort, the county may keep one-half of the nonfederal share of the recovery. This does not apply to recoveries from medical providers or to recoveries begun by the department of human services' surveillance and utilization review division, state hospital collections unit, and the benefit recoveries division or, by the attorney general's office, or child support collections.

Sec. 30. Minnesota Statutes 1986, section 393.07, subdivision 2, is amended to read:

Subd. 2. ADMINISTRATION OF PUBLIC WELFARE. The county welfare board, subject to the supervision of the commissioner of human services, shall administer all forms of public welfare, both for children and adults, responsibility for which now or hereafter may be imposed on the commissioner of human services by law, including general assistance, aid to dependent children, county supplementation, if any, or state aid to recipients of supplemental security income for aged, blind and disabled, child welfare services, mental health services, and other public assistance or public welfare services, provided that the county welfare board shall not employ public health nursing or home health service personnel other than homemaker-home help aides, but shall contract for or purchase the necessary services from existing community agencies. The duties of the county welfare board shall be performed in accordance with the standards and rules which may be promulgated by the commissioner of human services to achieve the purposes intended by law and in order to comply with the requirements of the federal Social Security Act in respect to public assistance and child welfare services, so that the state may qualify for grants-in-aid available under that act. To avoid administrative penalties under section 256.016, the county welfare board must comply with (1) policies established by state law and (2) instructions from the commissioner relating (i) to public assistance program policies consistent with federal law and regulation and state law and rule and (ii) to local agency program operations. The commissioner may enforce county welfare board compliance with the instructions, and may delay, withhold, or deny payment of all or part of the state and federal share of benefits and federal administrative reimbursement, according to the provisions under section 256.016. The county welfare board shall supervise wards of the commissioner and, when so designated, act as agent of the commissioner of human services in the placement of the commissioner's wards in adoptive homes or in other foster care facilities. The county welfare board may contract with a bank or other financial institution to provide services associated with the processing of public assistance checks and pay a service fee for these services, provided the fee charged does not exceed the fee charged to other customers of the institution for similar services.

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

Sec. 31. Minnesota Statutes 1987 Supplement, section 393.07, subdivision 10, is amended to read:

Subd. 10. **FEDERAL FOOD STAMP PROGRAM.** (a) The county welfare board shall establish and administer the food stamp program pursuant to rules of the commissioner of human services, the supervision of the commissioner as specified in section 256.01, and all federal laws and regulations. The commissioner of human services shall monitor food stamp program delivery on an ongoing basis to ensure that each county complies with federal laws and regulations. Program requirements to be monitored include, but are not limited to, number of applications, number of approvals, number of cases pending, length of time required to process each application and deliver benefits, number of applicants eligible for expedited issuance, length of time required to process and deliver expedited issuance, number of terminations and reasons for terminations, client profiles by age, household composition and income level and sources, and the use of phone certification and home visits. The commissioner shall determine the county-by-county and statewide participation rate. The commissioner shall report on the monitoring activities on a county-by-county basis in a report presented to the legislature by July 1 each year. This monitoring activity shall be separate from the management evaluation survey sample required under federal regulations.

(b) On July 1 of each year, the commissioner of human services shall determine a statewide and county-by-county food stamp program participation rate. The commissioner may designate a different agency to administer the food stamp program in a county if the agency administering the program fails to increase the food stamp program participation rate among families or eligible individuals, or comply with all federal laws and regulations governing the food stamp program. The commissioner shall review agency performance annually to determine compliance with this paragraph.

~~(c) The county welfare board shall participate in a food stamp quality control system subject to the supervision of the commissioner of human services and pursuant to federal regulations.~~

A person who commits any of the following acts has violated section 256.98 and is subject to both the criminal and civil penalties provided under that section:

(1) Obtains or attempts to obtain, or aids or abets any person to obtain by means of a willfully false statement or representation, or intentional concealment of a material fact, food stamps to which the person is not entitled or in an amount greater than that to which that person is entitled; or

(2) Presents or causes to be presented, coupons for payment or redemption knowing them to have been received, transferred or used in a manner contrary to existing state or federal law; or

(3) Willfully uses or transfers food stamp coupons or authorization to purchase cards in any manner contrary to existing state or federal law.

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

Sec. 32. TRANSFER OF COUNTY FOOD STAMP QUALITY CONTROL SYSTEM EMPLOYEES.

(a) All positions covered by the Minnesota merit system located in Crow Wing county family social service center and in the Redwood county welfare department classified as food stamp corrective action specialist I and II and as financial assistant supervisor I, if the positions supervise food stamp corrective action specialists, are transferred to the department of human services and become state civil service positions.

(b) All incumbent employees affected by this transfer, who choose to transfer to state civil service positions in the department of human services, must be transferred with no reduction in salary. Salaries of individual employees who transfer must be adjusted to the minimum salary or to the nearest equal or higher step on the state compensation plan for their class, whichever is greater.

(c) Existing sick leave and vacation accruals for an employee who transfers must be transferred to the department of human services and the employee shall accrue additional vacation and sick leave under the provisions of the appropriate state collective bargaining agreement based on the employee's years of service in either Crow Wing county family service center or in the Redwood county welfare department.

(d) If an employee who transfers chooses to retain the county coverage for employee and dependent health, dental, and life insurance, the department of human services shall reimburse the employee for one month of continued enrollment in the health, dental, and life insurance plans in an amount equal to what their former county employer would have paid for the coverage had the employee remained a county employee, until the employee is eligible for coverage under the state insurance plans.

(e) Classification seniority for an employee who transfers must be calculated according to the provisions of the appropriate state collective bargaining agreement based upon the employee's years of service in the county merit system.

Sec. 33. REPEALER.

Minnesota Statutes 1986, section 256.965; and Minnesota Statutes 1987 Supplement, section 256D.22, are repealed.

Sec. 34. HUMAN SERVICES; APPROPRIATIONS.

\$1,655,500 is appropriated from the general fund to the commissioner of human services for the purposes indicated.

(a) \$990,000 is for the county incentive fund, to be available until June 30, 1991.

(b) \$110,000 is available beginning June 1, 1989, to convert county food stamp quality control staff to state employment.

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(c) \$555,500 is available beginning January 1, 1990, to implement state financing of income maintenance benefits as contained in this article by monitoring local agency performance in administering the income maintenance programs, providing technical assistance and program support, and reviewing local agency exceptions to compliance actions.

Sec. 35. HUMAN SERVICES APPROPRIATION REDUCTION.

The appropriation in Laws 1987, chapter 403, article 1, section 2, subdivision 2, for county administrative aid for fiscal year 1989 is reduced by \$1,150,000 because of the changes made by this article.

Sec. 36. POSITIONS.

The following additional positions are approved for the department of human services.

<u>Appeals and Contracts</u>	<u>1</u>
<u>Financial Management</u>	<u>2</u>
<u>Assistance Payments</u>	<u>22</u>
<u>Food Stamp Quality Control</u>	<u>25</u>

Sec. 37. EFFECTIVE DATE.

The part of section 31 that strikes a part of paragraph (c) is effective June 1, 1990. Section 32 is effective June 1, 1989. Except as provided in section 34, the rest of this article is effective January 1, 1990.

ARTICLE 9

PULL-TAB TAX

Section 1. Minnesota Statutes 1986, section 349.12, subdivision 18, is amended to read:

Subd. 18. **DEAL.** "Deal" means each separate package, or series of packages, consisting of one game of pull-tabs or tipboards with the same serial number purchased from a distributor.

Sec. 2. Minnesota Statutes 1986, section 349.12, is amended by adding a subdivision to read:

Subd. 19. **IDEAL GROSS.** "Ideal gross" means the total amount of receipts that would be received if every individual ticket in the pull-tab or tipboard deal was sold at its face value.

Sec. 3. Minnesota Statutes 1986, section 349.12, is amended by adding a subdivision to read:

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Subd. 20. IDEAL NET. “Ideal net” means the pull-tab or tipboard deal’s ideal gross, as defined under subdivision 19, less the total predetermined prize amounts available to be paid out. When the prize is not a monetary one, the ideal net is 50 percent of the ideal gross.

Sec. 4. Minnesota Statutes 1987 Supplement, section 349.212, subdivision 1, is amended to read:

Subdivision 1. **RATE.** There is hereby imposed a tax on all lawful gambling, other than (1) pull-tabs purchased and placed into inventory after January 1, 1987, and (2) tipboards purchased and placed into inventory after June 30, 1988, conducted by organizations licensed by the board at the rate specified in this subdivision. The tax imposed by this subdivision is in lieu of the tax imposed by section 297A.02 and all local taxes and license fees except a fee authorized under section 349.16, subdivision 4.

On all lawful gambling, other than (1) pull-tabs purchased and placed into inventory after January 1, 1987, and (2) tipboards purchased and placed into inventory after June 30, 1988, the tax is ten percent of the gross receipts of a licensed organization from lawful gambling less prizes actually paid out, payable by the organization.

Sec. 5. Minnesota Statutes 1987 Supplement, section 349.212, subdivision 4, is amended to read:

Subd. 4. PULL-TAB AND TIPBOARD TAX. (a) There is imposed a tax on the sale of each deal of pull-tabs and tipboards sold by a licensed distributor to a licensed organization, or to an organization holding an exemption identification number. The rate of the tax is ten percent of the ~~face resale value of all the pull-tabs in each deal less the total prizes which may be paid out on all the pull-tabs in that~~ ideal net of the pull-tab and tipboard deal. The tax is payable to the commissioner of revenue in the manner prescribed in section 349.2121 and the rules of the commissioner. The commissioner shall pay the proceeds of the tax to the state treasurer for deposit in the general fund. The sales tax imposed by chapter 297A on the sale of the pull-tabs and tipboards by the licensed distributor to an organization is imposed on the retail sales price less the tax imposed by this subdivision. The retail sale of pull-tabs or tipboards by the organization is exempt from taxes imposed by chapter 297A if the tax imposed by this subdivision has been paid and is exempt from all local taxes and license fees except a fee authorized under section 349.16, subdivision 4.

(b) The liability for the tax imposed by this section is incurred when the pull-tabs and tipboards are delivered by the distributor to the licensed or exempt organization, to a common or contract carrier for delivery to the organization, or when received by the organization’s authorized representative at the distributor’s place of business, regardless of the distributor’s method of accounting or the terms of the sale.

~~If a licensed organization or any organization holding an exemption number~~

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receives pull-tabs directly from the manufacturer and the manufacturer is not a licensed distributor, the distributor from whom the pull-tabs were purchased is liable for tax when the manufacturer delivers the pull-tabs to the organization, or to a contract or common carrier for delivery to the organization, or when the pull-tabs are received by the organization's authorized representative at the manufacturer's place of business, regardless of the manufacturer's or the distributor's method of accounting or the terms of the sale.

(c) The exemptions contained in section 349.214, subdivision 2, paragraph (b), do not apply to the tax imposed in this subdivision.

Sec. 6. Minnesota Statutes 1986, section 349.2121, subdivision 1, is amended to read:

Subdivision 1. **APPLICATION AND ISSUANCE.** Every distributor licensed by the board who sells pull-tabs and tipboards to organizations authorized to sell pull-tabs and tipboards under this chapter must file with the commissioner of revenue an application, on a form the commissioner prescribes, for a gambling tax identification number and gambling tax permit. The commissioner, when satisfied that the applicant has a valid license from the board, shall issue the applicant a permit and number. A permit is not assignable and is valid only for the distributor in whose name it is issued.

Sec. 7. Minnesota Statutes 1986, section 349.2121, subdivision 2, is amended to read:

Subd. 2. **RECORDS.** The commissioner may by rule require a licensed distributor holding a permit under this section to keep such books, papers, documents, and records as the commissioner deems necessary to the enforcement of this chapter. The commissioner may examine, or cause to be examined, any books, papers, records, or other documents relevant to making a determination, whether they are in the possession of a distributor or another person or corporation. The commissioner may require the attendance of any persons having knowledge or information in the premises; to compel the production of books, papers, records, or memoranda by persons so required to attend; to take testimony on matters material to a determination; and to administer oaths or affirmations. A distributor shall keep at each licensed place of business complete and accurate records for that place of business, including itemized invoices of pull-tabs and tipboards held, purchased, manufactured, or brought in or caused to be brought in from without this state, and of all sales of pull-tabs and tipboards. The records must show the names and addresses of purchasers, the inventory at the close of each period for which a return is required of all pull-tab and tipboard deals on hand, and other pertinent papers and documents relating to the purchase, sale, or disposition of pull-tab and tipboard deals. Books, records, and other papers and documents required by this section must be kept for a period of at least 3-1/2 years after the date of the documents, or the date of the entries appearing in the records, unless the commissioner authorizes in writing their destruction or disposal at an earlier date. At any time during usual

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business hours, the commissioner, executive secretary of the charitable gambling control board, or any of their duly authorized agents or employees, may enter a place of business of a distributor, charitable organization, or any site from which pull-tabs or tipboards are being sold and inspect the premises and the records required to be kept under this section to determine whether or not all the provisions of this section are being fully complied with. If the commissioner, executive secretary, or their duly authorized agents or employees are denied free access to or are hindered or interfered with in making an inspection of the distributor's place of business, the permit of the distributor may be revoked by the commissioner, and the license of the distributor may be revoked by the charitable gambling control board.

Sec. 8. Minnesota Statutes 1986, section 349.2121, is amended by adding a subdivision to read:

Subd. 2a. A distributor who sells pull-tabs and tipboards to persons other than the ultimate consumer shall give with each sale an itemized invoice showing the distributor's name and address, the purchaser's name and address, the date of the sale, description of the deals including the ideal net amounts, and all prices and discounts, and shall keep legible copies of all the itemized invoices for 3-1/2 years from the date of sale.

Sec. 9. Minnesota Statutes 1987 Supplement, section 349.2121, subdivision 4a, is amended to read:

Subd. 4a. **REFUND.** If any deal of pull-tabs or tipboards registered with the board and upon which the tax imposed by section 349.212, subdivision 4, has been paid is returned unplayed to the distributor, the commissioner of revenue shall allow a refund of the tax paid.

In the case of a defective deal registered with the board and upon which the taxes have been paid is returned to the manufacturer, the distributor shall submit to the commissioner of revenue certification from the manufacturer that the deal was returned and in what respect it was defective. The certification must be in a form prescribed by the commissioner and must contain additional information the commissioner requires.

The commissioner may require that no refund under this subdivision be made unless the returned pull-tabs or tipboards have been set aside for inspection by the commissioner's employee.

Reductions in previously paid taxes authorized by this subdivision shall be made at the time and in the manner prescribed by the commissioner.

Sec. 10. Minnesota Statutes 1986, section 349.2121, subdivision 5, is amended to read:

Subd. 5. **PUBLIC INFORMATION CONFIDENTIAL.** ~~Neither the commissioner nor any other public official or employee may divulge or otherwise make known in any manner any particulars disclosed in any report or return~~

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required by this section, or any information concerning the affairs of the distributor making the return acquired from its records, officers, or employees while examining or auditing under the authority of this chapter, except in connection with a proceeding involving taxes due under this chapter. Nothing herein prohibits the commissioner from publishing statistics so classified as not to disclose the identity of particular returns or reports and their contents. Any person violating the provisions of this section is guilty of a gross misdemeanor.

Notwithstanding the provisions of this section, the commissioner may furnish information on a reciprocal basis to the taxing officials of another state or the board in order to implement the purposes of this chapter.

In order to facilitate processing of returns and payments of taxes required by this chapter, the commissioner may contract with outside vendors and may disclose private and nonpublic data to the vendor. The data disclosed must be administered by the vendor consistent with this section. All records concerning the administration of the pull-tab and tipboard taxes are classified as public information.

Sec. 11. Minnesota Statutes 1987 Supplement, section 349.2121, subdivision 10, is amended to read:

Subd. 10. **UNTAXED PULL-TABS OR TIPBOARDS.** It is a gross misdemeanor for any person to possess pull-tabs or tipboards for resale in this state that have not been registered with the board, for which a registration stamp has not been affixed to the flare, and upon which the taxes imposed by section 349.212, subdivision 4, or chapter 297A have not been paid. The executive secretary of the charitable gambling control board or the commissioner of revenue or their designated inspectors and employees may seize in the name of the state of Minnesota any unregistered or untaxed pull-tabs or tipboards.

Sec. 12. Minnesota Statutes 1987 Supplement, section 349.2122, is amended to read:

349.2122 MANUFACTURERS; REPORTS TO THE COMMISSIONER; PENALTY.

A manufacturer registered with the board who sells pull-tabs and tipboards to a distributor licensed by the board must file with the commissioner of revenue, on a form prescribed by the commissioner, a report of pull-tabs and tipboards sold to licensed distributors. The report must be filed monthly on or before the 25th day of the month succeeding the month in which the sale was made. Any person violating this section shall be guilty of a misdemeanor.

Sec. 13. Minnesota Statutes 1987 Supplement, section 349.2123, is amended to read:

349.2123 CERTIFIED PHYSICAL INVENTORY.

The commissioner of revenue may, upon request, require a ~~pull-tab~~ licensed

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distributor to furnish a certified physical inventory of the pull-tabs and tipboards in stock. The inventory must contain the information required by the commissioner.

Sec. 14. [349.2125] CONTRABAND.

Subdivision 1. CONTRABAND DEFINED. The following are contraband:

(1) all pull-tab or tipboard deals that do not have stamps affixed to them as provided in section 349.162;

(2) all pull-tab or tipboard deals in the possession of any unlicensed organization whether stamped or unstamped;

(3) any container used for the storage and display of any contraband pull-tab or tipboard deals as defined in clauses (1) and (2);

(4) any cash drawer, cash register, or any other container used for illegal pull-tab or tipboard transactions including its contents; and

(5) any device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes, and boats used, with the knowledge of the owner or of a person operating with the consent of the owner, for the storage or transportation of more than five pull-tab or tipboard deals that are contraband under this subdivision. When pull-tabs and tipboards are being transported in the course of interstate commerce, or from one distributor to another, the pull-tab and tipboard deals are not contraband, notwithstanding the provisions of clause (1).

Subd. 2. SEIZURE. Pull-tabs or tipboards or other property made contraband by subdivision 1 may be seized by the commissioner of revenue or the executive secretary of the charitable gambling control board or their authorized agents or by any sheriff or other police officer, hereinafter referred to as the seizing authority, with or without process, and shall be subject to forfeiture as provided in subdivisions 3 and 4.

Subd. 3. INVENTORY; JUDICIAL DETERMINATION; APPEAL; DISPOSITION OF SEIZED PROPERTY. Within two days after the seizure of any alleged contraband, the person making the seizure shall deliver an inventory of the property seized to the person from whom the property was seized, if known, and file a copy with the commissioner or the executive secretary of the charitable gambling control board. Within ten days after the date of service of the inventory, the person from whom the property was seized or any person claiming an interest in the property may file with the seizing authority a demand for judicial determination of whether the property was lawfully subject to seizure and forfeiture. Within 30 days after the date of filing of the demand, the seizing authority must bring an action in the district court of the county where seizure was made to determine the issue of forfeiture. The action must be brought in the name of the state and be prosecuted by the county attorney or by the attorney general. The court shall hear the action without a jury and determine

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the issues of fact and laws involved. When a judgment of forfeiture is entered, the seizing authority may, unless the judgment is stayed pending an appeal, either (1) cause the forfeited property to be destroyed; or (2) cause it to be sold at a public auction as provided by law.

If demand for judicial determination is made and no action is commenced as provided in this subdivision, the property must be released by the seizing authority and delivered to the person entitled to it. If no demand is made, the property seized is considered forfeited to the state by operation of law and may be disposed of by the seizing authority as provided where there has been a judgment of forfeiture. When the seizing authority is satisfied that a person from whom property is seized was acting in good faith and without intent to evade the tax imposed by section 349.2121, subdivision 4, the seizing authority shall release the property seized without further legal proceedings.

Subd. 4. DISPOSAL. The property described in subdivision 1, clauses (4) and (5), must be confiscated after conviction of the person from whom it was seized, upon compliance with the following procedure: the seizing authority shall file with the court a separate complaint against the property, describing it and charging its use in the specific violation, and specifying substantially the time and place of the unlawful use. A copy of the complaint must be served upon the defendant or person in charge of the property at the time of seizure, if any. If the person arrested is acquitted, the court shall dismiss the complaint against the property and order it returned to the persons legally entitled to it. Upon conviction of the person arrested, the court shall issue an order directed to any person known or believed to have any right, title or interest in, or lien upon, any of the property, and to persons unknown claiming any right, title, interest, or lien in it, describing the property and (1) stating that it was seized and that a complaint against it, charging the specified violation, has been filed with the court, (2) requiring the persons to file with the court administrator their answer to the complaint, setting forth any claim they may have to any right or title to, interest in, or lien upon the property, within 30 days after the service of the order, and (3) notifying them in substance that if they fail to file their answer within the time, the property will be ordered sold by the seizing authority. The court shall cause the order to be served upon any person known or believed to have any right, title, interest, or lien as in the case of a summons in a civil action, and upon unknown persons by publication, as provided for service of summons in a civil action. If no answer is filed within the time prescribed, the court shall, upon affidavit by the court administrator, setting forth the fact, order the property sold by the seizing authority. The proceeds of the sale, after deducting the expense of keeping the property and fees and costs of sale, must be paid into the state treasury and credited to the general fund. If answer is filed within the time provided, the court shall fix a time for a hearing, which shall be not less than ten nor more than 30 days after the time for filing answer expires. At the time fixed for hearing, unless continued for cause, the matter shall be heard and determined by the court, without a jury, as in other civil actions.

If the court finds that the property, or any part of it, was used in the

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violation specified in the complaint, it shall order the property unlawfully used, sold as provided by law, unless the owner shows to the satisfaction of the court that the owner had no notice or knowledge or reason to believe that the property was used or intended to be used in the violation. The officer making a sale, after deducting the expense of keeping the property, the fee for seizure, and the costs of the sale, shall pay all liens according to their priority, which are established at the hearing as being bona fide and as existing without the lienor having any notice or knowledge that the property was being used or was intended to be used for or in connection with the violation specified in the order of the court, and shall pay the balance of the proceeds into the state treasury to be credited to the general fund. A sale under this section shall free the property sold from any and all liens on it. Appeal from the order of the district court will lie as in other civil cases. At any time after seizure of the articles specified in this subdivision, and before the hearing provided for, the property must be returned to the owner or person having a legal right to its possession, upon execution of a good and valid bond to the state, with corporate surety, in the sum of not less than \$100 and not more than double the value of the property seized, to be approved by the court in which the case is triable, or a judge of it, conditioned to abide any order and the judgment of the court, and to pay the full value of the property at the time of the seizure. The seizing authority may dismiss the proceedings outlined in this subdivision when the seizing authority considers it to be in the best interests of the state to do so.

Sec. 15. [349.2127] PROHIBITIONS.

Subdivision 1. COUNTERFEITING. No person shall with intent to defraud the state, make, alter, forge, or counterfeit any license or stamp provided for in this chapter, or have in possession any forged, spurious, or altered stamps, with the intent, or with the result of, depriving the state of the tax imposed by this chapter.

Subd. 2. PROHIBITION AGAINST POSSESSION. No person, other than a licensed distributor, shall sell, offer for sale, or have in possession with intent to sell or offer for sale, a pull-tab or tipboard deal not stamped in accordance with the provisions of this chapter.

Subd. 3. FALSIFICATION OF RECORDS. No person required by section 349.2121, subdivision 2, to keep records or to make returns shall falsify or fail to keep the records or falsify or fail to make the returns.

Subd. 4. TRANSPORTING UNSTAMPED DEALS. No person shall transport into, or receive, carry, or move from place to place in this state, any deals of pull-tabs or tipboards not stamped in accordance with this chapter except in the course of interstate commerce, unless the deals are moving from one distributor to another.

Sec. 16. Minnesota Statutes 1986, section 349.22, subdivision 1, is amended to read:

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Subdivision 1. **GROSS MISDEMEANOR.** Any other violation of A person who in any manner violates sections 349.11 to 349.214 is to evade the tax imposed by this chapter, or who aids and abets evasion of the tax, or hinders or interferes with a seizing authority when a seizure is made as provided by section 349.2125, is guilty of a gross misdemeanor.

Sec. 17. Minnesota Statutes 1986, section 349.22, is amended by adding a subdivision to read:

Subd. 3. FELONY. (a) A person violating section 349.2127, subdivision 1 or 3, is guilty of a felony.

(b) A person violating section 349.2127, subdivisions 2 and 4, by possessing, receiving, or transporting more than ten pull-tab or tipboard deals not stamped in accordance with this chapter is guilty of a felony.

Sec. 18. Minnesota Statutes 1986, section 349.22, is amended by adding a subdivision to read:

Subd. 4. SALES AFTER REVOCATION. A person selling pull-tabs or tipboards after the person's license or permit has been revoked is guilty of a felony.

Sec. 19. **EFFECTIVE DATE.**

Sections 1 to 4 and 6 to 18 are effective July 1, 1988. Section 5 is effective for deals of tipboards purchased and placed into inventory after June 30, 1988.

ARTICLE 10

SALES TAX

Section 1. Minnesota Statutes 1987 Supplement, section 297A.01, subdivision 3, is amended to read:

Subd. 3. A "sale" and a "purchase" includes, but is not limited to, each of the following transactions:

(a) Any transfer of title or possession, or both, of tangible personal property, whether absolutely or conditionally, and the leasing of or the granting of a license to use or consume tangible personal property other than manufactured homes used for residential purposes for a continuous period of 30 days or more, for a consideration in money or by exchange or barter;

(b) The production, fabrication, printing or processing of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the production, fabrication, printing or processing;

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(c) The furnishing, preparing or serving for a consideration of food, meals or drinks, not including meals or drinks served to patients, inmates, or persons residing at hospitals, sanatoriums, nursing homes ~~or~~, senior citizens homes, and correctional, detention, and detoxification facilities, meals or drinks purchased for and served exclusively to individuals who are 60 years of age or over and their spouses or to the handicapped and their spouses by governmental agencies, nonprofit organizations, agencies, or churches or pursuant to any program funded in whole or part through 42 USCA sections 3001 through 3045, wherever delivered, prepared or served, meals and lunches served at public and private schools, universities or colleges. "Sales" also includes meals furnished by employers to employees at less than fair market value, except meals furnished at no charge to employees of hospitals, nursing homes, boarding care homes, sanatoriums, group homes, and correctional, detention, and detoxification facilities, who are required to eat with the patients, residents, or inmates residing in them. Notwithstanding section 297A.25, subdivision 2, taxable food or meals include, but are not limited to, the following:

- (i) heated food or drinks;
- (ii) sandwiches prepared by the retailer;
- (iii) single sales of prepackaged ice cream or ice milk novelties prepared by the retailer;
- (iv) hand-prepared or dispensed ice cream or ice milk products including cones, sundaes, and snow cones;
- (v) soft drinks and other beverages prepared or served by the retailer;
- (vi) gum;
- (vii) ice;
- (viii) all food sold in vending machines;
- (ix) party trays prepared by the retailers; and
- (x) all meals and single servings of packaged snack food, single cans or bottles of pop, sold in restaurants and bars;

(d) The granting of the privilege of admission to places of amusement, recreational areas, or athletic events and the privilege of having access to and the use of amusement devices, tanning facilities, reducing salons, steam baths, turkish baths, massage parlors, health clubs, and spas or athletic facilities;

(e) The furnishing for a consideration of lodging and related services by a hotel, rooming house, tourist court, motel or trailer camp and of the granting of any similar license to use real property other than the renting or leasing thereof, for a continuous period of 30 days or more;

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(f) The furnishing for a consideration of electricity, gas, water, or steam for use or consumption within this state, or local exchange telephone service, intra-state toll service, and interstate toll service, if that service originates from and is charged to a telephone located in this state; the tax imposed on amounts paid for telephone services is the liability of and shall be paid by the person paying for the services. Sales by municipal corporations in a proprietary capacity are included in the provisions of this clause. The furnishing of water and sewer services for residential use shall not be considered a sale;

(g) The furnishing for a consideration of cable television services, including charges for basic monthly service, charges for monthly premium service, and charges for any other similar television services;

(h) Notwithstanding subdivision 4, and section 297A.25, subdivision 9, the sales of horses including claiming sales and fees paid for breeding a stallion to a mare. This clause applies to sales and fees with respect to a horse to be used for racing whose birth has been recorded by the Jockey Club or the United States Trotting Association or the American Quarter Horse Association;

(i) The furnishing for a consideration of parking services, whether on a contractual, hourly, or other periodic basis, except for parking at a meter;

(j) The furnishing for a consideration of services listed in this paragraph:

(i) laundry and dry cleaning services including cleaning, pressing, repairing, altering, and storing clothes, linen services and supply, cleaning and blocking hats, and carpet, drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not include services provided by coin operated facilities operated by the customer;

(ii) motor vehicle washing, waxing, and cleaning services, including services provided by coin-operated facilities operated by the customer, and rustproofing, undercoating, and towing of motor vehicles;

(iii) building and residential cleaning, maintenance, and disinfecting and exterminating services;

(iv) services provided by detective agencies, security services, burglar, fire alarm, and armored car services not including services performed within the jurisdiction they serve by off-duty licensed peace officers as defined in section 626.84, subdivision 1;

(v) pet grooming services; and

(vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting and maintenance; arborist services; tree, bush, and shrub planting, pruning, bracing, spraying, and surgery; and tree trimming for public utility lines.

The services listed in this paragraph are taxable under section 297A.02 if the

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service is performed wholly within Minnesota or if the service is performed partly within and partly without Minnesota and the greater proportion of the service is performed in Minnesota, based on the cost of performance. In applying the provisions of this chapter, the terms "tangible personal property" and "sales at retail" include taxable services and the provision of taxable services, unless specifically provided otherwise. Services performed by an employee for an employer are not taxable under this paragraph. Services performed by a ~~corporation~~, partnership, or association for another ~~corporation~~, partnership, or association are not taxable under this paragraph if one of the entities owns or controls more than 80 percent of the voting power of the equity interest in the other entity. Services performed between members of an affiliated group of corporations are not taxable. For purposes of this section, "affiliated group of corporations" includes those entities that would be classified as a member of an affiliated group under United States Code, title 26, section 1504, and who are eligible to file a consolidated tax return for federal income tax purposes;

(k) A "sale" and a "purchase" includes the transfer of computer software, meaning information and directions that dictate the function performed by data processing equipment. A "sale" and a "purchase" does not include the design, development, writing, translation, fabrication, lease, or transfer for a consideration of title or possession of a custom computer program; and

(l) The granting of membership in a club, association, or other organization if:

(1) the club, association, or other organization makes available for the use of its members sports and athletic facilities (without regard to whether a separate charge is assessed for use of the facilities); and

(2) use of the sports and athletic facilities is not made available to the general public on the same basis as it is made available to members.

Granting of membership includes both one-time initiation fees and periodic membership dues. Sports and athletic facilities include golf courses, tennis, racquetball, handball and squash courts, basketball and volleyball facilities, running tracks, exercise equipment, swimming pools, and other similar athletic or sports facilities. The provisions of this paragraph do not apply to camps or other recreation facilities owned and operated by an exempt organization under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1986, for educational and social activities for young people primarily age 18 and under. ~~The provisions of this paragraph do not apply to an association incorporated under section 315.44.~~

Sec. 2. Minnesota Statutes 1986, section 297A.15, subdivision 1, is amended to read:

Subdivision 1. Liability for the payment of the use tax is not extinguished until the tax has been paid to Minnesota. However, a receipt from a retailer maintaining a place of business in Minnesota; or from a retailer who is autho-

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ized by the commissioner under such rules as the commissioner may prescribe, to collect the tax, given to the purchaser pursuant to section 297A.16 relieves the purchaser of further liability for the tax to which the receipt refers, unless the purchaser knows or has reason to know that the retailer did not have a permit to collect the tax.

Sec. 3. Minnesota Statutes 1986, section 297A.15, subdivision 5, is amended to read:

Subd. 5. **REFUND; APPROPRIATION.** Notwithstanding the provisions of sections 297A.02, subdivision 2, and 297A.257 the tax on sales of capital equipment, and construction materials and supplies under section 297A.257, shall be imposed and collected as if the rate under section 297A.02, subdivision 1, applied. Upon application by the purchaser, on forms prescribed by the commissioner, a refund equal to the reduction in the tax due as a result of the application of the rates under section 297A.02, subdivision 2, or the exemption under section 297A.257 shall be paid to the purchaser. In the case of building materials qualifying under section 297A.257 where the tax was paid by a contractor, application must be made by the owner for the sales tax paid by all the contractors, subcontractors, and builders for the project. The application must include sufficient information to permit the commissioner to verify the sales tax paid for the project. The application shall include information necessary for the commissioner initially to verify that the purchases qualified as capital equipment under section 297A.02, subdivision 2, or capital equipment or construction materials and supplies under section 297A.257. No more than two applications for refunds may be filed under this subdivision in a calendar year. Unless otherwise specifically provided by this subdivision, the provisions of section 297A.34 apply to the refunds payable under this subdivision. There is annually appropriated to the commissioner of revenue the amount required to make the refunds.

The amount to be refunded shall bear interest at the rate in section 270.76 from the date the refund claim is filed with the commissioner.

Sec. 4. Minnesota Statutes 1986, section 297A.16, is amended to read:

297A.16 COLLECTION OF TAX AT TIME OF SALE.

~~Any corporation authorized to do business in Minnesota; any retailer as defined in who is required under section 297A.21; or any other retailer as the commissioner shall authorize pursuant to section 297A.15; or authorized by the commissioner to collect the use tax upon making retail sales of any items enumerated in this chapter not exempted under sections 297A.01 to 297A.44; to which the use tax applies shall at the time of making such sales collect the use tax from the purchaser and give to the purchaser a receipt therefor in the form of a notation on the sales slip or receipt for the sales price or in such other form as prescribed by the commissioner. Any such corporation or retailer shall not collect the tax from a purchaser who furnishes to such corporation or retailer a copy of a certificate issued by the commissioner authorizing such purchaser to~~

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pay any sales or use tax due on purchases made by such purchaser directly to the commissioner. The tax collected by such ~~corporation or~~ retailer pursuant to the provisions of this section shall be remitted to the commissioner as provided in other sections of this chapter.

~~Any corporation or any retailer required to collect the use tax and remit such tax to the commissioner pursuant to this section shall file with the commissioner an application for a permit pursuant to section 297A.04. Every such corporation or retailer shall furnish the commissioner with the name and address of all its agents operating in Minnesota and the location of each of its distribution or sales houses or offices or other places of business in this state.~~

Sec. 5. Minnesota Statutes 1986, section 297A.17, is amended to read:

297A.17 TAX TO BE COLLECTED; STATUS AS DEBT.

The use tax required to be collected by the retailer constitutes a debt owed by the retailer to Minnesota and shall be a debt from the purchaser to the retailer recoverable at law in the same manner as other debts. A retailer who does not maintain a place of business within this state shall not be indebted to Minnesota for amounts of use tax which 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 use tax.

Sec. 6. Minnesota Statutes 1986, section 297A.21, is amended to read:

297A.21 REGISTRATION; INFORMATION RELATING TO BUSINESS LOCATION TO COLLECT USE TAX.

Subdivision 1. ~~Every retailer making retail sales for storage, use or other consumption in Minnesota shall register with the commissioner and give the name and address of all agents operating in Minnesota, the location of all distribution or sales houses, offices or other places of business in Minnesota, and such other information as the commissioner may require. When, in the opinion of the commissioner, it is necessary for the efficient administration of sections 297A.14 to 297A.25 to regard any salesperson, representative, trucker, peddler, or canvasser as the agent of the dealer, distributor, supervisor, employer, or other person under whom that person operates or from whom the person obtains the tangible personal property sold, whether making sales personally or in behalf of such dealer, distributor, supervisor, employer, or other person, the commissioner may regard the salesperson, representative, trucker, peddler, or canvasser as such agent, and may regard the dealer, distributor, supervisor, employer, or other person as a retailer for the purposes of sections 297A.14 to 297A.25.~~

Subd. 2. **RETAILER MAINTAINING PLACE OF BUSINESS IN MINNESOTA.** "Retailer maintaining a place of business in this state", or any like term, shall mean any retailer having or maintaining within this state, directly or by a subsidiary, an office, distribution house, sales house, warehouse, or other place of business, or any agent operating within this state under the authority of

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the retailer or its subsidiary, whether such place of business or agent is located in the state permanently or temporarily, or whether or not such retailer or subsidiary is authorized to do business within this state.

Subd. 2. DESTINATION. The destination of a sale is the location to which the retailer makes delivery of the property sold, or causes the property to be delivered, to the purchaser of the property, or to the agent or designee of the purchaser by any means of delivery, including the United States Postal Service, a common carrier, or a contract carrier.

Subd. 3. OUT-OF-STATE RETAILER MAINTAINING PLACE OF BUSINESS IN MINNESOTA. A retailer making retail sales from outside this state to a destination within this state and maintaining a place of business in this state shall file an application for a permit pursuant to section 297A.04 and shall collect and remit the use tax as provided in section 297A.16.

Subd. 4. REQUIRED REGISTRATION BY OUT-OF-STATE RETAILER NOT MAINTAINING PLACE OF BUSINESS IN MINNESOTA. (a) A retailer making retail sales from outside this state to a destination within this state and not maintaining a place of business in this state shall file an application for a permit pursuant to section 297A.04 and shall collect and remit the use tax as provided in section 297A.16 if the retailer engages in the regular or systematic soliciting of sales from potential customers in this state by:

(1) the distribution, by mail or otherwise, without regard to the state from which such distribution originated or in which the materials were prepared, of catalogs, periodicals, advertising flyers, or other written solicitations of business to customers in this state;

(2) display of advertisements on billboards or other outdoor advertising in this state;

(3) advertisements in newspapers published in this state;

(4) advertisements in trade journals or other periodicals the circulation of which is primarily within this state;

(5) advertisements in a Minnesota edition of a national or regional publication or a limited regional edition in which this state is included of a broader regional or national publication which are not placed in other geographically defined editions of the same issue of the same publication;

(6) advertisements in regional or national publications in an edition which is not by its contents geographically targeted to Minnesota but which is sold over the counter in Minnesota or by subscription to Minnesota residents;

(7) advertisements broadcast on a radio or television station located in Minnesota; or

(8) any other solicitation by telegraphy, telephone, computer data base, cable, optic, microwave, or other communication system.

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(b) The location within or without this state of vendors independent of the retailer which provide products or services to the retailer in connection with its solicitation of customers within this state, including such products and services as creation of copy, printing, distribution, and recording, is not to be taken into account in the determination of whether the retailer is required to collect use tax. Paragraph (a) shall be construed without regard to the state from which distribution of the materials originated or in which they were prepared.

(c) A retailer not maintaining a place of business in this state shall be presumed, subject to rebuttal, to be engaged in regular solicitation within this state if it engages in any of the activities in paragraph (a) and makes 100 or more retail sales from outside this state to destinations within this state during a period of 12 consecutive months.

(d) A retailer not maintaining a place of business in this state shall not be required to collect use tax imposed by any local governmental unit or subdivision of this state and this section does not subject such a retailer to any regulation of any local unit of government or subdivision of this state.

Subd. 5. VOLUNTARY REGISTRATION BY OUT-OF-STATE RETAILER NOT MAINTAINING PLACE OF BUSINESS IN MINNESOTA. A retailer making retail sales from outside this state to a destination within this state who is not required to collect and remit use tax may nevertheless voluntarily file an application for a permit pursuant to section 297A.04. If the application is granted, the retailer shall collect and remit the use tax as provided in section 297A.16 until the permit is canceled or revoked.

Subd. 6. COMMISSIONER'S DISCRETION. (a) The commissioner may decline to issue a permit to any retailer not maintaining a place of business in this state, or may cancel a permit previously issued to the retailer, if the commissioner believes that the use tax can be collected more effectively from the persons using the property in this state. A refusal to issue or cancellation of a permit on such grounds does not affect the retailer's right to make retail sales from outside this state to destinations within this state.

(b) When, in the opinion of the commissioner, it is necessary for the efficient administration of sections 297A.14 to 297A.25 to regard a salesperson, representative, trucker, peddler, or canvasser as the agent of the dealer, distributor, supervisor, employer, or other person under whom that person operates or from whom the person obtains the tangible personal property sold, whether making sales personally or in behalf of that dealer, distributor, supervisor, employer, or other person the commissioner may regard the salesperson, representative, trucker, peddler, or canvasser as such agent, and may regard the dealer, distributor, supervisor, employer, or other person as a retailer for the purposes of sections 297A.14 to 297A.25.

Sec. 7. Minnesota Statutes 1987 Supplement, section 297A.212, is amended to read:

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297A.212 RAILROAD ROLLING STOCK.

Railroad rolling stock used by a railroad operating in this state that is licensed as a common carrier by the Interstate Commerce Commission and used to transport persons or property in interstate or foreign commerce is subject to taxation under this chapter only to the extent provided in this section. The tax must be computed using the ratio of intrastate mileage to interstate or foreign mileage traveled by the carrier during the previous fiscal year of the carrier revenue ton miles of passengers, mail, express, and freight carried by the railroad within this state to the total number of revenue ton miles carried by the railroad within and without this state. This ratio must be determined at the close of the carrier's previous fiscal year. This ratio must be applied each month to the ~~purchase price~~ total amount of purchases of ~~total purchases~~ of rolling stock ~~that are used in~~ within and without this state by the railroad to establish that portion of the total used and consumed in intrastate movement and subject to tax under this chapter. "Railroad rolling stock" means all portable or moving apparatus and machinery of a railroad company and includes engines, cars, tenders, coaches, sleeping cars, and parts necessary for the repair and maintenance of the rolling stock.

Sec. 8. Minnesota Statutes 1987 Supplement, section 297A.25, subdivision 3, is amended to read:

Subd. 3. **MEDICINES; MEDICAL DEVICES.** The gross receipts from the sale of prescribed drugs, prescribed medicine and insulin, intended for use, internal or external, in the cure, mitigation, treatment or prevention of illness or disease in human beings are exempt, together with prescription glasses, therapeutic, and prosthetic devices. "Prescribed drugs" or "prescribed medicine" includes over-the-counter drugs or medicine prescribed by a licensed physician. Nonprescription analgesics consisting principally (determined by the weight of all ingredients) of acetaminophen, acetylsalicylic acid, ibuprofen, or a combination thereof are exempt.

Sec. 9. Minnesota Statutes 1986, section 297A.25, subdivision 5, is amended to read:

Subd. 5. **OUTSTATE TRANSPORT OR DELIVERY.** The gross receipts from the following sales of tangible personal property are exempt:

(1) property which, without intermediate use, is shipped or transported outside Minnesota by the purchaser and thereafter used in a trade or business or is stored, processed, fabricated or manufactured into, attached to or incorporated into other tangible personal property transported or shipped outside Minnesota and thereafter used in a trade or business outside Minnesota, and which is not thereafter returned to a point within Minnesota, except in the course of interstate commerce (storage shall not constitute intermediate use); provided that the property is not subject to tax in that state or country to which it is transported for storage or use; ~~or, if subject to tax in that other state, that state allows a similar exemption for property purchased therein and transported to Minnesota for use in this state; except that sales of tangible personal property that is shipped or transported for use outside Minnesota shall be taxed at the~~

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rate of the use tax imposed by the state to which the property is shipped or transported, unless that state has no use tax, in which case the sale shall be taxed at the rate generally imposed by this state; and provided further that sales of tangible personal property to be used in other states or countries as part of a maintenance contract shall be specifically exempt; or

(2) property which the seller delivers to a common carrier for delivery outside Minnesota, places in the United States mail or parcel post directed to the purchaser outside Minnesota, or delivers to the purchaser outside Minnesota by means of the seller's own delivery vehicles, and which is not thereafter returned to a point within Minnesota, except in the course of interstate commerce.

Sec. 10. Minnesota Statutes 1987 Supplement, section 297A.25, subdivision 11, is amended to read:

Subd. 11. **SALES TO GOVERNMENT.** The gross receipts from all sales, including sales in which title is retained by a seller or a vendor or is assigned to a third party under an installment sale or lease purchase agreement under section 465.71, of tangible personal property to, and all storage, use or consumption of such property by, the United States and its agencies and instrumentalities, the University of Minnesota, state universities, community colleges, technical institutes, state academies, and political subdivisions of the state are exempt. Sales exempted by this subdivision include sales under section 297A.01, subdivision 3, clause (f). This exemption shall not apply to building, construction or reconstruction materials purchased by a contractor or a subcontractor as a part of a lump-sum contract or similar type of contract with a guaranteed maximum price covering both labor and materials for use in the construction, alteration or repair of a building or facility. This exemption does not apply to construction materials purchased by tax exempt entities or their contractors to be used in constructing buildings or facilities which will not be used principally by the tax exempt entities.

Sec. 11. Minnesota Statutes 1986, section 297A.25, is amended by adding a subdivision to read:

Subd. 37. YMCA AND YWCA MEMBERSHIPS. The gross receipts from the sale of memberships, including both one-time initiation fees and periodic membership dues, to an association incorporated under section 315.44 are exempt. However, all separate charges made for the privilege of having access to and the use of the association's sports and athletic facilities are taxable.

Sec. 12. Minnesota Statutes 1986, section 297A.25, is amended by adding a subdivision to read:

Subd. 38. USED MOTOR OILS. The gross receipts from the sale of used motor oils are exempt.

Sec. 13. Minnesota Statutes 1986, section 297A.25, is amended by adding a subdivision to read:

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Subd. 39. CROSS COUNTRY SKI PASSES. The gross receipts from the sale of cross country ski passes issued under sections 85.40 to 85.43 are exempt.

Sec. 14. Minnesota Statutes 1986, section 297A.25, is amended by adding a subdivision to read:

Subd. 40. STATE FAIR ADMISSIONS. The gross receipts from the sale 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 are exempt, provided that:

(1) the tax foregone under this subdivision is used exclusively for the purpose of making capital improvements to state-owned buildings and facilities on the state fairgrounds; and

(2) the tax foregone under this subdivision is matched in equal amount by proceeds from special assessments levied against commercial exhibits, concessions and rentals, and from other special user fees specifically designated for capital improvements.

Sec. 15. Minnesota Statutes 1986, section 297A.25, is amended by adding a subdivision to read:

Subd. 41. BULLET-PROOF VESTS. The gross receipts from the sale of bullet-resistant soft body armor that is flexible, concealable, and custom-fitted to provide the wearer with ballistic and trauma protection are exempt if purchased by a licensed peace officer, as defined in section 626.84, subdivision 1. The bullet-resistant soft body armor must meet or exceed the requirements of standard 0101.01 of the National Institute of Law Enforcement and Criminal Justice in effect on December 30, 1986, or meet or exceed the requirements of the standard except wet armor conditioning.

Sec. 16. Minnesota Statutes 1986, section 297A.256, is amended to read:

297A.256 EXEMPTIONS FOR CERTAIN NONPROFIT GROUPS.

Notwithstanding the provisions of this chapter, the following sales made by a "nonprofit organization" are exempt from the sales and use tax.

(a) (1) All sales made by an organization for fundraising purposes if that organization exists solely for the purpose of providing educational or social activities for young people primarily age 18 and under. This exemption shall apply only if the gross annual sales receipts of the organization from fundraising do not exceed \$10,000.

(2) A club, association, or other organization of elementary or secondary school students organized for the purpose of carrying on sports, educational, or other extracurricular activities is a separate organization from the school district or school for purposes of applying the \$10,000 limit. This paragraph does not apply if the sales are derived from admission charges or from activities for which the money must be deposited with the school district treasurer under section 123.38, subdivision 2 or be recorded in the same manner as other

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revenues or expenditures of the school district under section 123.38, subdivision 2b.

(b) All sales made by an organization for fundraising purposes if that organization is a senior citizen group which qualifies for exemption on its purchases pursuant to section 297A.25, subdivision 16. This exemption shall apply only if the gross annual sales receipts of the organization from fundraising do not exceed \$10,000.

(c) The gross receipts from the sales of tangible personal property at, admission charges for, and sales of food, meals, or drinks at fundraising events sponsored by a nonprofit organization when the entire proceeds, except for the necessary expenses therewith, will be used solely and exclusively for charitable, religious, or educational purposes. This exemption 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. For purposes of this clause, a "nonprofit organization" means any unit of government, corporation, society, association, foundation, or institution organized and operated for charitable, religious, educational, civic, fraternal, senior citizens' or veterans' purposes, no part of the net earnings of which inures to the benefit of a private individual.

If the profits are not used solely and exclusively for charitable, religious, or educational purposes, the entire gross receipts are subject to tax.

Each nonprofit organization shall keep a separate accounting record, including receipts and disbursements from each fundraising event. All deductions from gross receipts must be documented with receipts and other records. If records are not maintained as required, the entire gross receipts are subject to tax.

The exemption provided by this section 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.

The exemption for fundraising events under this section is limited to no more than 24 days a year. Fundraising events conducted on premises leased or occupied for more than four days but less than 30 days do not qualify for this exemption.

Sec. 17. Minnesota Statutes 1986, section 297A.35, subdivision 1, is amended to read:

Subdivision 1. A person who has, pursuant to the provisions of this chapter, paid to the commissioner an amount of tax for any period in excess of the amount legally due for that period, may file with the commissioner a claim for a refund of such excess subject to the conditions specified in subdivision 5. Except as provided in subdivision 4 no such claim shall be entertained unless filed within two years after such tax was paid, or within three years from the

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filing of the return, whichever period is the longer. The commissioner shall examine the claim and make and file written findings thereon denying or allowing the claim in whole or in part and shall mail a notice thereof to such person at the address stated upon the claim. Any allowance shall include interest on the excess determined at a rate specified in section 270.76 from the date such excess was paid or collected until the date it is refunded or credited, unless otherwise specified in this chapter. If such claim is allowed in whole or in part, the commissioner shall credit the amount of the allowance against any taxes under sections 297A.01 to 297A.44 due from the claimant and for the balance of said allowance, if any, the commissioner shall issue a certificate for the refundment of the excess paid, and the commissioner of finance shall cause such refund to be paid out of the proceeds of the taxes imposed by sections 297A.01 to 297A.44, as other state moneys are expended. So much of the proceeds of such taxes as may be necessary are hereby appropriated for that purpose.

Sec. 18. Minnesota Statutes 1987 Supplement, 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.25, subdivision 18.

(2) Purchase or use of any motor vehicle by any person who was a resident of another state 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.

(3) Purchase or use of any motor vehicle by any person making a valid election to be taxed under the provisions of section 297A.211.

(4) Purchase or use of any motor vehicle previously registered in the state of Minnesota by any corporation or partnership when such transfer constitutes a transfer within the meaning of section 351 or 721 of the Internal Revenue Code of 1954, as amended through December 31, 1974.

(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 or motor vehicle excise tax on motor vehicles used in interstate commerce.

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(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.

Sec. 19. Minnesota Statutes 1986, section 329.11, is amended to read:

329.11 LICENSE; APPLICATION, ISSUANCE, FEE; BOND; AGENT FOR SERVICE OF PROCESS.

Any transient merchant desiring to engage in, do, or transact business by auction or otherwise, in any county in this state shall file an application for a license for that purpose with the auditor of the county in which the desired business is to be conducted, which application shall state the name of the applicant, the proposed place of business, the kind of business proposed to be conducted, and the length of time desired to do business. Such transient merchant shall pay to the treasurer of such county a license fee of \$150, ~~any personal property taxes payable by the merchant pursuant to Minnesota Statutes 1949, Sections 288.01 to 288.03,~~ and shall give bond to the county in an amount to be determined by the county treasurer, which shall be not less than \$1,000 nor more than \$3,000 ~~which.~~ The bond shall be approved by the treasurer and be conditioned that the merchant will in all things conform to the laws relating to transient merchants and further conditioned on full compliance with all material oral or written statements and representations made by the seller, the seller's agents, representatives, or auctioneers with reference to merchandise sold or offered for sale and on faithful performance under all warranties made with reference thereto. The treasurer of such county shall issue to such person receipts therefor, and such transient merchant shall thereupon file such receipts with the auditor of such county, who shall thereupon issue to such transient merchant a license to do business as such at the place described in the application; and the kind of business to be done shall be described therein. No license shall be good for more than one person unless such person shall be a member of a copartnership, nor for more than one place, and shall not be good outside of the county in which it was issued. Such license shall be good for a period of one year from the date of its issuance. The auditor shall keep a record of such licenses in a book provided for that purpose, which shall at all times be open for public inspection. No license shall be issued unless the merchant produces evidence that the merchant is the holder of a valid seller's permit issued under section 297A.04, or a written statement from the merchant that the merchant is not offering for sale any item that is taxable under chapter 297A.

The application shall further contain the applicant's residence and business address for the prior two year period; the type of business engaged in during the previous two years; and the name and address of the auctioneer who will conduct the sale. No such sale shall be conducted in the name of any person other than the bona fide owner of the merchandise.

The applicant shall attach to the application an itemized list of merchandise to be offered for sale reciting as to each item a description thereof including

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serial number if any, the owner's actual cost thereof, and a designation by number corresponding with a number to be affixed to each item by a tag which shall be kept fastened to the item at all times until sold.

Prior to the issuance of the license and approval of bond, the applicant shall in writing appoint the county auditor as the applicant's agent to accept service of process in any action commenced against the applicant arising out of the sale for which the license is sought. Such action shall be brought in the county where the sale was held.

Sec. 20. REPEALER.

Minnesota Statutes 1986, section 297A.15, subdivision 2, is repealed.

Sec. 21. TODD COUNTY.

For purposes of the designation of distressed counties under Minnesota Statutes, section 297A.257, the city of Staples is deemed to be located entirely in Todd county.

Sec. 22. EFFECTIVE DATE.

Section 1, paragraph (c), is effective for all meals furnished on or after October 15, 1987, except the provisions relating to meals furnished to inmates or residents of correctional, detention, and detoxification facilities are effective for sales made after June 30, 1988. Sections 1, paragraphs (j) and (l), 8, 10 to 13, 15, 16 and 18 are effective for retail sales made after June 30, 1988, except as otherwise provided. Sections 2, and 4 to 6 and 20 are effective June 1, 1988. Section 19 is effective July 1, 1988. Sections 3 and 17 are effective for all refund claims filed after June 30, 1988. Section 7 and the provisions of section 10 exempting utility services purchased by governmental units and all purchases by the University of Minnesota hospitals are effective for all sales made after May 31, 1987, but do not apply to sales of tangible personal property made pursuant to bona fide written contracts that were enforceable before June 1, 1987, and delivery is made on or before December 31, 1987. Section 9 is effective for all sales made after June 30, 1988, but does not apply to sales of tangible personal property made pursuant to bona fide written contracts that were enforceable before July 1, 1988, and delivery is made on or before December 31, 1988. Section 14 is effective for sales made after December 31, 1988. Section 21 is effective beginning with the designation of distressed counties in calendar year 1987.

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ARTICLE 11

CIGARETTE AND LIQUOR TAXES

Section 1. Minnesota Statutes 1987 Supplement, section 297.01, subdivision 7, is amended to read:

Subd. 7. "Distributor" means any and each of the following:

(1) any person engaged in the business of selling cigarettes in this state and who manufactures or who brings, or causes to be brought, into this state from without the state any packages of cigarettes for sale to subjobbers or retailers;

(2) ~~any person who makes, manufactures, or fabricates cigarettes in this state for sale in this state;~~

(3) any person engaged in the business without this state who ships or transports cigarettes to retailers in this state, to be sold by those retailers;

(4) (3) any person who is on direct purchase from a cigarette manufacturer and applies cigarette stamps or indicia on at least 50 percent of cigarettes sold by that person.

A distributor who also sells at retail must maintain a separate inventory, substantiated with invoices for cigarettes that were acquired for retail sale.

A distributor may transfer another state's stamped cigarettes to another distributor for the purpose of resale in the other state.

Sec. 2. Minnesota Statutes 1987 Supplement, section 297.01, subdivision 14, is amended to read:

Subd. 14. "Subjobber" means any person who acquires stamped cigarettes or other state's stamped cigarettes for the primary purpose of resale to retailers, and any licensed distributor who delivers to and sells or distributes stamped cigarettes from a place of business other than that licensed in the distributor's license. The definition of subjobber does not include the occasional sale of stamped cigarettes from one retailer to another. Notwithstanding the foregoing, "subjobber" shall also mean any person who is a vending machine operator. A vending machine operator is any person whose principal business is operating, or owning and leasing to operators, machines for the vending of merchandise or service.

For the purpose of this section, any subjobber that sells at retail must maintain a separate inventory, substantiated with invoices, that reflect the cigarettes were acquired for retail sale.

Sec. 3. Minnesota Statutes 1986, section 297.01, is amended by adding a subdivision to read:

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Subd. 15. "Prior continuous compliance taxpayer" means a person who is licensed under section 297.04 and who, having been a licensee for a continuous period of five years, the commissioner determines has not been either delinquent or deficient in the payment of tax liability during that period or otherwise in violation of this chapter. Any taxpayer who has, as verified by the commissioner, continuously complied with the condition of a bond or other security under provisions of this chapter for a period of five consecutive years is considered a "prior continuous compliance taxpayer." A continuous period of time of qualifying compliance immediately prior to August 1, 1988, is credited to any licensee who became licensed on or before that date.

Sec. 4. Minnesota Statutes 1986, section 297.03, is amended by adding a subdivision to read:

Subd. 5a. REVOLVING ACCOUNT. A heat applied cigarette tax stamp revolving account is created. The commissioner shall use the amounts in this fund to purchase heat applied stamps for resale. The commissioner shall charge the purchasers for the costs of the stamps along with the tax value plus shipping costs. The costs recovered along with shipping costs must be deposited into this revolving account and are available to the commissioner for further purchases and shipping costs. The revolving account must be funded by reducing the stamping discounts allowed in subdivision 5 for the first three months of fiscal year 1989. The stamping discounts are 0.75 percent of the face amount of any stamps purchased in the first three months for the first \$1,500,000 of the stamps and 0.50 percent on the remainder of the stamps purchased.

At the end of each of the first three months of fiscal year 1989, the commissioner shall notify the commissioner of finance of the amount of reduced stamping discounts that have accrued to the tobacco tax revenue fund. The commissioner of finance shall then transfer the amounts to the heat applied cigarette tax stamp revolving account from the tobacco tax revenue fund.

Sec. 5. Minnesota Statutes 1987 Supplement, section 297.03, subdivision 6, is amended to read:

Subd. 6. TAX METER MACHINES. (+) (a) Before January 1, 1990, the commissioner may authorize any person licensed as a distributor to stamp packages with a tax meter machine, approved by the commissioner, which shall be provided by the distributor. The commissioner may provide for the use of such a machine by the distributor, supervise and check its operation, provide for the payment of the tax on any package so stamped, subject to the discount provided in subdivision 5; ~~and in that connection.~~ Except as provided in paragraph (d), the commissioner may require the furnishing of a corporate surety bond, check guarantee bond, or certified check in a suitable amount to guarantee the payment of the tax.

(-2) (b) Before January 1, 1990, the commissioner may authorize, and after December 31, 1989, the commissioner shall require any person licensed as a distributor whose stamp meter machine is no longer operational to stamp pack-

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ages with a heat-applied tax stamping machine, approved by the commissioner, which shall be provided by the distributor. The commissioner shall supervise and check the operation of the machines and shall provide for the payment of the tax on any package so stamped, subject to the discount provided in subdivision 5. The commissioner may sell heat-applied stamps on a credit basis under conditions prescribed by the commissioner, ~~and in that connection.~~ Except as provided in paragraph (d), the commissioner may require the furnishing of a corporate surety bond, check guarantee bond, or certified check in an amount suitable to guarantee payment of the tax stamps so purchased by a distributor. The stamps shall be sold by the commissioner at a price which includes the tax after giving effect to the discount provided in subdivision 5. The commissioner shall recover the actual costs of the stamps from the distributor.

(3) (c) If the commissioner finds that a stamping machine is not printing or affixing a legible stamp on the package, the commissioner may order the distributor to immediately cease the stamping process until the machine is functioning properly.

(d) Every prior continuous compliance taxpayer is exempt from all requirements under this chapter concerning the furnishing of a bond. This exemption continues for the taxpayer until the commissioner determines that the taxpayer (1) is delinquent in the filing of any return, or (2) is delinquent or deficient in the payment of any uncontested tax liability under this chapter. At that time that taxpayer is subject to the bond requirements of this chapter and, as a condition of being allowed to continue to engage in the business licensed under this chapter, is required to furnish bond to the commissioner as provided in this chapter. The taxpayer shall furnish the bond for a period of two years, after which, if the taxpayer has not been delinquent in the filing of any returns, or delinquent or deficient in the paying of any tax under this chapter, the commissioner may reinstate the person as a prior continuous compliance taxpayer. A taxpayer who fails to pay an uncontested tax liability under this chapter may be required to post bond or other acceptable security with the commissioner guaranteeing the payment of the uncontested tax liability. The commissioner shall annually establish the maximum amount of heat applied stamps or meter units that may be purchased each month. Notwithstanding any other provisions of this chapter, the tax due on the return will be based upon actual heat applied stamps or meter units purchased during the reporting period.

Sec. 6. Minnesota Statutes 1986, section 297.03, subdivision 12, is amended to read:

Subd. 12. **SETTING OF TAX METERS.** The commissioner may designate the county treasurer of any county or any banking institution as defined by section 48.01, or any banking institution as defined by any states' statutes as the representative of the commissioner in the setting of a tax meter machine of any particular distributor and the collection of the cigarette tax upon such setting. The county treasurer or banking institution so designated shall be required to set tax meter machines following the method prescribed by the commissioner of

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revenue and to transmit the amount of tax collected and to report the setting of each tax meter to the commissioner on or before the next business day. For purposes of this paragraph, a business day shall not include Saturday. Such duties shall be within the coverage of the official bond of the county treasurer. The commissioner shall prescribe the form and amount of a surety bond which shall be furnished by a banking institution designated pursuant to this subdivision. The commissioner shall have the right to withdraw this designation without cause.

Sec. 7. Minnesota Statutes 1986, section 297.041, subdivision 1, is amended to read:

Subdivision 1. **WHOLESALEERS.** Any wholesaler who furnishes a surety bond in a sum satisfactory to the commissioner shall be permitted to set aside, without affixing the stamps required by this chapter, that part of the wholesaler's stock necessary for the conduct of business in making sales to the established governing body of any Indian tribe recognized by the United States Department of Interior. The unstamped stock shall be kept separate and apart from stamped stock. Every wholesaler shall, at the time of shipping or delivering any of the unstamped stock to an Indian tribal organization, make a true duplicate invoice which shall show the complete details of the sale or delivery and shall transmit the duplicate to the commissioner not later than the fifteenth 18th day of the following calendar month. Failure to comply with the requirements of this section shall cause the commissioner to revoke the permission granted to the wholesaler to maintain a stock of goods which may be unstamped. ~~The commissioner may also revoke this permission to maintain a stock of unstamped goods for sale to a specific Indian tribal organization when it appears that sales of unstamped cigarettes to persons who are not enrolled members of a recognized Indian tribe are taking place, or have taken place, within the exterior boundaries of the reservation occupied by that tribe.~~

Sec. 8. Minnesota Statutes 1986, section 297.06, subdivision 1, is amended to read:

Subdivision 1. **DISTRIBUTOR TO KEEP RECORDS.** Every distributor shall keep at each licensed place of business complete and accurate records, for that place of business, including itemized invoices, of cigarettes held, purchased, manufactured, or brought in or caused to be brought in from without the state, and of all sales of cigarettes made, except sales to the ultimate consumer. These records shall show the names and addresses of purchasers, the inventory at the close of each period for which a return is required of all cigarettes on hand, and of all stamps, affixed and unaffixed, and other pertinent papers and documents relating to the purchase, sale, or disposition of cigarettes. When a licensed distributor sells cigarettes exclusively to the ultimate consumer at the address given in the license, no invoice of those sales shall be required, but itemized invoices shall be made of all cigarettes transferred to other retail outlets owned or controlled by that licensed distributor. All books, records, and other papers and documents required by sections 297.01 to 297.13 to be kept shall be pre-

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served for a period of at least ~~one year~~ three years after the date of the documents, as aforesaid, or the date of the entries thereof appearing in the records, unless the commissioner, in writing, authorizes their destruction or disposal at an earlier date. At any time during usual business hours the commissioner, or duly authorized agents or employees, may enter any place of business of a distributor, without a search warrant, and inspect the premises, the records required to be kept under sections 297.01 to 297.13, and the packages of cigarettes and the vending devices contained therein, to determine whether or not all the provisions of these sections are being fully complied with. If the commissioner, or any such agent or employee, is denied free access or is hindered or interfered with in making such examination, the license of the distributor at such premises shall be subject to revocation by the commissioner.

Sec. 9. Minnesota Statutes 1986, section 297.06, subdivision 2, is amended to read:

Subd. 2. **DISTRIBUTOR TO PRESERVE COPIES OF INVOICES.** Every person who sells cigarettes to persons other than the ultimate consumer shall render with each sale itemized invoices showing the seller's name and address, the purchaser's name and address, the date of sale, and all prices ~~and discounts~~ and shall preserve legible copies of all such invoices for ~~one year~~ three years from the date of sale.

Sec. 10. Minnesota Statutes 1986, section 297.06, subdivision 3, is amended to read:

Subd. 3. **RETAILER AND SUBJOBBER TO PRESERVE PURCHASE INVOICES.** Every retailer and subjobber shall procure itemized invoices of all cigarettes purchased. The invoices shall show the name and address of the seller and the date of purchase. The retailer and subjobber shall preserve a legible copy of each such invoice for one year from the date of purchase. ~~Invoices shall be available for inspection by the commissioner or authorized agents or employees at the retailer's or subjobber's place of business.~~

At any time during normal business hours, the commissioner or the commissioner's agents may enter any place of business of a retailer or subjobber and inspect the premises, the records required to be kept for this subdivision, and the packages of cigarettes, tobacco products, and vending devices contained on the premises to determine whether all provisions of chapter 297 and sections 325D.30 to 325D.40 are being fully complied with.

Sec. 11. Minnesota Statutes 1986, section 297.06, is amended by adding a subdivision to read:

Subd. 4. **PHYSICAL INVENTORY.** The commissioner of revenue or the commissioner's authorized agents may, upon request but not more than twice annually, require a cigarette or tobacco distributor to furnish a physical inventory of all cigarettes in stock. The inventory must contain the information that the commissioner requests and must be certified by an officer of the corporation.

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Sec. 12. Minnesota Statutes 1986, section 297.08, subdivision 1, is amended to read:

Subdivision 1. **CONTRABAND DEFINED.** The following are declared to be contraband:

(1) All packages which do not have stamps affixed to them as provided in sections 297.01 to 297.13 and all devices for the vending of cigarettes in which such unstamped packages are found, including all contents contained within the devices.

(2) Any device for the vending of cigarettes and all packages of cigarettes contained therein, where the device does not afford at least partial visibility of contents. Where any package exposed to view does not carry the stamp or imprint required by sections 297.01 to 297.13, it shall be presumed that all packages contained in the device are unstamped and contraband.

(3) Any device for the vending of cigarettes to which the commissioner or authorized agents have been denied access for the inspection of contents. In lieu of seizure, the commissioner or an agent may seal the device to prevent its use until inspection of contents is permitted.

(4) Any device for the vending of cigarettes which does not carry the name and address of the owner, plainly marked and visible from the front of the machine.

(5) Any device including, but not limited to, motor vehicles, trailers, snowmobiles, airplanes and boats used with the knowledge of the owner or of a person operating with the consent of the owner for the storage or transportation of more than 5,000 cigarettes which are contraband under this subdivision. When cigarettes are being transported in the course of interstate commerce, or are in movement from either a public warehouse to a distributor upon orders from a manufacturer or distributor, or from one distributor to another, the cigarettes are not contraband, notwithstanding the provisions of clause (1).

Sec. 13. Minnesota Statutes 1987 Supplement, section 297.11, subdivision 5, is amended to read:

Subd. 5. **TRANSPORTING UNSTAMPED PACKAGES.** No person shall transport into, or receive, carry, or move from place to place in this state, any packages of cigarettes not stamped in accordance with the provisions of this act except in the course of interstate commerce, unless the cigarettes are moving from a public warehouse to a distributor upon orders from the manufacturer or distributor. This subdivision shall not apply to a person carrying for personal use not more than 200 cigarettes when those cigarettes have had the individual packages or seals thereof broken and are intended for personal use by that person and not to be sold or offered for sale.

Common carriers and contract carriers transporting cigarettes into this state

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shall file with the commissioner reports of all such shipments other than those which are delivered to public warehouses of first destination in this state which are licensed under the provisions of chapter 231. Such reports shall be filed monthly on or before the 10th day of each month and shall show with respect to deliveries made in the preceding month: the date, point of origin, point of delivery, name of consignee, the quantity of cigarettes delivered and such other information as the commissioner may require.

All common carriers and contract carriers transporting cigarettes into Minnesota shall permit examination by the commissioner of their records relating to the shipment of cigarettes.

Any person who fails or refuses to transmit to the commissioner the required reports or whoever refuses to permit the examination of the records by the commissioner shall be guilty of a gross misdemeanor.

Sec. 14. Minnesota Statutes 1986, section 297.12, subdivision 1, is amended to read:

Subdivision 1. **FELONY.** (a) Any person violating section 297.11, subdivision 1, shall be guilty of a felony.

(b) Any person violating section 297.11, subdivisions 2 or 5 by possessing, receiving, or transporting more than 20,000 cigarettes not stamped in accordance with the provisions of sections 297.01 to 297.13 shall be guilty of a felony.

(c) A person selling cigarettes after the person's license has been revoked is guilty of a felony.

Sec. 15. Minnesota Statutes 1986, section 297.35, is amended by adding a subdivision to read:

Subd. 10. A manufacturer of tobacco products as defined by section 297.31, shall report on a form prescribed by the commissioner all sales of tobacco products to Minnesota-licensed distributors, subjobbers, retailers, or to any locations within the state. The report is due on the 18th of the month following the reporting period.

Anyone violating this section is guilty of a gross misdemeanor.

Sec. 16. [297.44] **TIME LIMITATIONS.**

Subdivision 1. TIME FOR ASSESSMENT; NOTICE. Except as otherwise provided in this chapter, the amount of taxes assessable with respect to a taxable period must be assessed within three years after the return for the period is filed. The taxes are considered assessed within the meaning of this section when the commissioner has prepared a notice of tax assessment and mailed it to the person required to file a return to the post office address given in the return. The record of the mailing is presumptive evidence of the giving of the notice, and the records must be preserved by the commissioner.

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Subd. 2. OMISSION OVER 25 PERCENT. If the person required to file the return omits from the return a dollar amount properly includable in it that is in excess of 25 percent of the dollar amount reported in the return, the tax may be assessed, or a proceeding in court for the collection of such tax may be begun, at any time within five years after the return was filed.

Subd. 3. DATE OF FILING. For purposes of this section and section 297.36, a return filed before the last day prescribed by law for its filing is considered filed on the last day.

Subd. 4. FRAUD; FAILURE TO FILE. In the case of a false or fraudulent return with intent to evade tax or failure with the same intent to file a return, the tax may be assessed at any time, and a proceeding in court for the collection of the tax must be begun within five years after the assessment.

Subd. 5. COLLECTION. Where the assessment of any tax is made within the period of limitation properly applicable to it, the tax may be collected by a proceeding in court, but only if begun within five years after the date of assessment.

Subd. 6. SUSPENSION OF TIME; BANKRUPTCY PROCEEDINGS. The time during which a tax must be assessed or collection proceedings commenced under this chapter is suspended during the period from the date of a filing of a petition in bankruptcy until 30 days after notice to the commissioner of revenue that the bankruptcy proceedings have been closed or dismissed, or that the automatic stay has been terminated or has expired.

The suspension of the statute of limitations under this subdivision applies to the person against whom the petition in bankruptcy is filed, and to all other persons who may be wholly or partially liable for the tax under this chapter.

Sec. 17. Minnesota Statutes 1986, section 297C.02, subdivision 3, is amended to read:

Subd. 3. TAX CREDIT. A qualified brewer producing fermented malt beverages is entitled to a tax credit of \$4 \$4.60 per barrel on 25,000 barrels sold in any fiscal year beginning July 1, regardless of the alcohol content of the product. Qualified brewers may take the credit on the ~~15th~~ 18th day of each month, but the total credit allowed may not exceed in any fiscal year the lesser of (a) the liability for tax or (b) ~~\$100,000~~ \$115,000.

For purposes of this subdivision, a "qualified brewer" means a brewer, whether or not located in this state, manufacturing less than 100,000 barrels of fermented malt beverages in the calendar year immediately preceding the calendar year for which the credit under this subdivision is claimed. In determining the number of barrels, all brands or labels of a brewer must be combined. All facilities for the manufacture of fermented malt beverages owned or controlled by the same person, corporation, or other entity must be treated as a single brewer.

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Sec. 18. Minnesota Statutes 1986, section 297C.02, subdivision 4, is amended to read:

Subd. 4. **BOTTLE TAX.** A tax of one cent is imposed on each bottle or container of distilled spirits and wine. The wholesaler is responsible for the payment of this tax when the bottles of distilled spirits and wine are removed from inventory for sale, delivery, or shipment.

The following are exempt from the tax:

- (1) miniatures of distilled spirits and wines;
- (2) containers of fermented malt beverage;
- (3) containers of intoxicating liquor or wine holding less than 200 milliliters;
- (4) containers of wine intended exclusively for sacramental purposes;
- (5) containers of alcoholic beverages sold to qualified, approved military clubs;
- (6) containers of alcoholic beverages sold to common carriers engaged in interstate commerce;
- (7) containers of alcoholic beverages sold to authorized food processors or pharmaceutical firms for use exclusively in the manufacturing of food products or medicines;
- (8) containers of alcoholic beverages sold and shipped to dealers, wineries, or distillers in other states; and
- (9) containers of alcoholic beverages sold to other Minnesota wholesalers.

Sec. 19. Minnesota Statutes 1986, section 297C.03, is amended by adding a subdivision to read:

Subd. 6. INFORMATIONAL RETURNS. Manufacturers, wholesalers, and importers licensed to ship distilled spirits or wine into Minnesota shall file with the commissioner a monthly informational report on a form prescribed by the commissioner. No payment of any tax is required to be remitted with this report. The report must be filed on or before the tenth day following the end of each calendar month, regardless of whether or not any shipments were made into Minnesota during the previous month. A person failing to file this monthly report is subject to the provisions of section 297C.14, subdivision 8.

Sec. 20. Minnesota Statutes 1987 Supplement, section 297C.04, is amended to read:

297C.04 PAYMENT OF TAX; MALT LIQUOR.

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The commissioner may by rule provide a reporting method for paying and collecting the excise tax on fermented malt beverages. The tax is imposed upon the first sale or importation made in this state by a licensed brewer or importer. The rules must require reports to be filed with and the excise tax to be paid to the commissioner on or before the 18th day of the month following the month in which the importation into or the first sale is made in this state, whichever first occurs. The rules must also require payments in June of 1987 and subsequent years according to the provisions of section 297C.05, subdivision 2.

A distributor who has title to or possession of fermented malt beverages upon which the excise tax has not been paid and who knows that the tax has not been paid, shall file a return with the commissioner on or before the 18th day of the month following the month in which the distributor obtains title or possession of the fermented malt beverages. The return must be made on a form furnished and prescribed by the commissioner, and must contain all information that the commissioner requires. The return must be accompanied by a remittance for the full unpaid liability shown on it.

Sec. 21. Minnesota Statutes 1986, section 297C.07, is amended to read:

297C.07 EXCEPTIONS.

The following are not subject to the excise tax:

(1) Sales by a manufacturer, brewer, or wholesaler for shipment outside the state in interstate commerce.

(2) Sales of wine for sacramental purposes under section 340A.316.

(3) Fruit juices naturally fermented or beer naturally brewed in the home for family use.

(4) Malt beverages served by a brewery for on-premise consumption at no charge, or distributed to brewery employees for on-premise consumption under a labor contract.

(5) Alcoholic beverages sold to authorized manufacturers of food products or pharmaceutical firms. The alcoholic beverage must be used exclusively in the manufacture of food products or medicines. For purposes of this part, "manufacturer" means a manufacturer of food products intended for sale to wholesalers or retailers for ultimate sale to the consumer.

(6) Sales to common carriers engaged in interstate transportation of passengers and qualified approved military clubs, except as provided in section 297C.17.

(7) Alcoholic beverages sold or transferred between Minnesota wholesalers.

(8) Sales to a federal agency, that the state of Minnesota is prohibited from taxing under the constitution or laws of the United States or under the constitution of Minnesota.

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Sec. 22. [297C.17] COMMON CARRIERS.

Common carriers engaged in interstate transportation of passengers must file monthly reports together with the tax payment on the sale of alcoholic beverages sold within the state of Minnesota. The report and payment must be filed by the 18th day of the month following the month in which the sale took place. A common carrier is permitted to use a formula for the allocation of the total sales of alcoholic beverages among states on the basis of passenger miles in each state or some other method of allocation if written approval is received from the commissioner.

Sec. 23. REPEALER.

Minnesota Statutes 1986, section 297C.03, subdivision 5, is repealed.

Sec. 24. EFFECTIVE DATE.

This article is effective July 1, 1988, except section 17 is effective for barrels sold after June 1, 1987, and sections 3 and 5 are effective January 1, 1989.

ARTICLE 12**TAX INCREMENT FINANCING**

Section 1. Minnesota Statutes 1987 Supplement, section 469.174, subdivision 2, is amended to read:

Subd. 2. **AUTHORITY.** "Authority" means a rural development financing authority created pursuant to sections 469.142 to 469.150; a housing and redevelopment authority created pursuant to sections 469.001 to 469.047; a port authority created pursuant to sections 469.048 to 469.068; an economic development authority created pursuant to sections 469.090 to 469.108; a redevelopment agency as defined in sections 469.152 to 469.165; a municipality that is administering a development district created pursuant to sections 469.124 to 469.134 or any special law; a municipality that undertakes a project pursuant to sections 469.152 to 469.165, except a town located outside the metropolitan area or with a population of 5,000 persons or less; or a municipality that exercises the powers of a port authority pursuant to any general or special law.

Sec. 2. Minnesota Statutes 1987 Supplement, section 469.174, subdivision 7, is amended to read:

Subd. 7. **ORIGINAL ASSESSED VALUE.** (a) Except as provided in paragraph (b), "original assessed value" means the assessed value of all taxable real property within a tax increment financing district as most recently certified by the commissioner of revenue as of the date of the request by an authority for certification by the county auditor, together with subsequent adjustments as set

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forth in section 469.177, subdivisions 1 and 4. In determining the original assessed value the assessed value of real property exempt from taxation at the time of the request shall be zero, except for real property which is tax exempt by reason of public ownership by the requesting authority and which has been publicly owned for less than one year prior to the date of the request for certification, in which event the assessed value of the property shall be the assessed value as most recently determined by the commissioner of revenue.

(b) The original assessed value of any designated hazardous substance site or hazardous substance subdistrict shall be determined on January 2 following the date the agency or municipality certifies to the county auditor that the agency or municipality has entered a redevelopment or other agreement for the removal actions or remedial actions specified in a development response action plan, or otherwise provided funds to finance the development response action plan. The original assessed value equals (i) the assessed value of the parcel, as most recently determined by the commissioner of revenue, less (ii) the estimated reasonable and necessary costs of the removal actions and remedial actions as specified in a development response action plan to be undertaken with respect to the parcel as certified to the county auditor by the municipality or agency, (iii) but not less than zero.

(c) The original assessed value of a hazardous substance site or subdistrict shall be increased by the amount by which it was reduced pursuant to paragraph (b), clause (ii), upon certification by the municipality that the removal and remedial actions specified in the development response action plan, except for long-term monitoring and similar activities, have been completed.

(d) For purposes of this subdivision, "real property" shall include any property normally taxable as personal property by reason of its location on or over publicly-owned property.

Sec. 3. Minnesota Statutes 1987 Supplement, 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 of the following conditions, reasonably distributed throughout the district, exists:

(1) 70 percent of the parcels in the district are occupied by buildings, streets, utilities, or other improvements and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance; or

(2) 70 percent of the parcels in the district are occupied by buildings, streets, utilities, or other improvements and 20 percent of the buildings are structurally substandard and an additional 30 percent of the buildings are found to require substantial renovation or clearance in order to remove such existing conditions as: inadequate street layout, incompatible uses or land use relation-

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ships, overcrowding of buildings on the land, excessive dwelling unit density, obsolete buildings not suitable for improvement or conversion, or other identified hazards to the health, safety, and general well-being of the community; or

(3) less than 70 percent of the parcels in the district are occupied by buildings, streets, utilities, or other improvements, but due to unusual terrain or soil deficiencies requiring substantial filling, grading, or other physical preparation for use at least 80 percent of the total acreage of such land has a fair market value upon inclusion in the redevelopment district which, when added to the estimated cost of preparing that land for development, excluding costs directly related to roads as defined in section 160.01 and local improvements as described in section 429.021, subdivision 1, clauses 1 to 7, 11 and 12, and 430.01, if any, exceeds its anticipated fair market value after completion of the preparation. No parcel shall be included within a redevelopment district pursuant to this paragraph unless the authority has concluded an agreement or agreements for the development of at least 50 percent of the acreage having the unusual soil or terrain deficiencies, which agreement provides recourse for the authority should the development not be completed; or

(4) the property consists of underutilized air rights existing over a public street, highway, or right-of-way; or

(5) (4) 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

(6) (5) the district consists of an existing or proposed industrial park no greater in size than 250 acres, which contains a sewage lagoon contaminated with polychlorinated biphenyls.

(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.

Sec. 4. Minnesota Statutes 1987 Supplement, section 469.174, subdivision 11, is amended to read:

Subd. 11. **HOUSING DISTRICT.** "Housing district" means a type of tax increment financing district which consists of a project, or a portion of a project, intended for occupancy, in part, by persons or families of low and moderate income, as defined in chapter 462A, Title II of the National Housing Act of 1934, the National Housing Act of 1959, the United States Housing Act of 1937, as amended, Title V of the Housing Act of 1949, as amended, any other similar present or future federal, state, or municipal legislation, or the regulations promulgated under any of those acts. A project does not qualify under this subdivision if the fair market value of the improvements which are constructed for commercial uses or for uses other than low and moderate income housing consists of

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more than one-third of the total fair market value of the planned improvements in the development plan or agreement. The fair market value of the improvements may be determined using the cost of construction, capitalized income, or other appropriate method of estimating market value.

Sec. 5. Minnesota Statutes 1987 Supplement, section 469.174, is amended by adding a subdivision to read:

Subd. 16. DESIGNATED HAZARDOUS SUBSTANCE SITE. "Designated hazardous substance site" means any parcel or parcels with respect to which the authority or municipality has certified to the county auditor that the authority or municipality has entered into a redevelopment or other agreement providing for the removal actions or remedial actions specified in a development response action plan or the municipality or authority will use other available money, including without limitation tax increments, to finance the removal or remedial actions.

Sec. 6. Minnesota Statutes 1987 Supplement, section 469.174, is amended by adding a subdivision to read:

Subd. 17. DEVELOPMENT ACTION RESPONSE PLAN. "Development action response plan" means a plan or proposal for removal actions or remedial actions if the plan or proposal is submitted to the pollution control agency and the actions contained in the plan or proposal are approved in writing by the commissioner of the agency as reasonable and necessary to protect the public health, welfare, and environment.

Sec. 7. Minnesota Statutes 1987 Supplement, section 469.174, is amended by adding a subdivision to read:

Subd. 18. TERMS DEFINED IN OTHER CHAPTERS. The terms "removal," "remedy," "remedial action," "response," "hazardous substance," and "pollutant or contaminant" have the meanings given in section 115B.02. The term "petroleum" has the meaning given in section 115C.02.

Sec. 8. Minnesota Statutes 1987 Supplement, section 469.174, is amended by adding a subdivision to read:

Subd. 19. SOILS CONDITION DISTRICTS. (a) "Soils condition 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 the following conditions exist:

(1) less than 70 percent of the parcels in the district are occupied by buildings, streets, utilities, or other improvements;

(2) unusual terrain or soil deficiencies for 80 percent of the acreage in the district require substantial filling, grading, or other physical preparation for use;

(3) the estimated cost of the physical preparation under clause (2), but excluding costs directly related to roads as defined in section 160.01 and local

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improvements as described in section 429.021, subdivision 1, clauses (1) to (7), (11) and (12), and 430.01, when added to the fair market value of the land upon inclusion in the district exceeds the anticipated fair market value of the land upon completion of the preparation.

(b) An area does not qualify as a soils condition district if it contains a wetland, as defined in section 105.37, unless the development agreement prohibits draining, filling, or other alteration of the wetland or other binding legal assurances for preservation of the wetland are provided.

(c) If the district is located in the metropolitan area, the proposed development of the district in the tax increment financing plan must be consistent with the municipality's land use plan adopted in accordance with sections 473.851 to 473.872 and reviewed by the metropolitan council under section 473.175. If the district is located outside of the metropolitan area, the proposed development of the district must be consistent with the municipality's comprehensive municipal plan.

(d) No parcel shall be included in the district unless the authority has concluded an agreement or agreements for the development of at least 50 percent of the acreage having the unusual soil or terrain deficiencies. The agreement must provide recourse for the authority if the development is not completed.

Sec. 9. Minnesota Statutes 1987 Supplement, section 469.175, subdivision 1, is amended to read:

Subdivision 1. **TAX INCREMENT FINANCING PLAN.** A tax increment financing plan shall contain:

(1) a statement of objectives of an authority for the improvement of a project;

(2) a statement as to the development program for the project, including the property within the project, if any, that the authority intends to acquire;

(3) a list of any development activities that the plan proposes to take place within the project, for which contracts have been entered into at the time of the preparation of the plan, including the names of the parties to the contract, the activity governed by the contract, the cost stated in the contract, and the expected date of completion of that activity;

(4) identification or description of the type of any other specific development reasonably expected to take place within the project, and the date when the development is likely to occur;

(5) estimates of the following:

(i) cost of the project, including administration expenses;

(ii) amount of bonded indebtedness to be incurred;

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(iii) sources of revenue to finance or otherwise pay public costs;

(iv) the most recent assessed value of taxable real property within the tax increment financing district;

(v) the estimated captured assessed value of the tax increment financing district at completion; and

(vi) the duration of the tax increment financing district's existence; ~~and~~

(6) ~~a statement~~ statements of the authority's ~~estimate~~ alternate estimates of the impact of tax increment financing on the assessed values of all taxing jurisdictions in which the tax increment financing district is located in whole or in part. For purposes of one statement, the authority shall assume that the estimated captured assessed value would be available to the taxing jurisdictions without creation of the district, and for purposes of the second statement, the authority shall assume that none of the estimated captured assessed value would be available to the taxing jurisdictions without creation of the district;

(7) identification and description of studies and analyses used to make the determination set forth in subdivision 3, clause (2); and

(8) identification of all parcels to be included in the district.

Sec. 10. Minnesota Statutes 1987 Supplement, section 469.175, is amended by adding a subdivision to read:

Subd. 1a. INCLUSION OF COUNTY ROAD COSTS. (a) The county board may require the authority to pay all or a portion of the cost of county road improvements out of increment revenues, if the following conditions occur:

(1) the proposed tax increment financing plan or an amendment to the plan contemplates construction of a development that will, in the judgment of the county, substantially increase the use of county roads requiring construction of road improvements or other road costs;

(2) the proposed tax increment financing district is a soils condition district; and

(3) the road improvements or other road costs, in the opinion of the county, would not reasonably be expected to be needed within the reasonably foreseeable future if the tax increment financing plan were not implemented.

(b) If the county elects to use increments to finance the road improvements, the county must notify the authority and municipality within 30 days after receipt of the information on the proposed tax increment district under subdivision 2. The notice must include the estimated cost of the road improvements and schedule for construction and payment of the cost. The authority must include the improvements in the tax increment financing plan. The improvements may be financed with the proceeds of tax increment bonds or the authori-

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ty and the county may agree that the county will finance the improvements with county funds to be repaid in installments, with or without interest, out of increment revenues. If the cost of the road improvements and other project costs exceed the projected amount of the increment revenues, the county and authority shall negotiate an agreement, modifying the development plan or proposed road improvements that will permit financing of the costs before the tax increment financing plan may be approved.

Sec. 11. Minnesota Statutes 1987 Supplement, section 469.175, subdivision 2, is amended to read:

Subd. 2. CONSULTATIONS; COMMENT AND FILING. Before formation of a tax increment financing district, the authority shall provide an opportunity to the members of the county boards of commissioners of any county in which any portion of the proposed district is located and the members of the school board of any school district in which any portion of the proposed district is located to meet with the authority. The authority shall present to the members of the county boards of commissioners and the school boards its estimate of the fiscal and economic implications of the proposed tax increment financing district. The information on the fiscal and economic implications of the plan must be provided to the county and school district boards at least 30 days before the public hearing required by subdivision 3. The 30-day requirement is waived if the county and school district submit written comments on the proposal and any modification of the proposal to the authority after receipt of the information. The members of the county boards of commissioners and the school boards may present their comments at the public hearing on the tax increment financing plan required by subdivision 3. ~~The county auditor shall not certify the original assessed value of a district pursuant to section 469.177, subdivision 1, until the county board of commissioners has presented its written comment on the proposal to the authority, or 30 days has passed from the date of the transmittal by the authority to the board of the information regarding the fiscal and economic implications, whichever occurs first.~~ Upon adoption of the tax increment financing plan, the authority shall file a copy of the plan with the commissioner of energy trade and economic development. The authority must also file with the commissioner a copy of the development plan for the project area.

Sec. 12. Minnesota Statutes 1987 Supplement, section 469.175, subdivision 3, is amended to read:

Subd. 3. MUNICIPALITY APPROVAL. A county auditor shall not certify the original assessed value of a tax increment financing district until the tax increment financing plan proposed for that district has been approved by the municipality in which the district is located. If an authority that proposes to establish a tax increment financing district and the municipality are not the same, the authority shall apply to the municipality in which the district is proposed to be located and shall obtain the approval of its tax increment financing plan by the municipality before the authority may use tax increment financing. The municipality shall approve the tax increment financing plan only after

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a public hearing thereon after published notice in a newspaper of general circulation in the municipality at least once not less than ten days nor more than 30 days prior to the date of the hearing. This hearing may be held before or after the approval or creation of the project or it may be held in conjunction with a hearing to approve the project. Before or at the time of approval of the tax increment financing plan, the municipality shall make the following findings, and shall set forth in writing the reasons and supporting facts for each determination:

(1) that the proposed tax increment financing district is a redevelopment district, a mined underground space development district, a housing district, a soils condition district, or an economic development district; if the proposed district is a redevelopment district, the reasons and supporting facts for the determination that the district meets the criteria of section 469.174, subdivision 10, paragraph (a), clauses (1) to (5), must be retained and made available to the public by the authority until the district has been terminated.

(2) that the proposed development or redevelopment, in the opinion of the municipality, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and therefore the use of tax increment financing is deemed necessary.

(3) that the tax increment financing plan conforms to the general plan for the development or redevelopment of the municipality as a whole.

(4) that the tax increment financing plan will afford maximum opportunity, consistent with the sound needs of the municipality as a whole, for the development or redevelopment of the project by private enterprise.

(5) that the municipality elects the method of tax increment computation set forth in section 469.177, subdivision 3, clause (b), if applicable.

When the municipality and the authority are not the same, the municipality shall approve or disapprove the tax increment financing plan within 60 days of submission by the authority, or the plan shall be deemed approved. When the municipality and the authority are not the same, the municipality may not amend or modify a tax increment financing plan except as proposed by the authority pursuant to subdivision 4. Once approved, the determination of the authority to undertake the project through the use of tax increment financing and the resolution of the governing body shall be conclusive of the findings therein and of the public need for the financing.

Sec. 13. Minnesota Statutes 1987 Supplement, section 469.175, subdivision 4, is amended to read:

Subd. 4. **MODIFICATION OF PLAN.** (a) A tax increment financing plan may be modified by an authority, provided that any reduction or enlargement of geographic area of the project or tax increment financing district, increase in amount of bonded indebtedness to be incurred, including a determination to

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capitalize interest on the debt if that determination was not a part of the original plan, or to increase or decrease the amount of interest on the debt to be capitalized, increase in the portion of the captured assessed value to be retained by the authority, increase in total estimated tax increment expenditures or designation of additional property to be acquired by the authority shall be approved upon the notice and after the discussion, public hearing, and findings required for approval of the original plan; provided that if an authority changes the type of district from housing, redevelopment, or economic development to another type of district, this change shall not be considered a modification but shall require the authority to follow the procedure set forth in sections 469.174 to 469.179 for adoption of a new plan, including certification of the assessed valuation of the district by the county auditor. If a redevelopment district is enlarged, the reasons and supporting facts for the determination that the addition to the district meets the criteria of section 469.174, subdivision 10, paragraph (a), clauses (1) to (5), must be documented. The requirements of this paragraph do not apply if (1) the only modification is elimination of parcels from the project or district and (2)(A) the current assessed value of the parcels eliminated from the district equals or exceeds the assessed value of those parcels in the district's original assessed value or (B) the authority agrees that, notwithstanding section 469.177, subdivision 1, the original assessed value will be reduced by no more than the current assessed value of the parcels eliminated from the district. The authority must notify the county auditor of any modification that reduces or enlarges the geographic area of a district or a project area.

(b) The geographic area of a tax increment financing district may be reduced, but shall not be enlarged after five years following the date of certification of the original assessed value by the county auditor or after August 1, 1984, for tax increment financing districts authorized prior to August 1, 1979; ~~except that development districts created pursuant to Minnesota Statutes 1978, chapter 472A, prior to August 1, 1979, may be reduced but shall not be enlarged after five years following the date of designation of the district.~~

Sec. 14. Minnesota Statutes 1987 Supplement, section 469.175, is amended by adding a subdivision to read:

Subd. 7. CREATION OF HAZARDOUS SUBSTANCE SUBDISTRICT; RESPONSE ACTIONS. (a) A municipality or authority which is creating or has created a tax increment financing district may establish within the district a hazardous substance subdistrict upon the notice and after the discussion, public hearing, and findings required for approval of the original plan. The geographic area of the subdistrict is made up of any parcels in the district designated for inclusion by the municipality or authority that are designated hazardous substance sites, and any additional parcels in the district designated for inclusion that are contiguous except for the interposition of a right-of-way. Before or at the time of approval of the tax increment financing plan, the municipality must make the findings under paragraphs (b) to (d), and set forth in writing the reasons and supporting facts for each.

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(b) Development or redevelopment of the site, in the opinion of the municipality, would not reasonably be expected to occur solely through private investment and tax increment otherwise available, and therefore the hazardous substance district is deemed necessary.

(c) Other parcels that are not designated hazardous substance sites are expected to be developed together with a designated hazardous substance site.

(d) The subdistrict is not larger than, and the period of time during which increments are elected to be received is not longer than, that which is necessary in the opinion of the municipality to provide for the additional costs due to the designated hazardous substance site.

(e) Upon request by a municipality or authority that has incurred expenses for removal or remedial actions to implement a development response action plan, the attorney general may:

(1) bring a civil action on behalf of the municipality or authority to recover the expenses, including administrative costs and litigation expenses, under section 115B.04 or other law; or

(2) assist the municipality or agency in bringing an action as described in clause (1), by providing legal and technical advice, intervening in the action, or other appropriate assistance.

The decision to participate in any action to recover expenses is at the discretion of the attorney general.

(f) If the attorney general brings an action as provided in paragraph (e), clause (1), the municipality or authority shall certify its reasonable and necessary expenses incurred to implement the development response action plan and shall cooperate with the attorney general as required to effectively pursue the action. The certification by the municipality or authority is prima facie evidence that the expenses are reasonable and necessary. The attorney general may deduct litigation expenses incurred by the attorney general from any amounts recovered in an action brought under paragraph (e), clause (1). The municipality or authority shall reimburse the attorney general for litigation expenses not recovered in an action under paragraph (e), clause (1), and for litigation expenses incurred to assist in bringing an action under paragraph (e), clause (1). All money recovered or paid to the attorney general for litigation expenses under this paragraph shall be paid to the general fund of the state for deposit to the account of the attorney general. For the purposes of this section, "litigation expenses" means attorney fees and costs of discovery and other preparation for litigation.

(g) The municipality or authority shall reimburse the pollution control agency for its administrative expenses incurred to review and approve a development action response plan and associated activities, and for expenses incurred for any services rendered to the attorney general to support the attorney general in

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actions brought or assistance provided under paragraph (e). All money paid to the pollution control agency under this paragraph shall be deposited in the environmental response, compensation and compliance fund.

(h) Actions taken by a municipality or authority consistent with a development response action plan are deemed to be authorized response actions for the purpose of section 115B.17, subdivision 12. A municipality or agency that takes actions consistent with a development response action plan qualifies for the defenses available under sections 115B.04, subdivision 11, and 115B.05, subdivision 9.

(i) All money recovered by a municipality or authority in an action brought under paragraph (e) in excess of the amounts paid to the attorney general and the pollution control agency must be treated as excess increments and be distributed as provided in section 469.176, subdivision 2, clause (4), to the extent the removal and remedial actions were initially financed with increment revenues.

Sec. 15. Minnesota Statutes 1987 Supplement, section 469.176, subdivision 1, is amended to read:

Subdivision 1. DURATION OF TAX INCREMENT FINANCING DISTRICTS. (a) Subject to the limitations contained in paragraphs (b) to (f), any tax increment financing district as to which bonds are outstanding, payment for which the tax increment and other revenues have been pledged, shall remain in existence at least as long as the bonds continue to be outstanding.

(b) The tax increment pledged to the payment of the bonds and interest thereon may be discharged and the tax increment financing district may be terminated if sufficient funds have been irrevocably deposited in the debt service fund or other escrow account held in trust for all outstanding bonds to provide for the payment of the bonds at maturity or date of redemption and interest thereon to the maturity or redemption date.

(c) For bonds issued pursuant to section 469.178, subdivisions 2 and 3, the full faith and credit and any taxing powers of the municipality or authority shall continue to be pledged to the payment of the bonds until the principal of and interest on the bonds has been paid in full.

(d) No tax increment shall be paid to an authority for a tax increment financing district after three years from the date of certification of the original assessed value of the taxable real property in the district by the county auditor or after August 1, 1982, for tax increment financing districts authorized prior to August 1, 1979, unless within the three-year period (1) bonds have been issued pursuant to section 469.178, or in aid of a project pursuant to any other law, except revenue bonds issued pursuant to sections 469.152 to 469.165, prior to August 1, 1979, or (2) the authority has acquired property within the district, or (3) the authority has constructed or caused to be constructed public improvements within the district.

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(e) No tax increment shall in any event be paid to the authority from a redevelopment district after 25 years from date of receipt by the authority of the first tax increment, after 25 years from the date of the receipt for a housing district, after 25 years from the date of the receipt for a mined underground space development district, after 12 years from approval of the tax increment financing plan for a soils condition district, and after eight years from the date of the receipt, or ten years from approval of the tax increment financing plan, whichever is less, for an economic development district.

For tax increment financing districts created prior to August 1, 1979, no tax increment shall be paid to the authority ~~after 30 years from August 1, 1979~~ April 1, 2001, or the term of a nondefeased bond or obligation outstanding on April 1, 1990, secured by increments from the district or project area, whichever time is greater, provided that in no case will a tax increment be paid to an authority after August 1, 2009, from such a district. If a district's termination date is extended beyond April 1, 2001, because bonds were outstanding on April 1, 1990, with maturities extending beyond April 1, 2001, the following restrictions apply. No increment collected from the district may be expended after April 1, 2001, except to pay or defease (i) bonds issued before April 1, 1990, or (ii) bonds issued to refund the principal of the outstanding bonds and pay associated issuance costs, provided the average maturity of the refunding bonds does not exceed the bonds refunded.

(f) Modification of a tax increment financing plan pursuant to section 469.175, subdivision 4, shall not extend the durational limitations of this subdivision.

(g) If a parcel of a district is part of a designated hazardous substance site or a hazardous substance subdistrict, tax increment may be paid to the authority from the parcel for longer than the period otherwise provided by this subdivision. The extended period for collection of tax increment begins on the date of receipt of the first tax increment from the parcel that is more than any tax increment received from the parcel before the date of the certification under section 469.175, subdivision 7, paragraph (b), and received after the date of certification to the county auditor described in section 469.175, subdivision 7, paragraph (b). The extended period for collection of tax increment is the lesser of: (1) 25 years from the date of commencement of the extended period; or (2) the period necessary to recover the costs of removal actions or remedial actions specified in a development response action plan.

Sec. 16. Minnesota Statutes 1987 Supplement, section 469.176, subdivision 4, is amended to read:

Subd. 4. **LIMITATION ON USE OF TAX INCREMENT; GENERAL RULE.** (a) All revenues derived from tax increment shall be used in accordance with the tax increment financing plan. The revenues shall be used solely for the following purposes: (1) to pay the principal of and interest on bonds issued to finance a project; (2) by a rural development financing authority for the purposes stated in section 469.142, by a port authority or municipality exercis-

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ing the powers of a port authority to finance or otherwise pay the cost of redevelopment pursuant to sections 469.048 to 469.068, by an economic development authority to finance or otherwise pay the cost of redevelopment pursuant to sections 469.090 to 469.108, by a housing and redevelopment authority or economic development authority to finance or otherwise pay public redevelopment costs pursuant to sections 469.001 to 469.047, by a municipality or economic development authority to finance or otherwise pay the capital and administration costs of a development district pursuant to sections 469.124 to 469.134, by a municipality or redevelopment agency to finance or otherwise pay premiums for insurance or other security guaranteeing the payment when due of principal of and interest on the bonds pursuant to chapter 462C, sections 469.152 to 469.165, or both, or to accumulate and maintain a reserve securing the payment when due of the principal of and interest on the bonds pursuant to chapter 462C, sections 469.152 to 469.165, or both, which revenues in the reserve shall not exceed, subsequent to the fifth anniversary of the date of issue of the first bond issue secured by the reserve, an amount equal to 20 percent of the aggregate principal amount of the outstanding and nondefeased bonds secured by the reserve.

Subd. 4a. MINED UNDERGROUND SPACE DISTRICTS. Revenue derived from tax increment from a mined underground space development district may be used only to pay for the costs of excavating and supporting the space, of providing public access to the mined underground space including roadways, and of installing utilities including fire sprinkler systems in the space.

(b) Subd. 4b. SOILS CONDITION DISTRICTS. Revenue derived from tax increment from a soils condition district under section 469.174, subdivision 19, may be used only to (1) acquire parcels on which the improvements described in clause (2) will occur; (2) pay for the cost of correcting the unusual terrain or soil deficiencies and the additional cost of installing public improvements directly caused by the deficiencies; and (3) pay for the administrative expenses of the authority allocable to the district. The sale by the authority of a parcel acquired and improved as described in clauses (1) and (2) must be for a price that is no less than the cost of acquisition.

Subd. 4c. ECONOMIC DEVELOPMENT DISTRICTS. Revenue derived from tax increment from an economic development district may not be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form to developments consisting of buildings and ancillary facilities, if 25 percent of the buildings and facilities (determined on the basis of square footage) are used for the purposes listed in section 144(a)(8) of the Internal Revenue Code of 1986 (determined without regard to the 25 percent restriction in subparagraph (A)). The restrictions under this paragraph apply only to districts located in development regions, as defined in section 462.384, with populations in excess of 1,000,000. Population must be determined under the provisions of section 477A.011.

Subd. 4d. HOUSING DISTRICTS. Revenue derived from tax increment from a housing district must be used solely to finance the cost of housing projects as defined in section 469.174, subdivision 11. The cost of public

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improvements directly related to the housing projects and the allocated administrative expenses of the authority may be included in the cost of a housing project.

Subd. 4e. HAZARDOUS SUBSTANCE SUBDISTRICTS. The additional tax increment received by the municipality from a hazardous substance subdistrict as a result of a reduction in original assessed value pursuant to section 469.174, subdivision 7, paragraph (b), or as a result of the extension of the period for collection of tax increment from a hazardous substance site or subdistrict provided for in section 469.176, subdivision 1, paragraph (g), may be used only to pay or reimburse the costs of: (1) removal actions or remedial actions with respect to hazardous substances or pollutants or contaminants or petroleum releases affecting or which may affect the designated hazardous substance site; (2) pollution testing, demolition, and soil compaction correction necessitated by the development response action plan for the designated hazardous substance site; and (3) related administrative and legal costs, including costs of review and approval of development response action plans by the pollution control agency and litigation expenses of the attorney general.

Subd. 4f. INTEREST REDUCTION. Revenues derived from tax increment may be used to finance the costs of an interest reduction program operated pursuant to section 469.012, subdivisions 7 to 10, or pursuant to other law granting interest reduction authority and power by reference to those subdivisions only under the following conditions: (1) tax increments may not be collected for a program for a period in excess of 12 years after the date of the first interest rate reduction payment for the program, (2) tax increments may not be used for an interest reduction program, if the proceeds of bonds issued pursuant to section 469.178 after December 31, 1985, have been or will be used to provide financial assistance to the specific project which would receive the benefit of the interest reduction program, and (3) tax increments may not be used to finance an interest reduction program for owner-occupied single-family dwellings.

(e) Subd. 4g. GENERAL GOVERNMENT USE PROHIBITED. These revenues shall not be used to circumvent existing levy limit law. No revenues derived from tax increment from any district, whether certified before or after August 1, 1979, shall be used for the acquisition, construction or renovation, operation, or maintenance of a municipally owned building to be used primarily and regularly for conducting the business of the a municipality, county, school district, or any other local unit of government or the state or federal government. This provision shall not prohibit the use of revenues derived from tax increments for the construction or renovation of a parking structure, a commons area used as a public park, or a facility used for social, recreational, or conference purposes and not primarily for conducting the business of the municipality.

Subd. 4h. COUNTY COSTS. (a) Tax increments may be used to pay for the county's actual administrative expenses under sections 469.174 to 469.179. The county may require payment of those expenses by February 15 of the year

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after the year in which the expenses are incurred. The amount of these payments is not required to be set forth in the tax increment financing plan for the project. To obtain payment for actual administrative costs, the county auditor must submit to the authority a record of costs incurred by the county auditor related to administration of the authority's tax increment financing districts.

(b) Tax increments may be used to pay county road costs as provided in section 469.175, subdivision 1a.

Subd. 4i. MULTI-COUNTY USE PROHIBITED. If a tax increment district is located in a municipality, parts of which are situated in more than one county, the revenue derived from tax increments from parcels located in one county must be expended for the direct and primary benefit of a project located or conducted within that county, unless the county boards of each of the counties involved agree to waive this requirement.

Sec. 17. Minnesota Statutes 1987 Supplement, section 469.176, subdivision 5, is amended to read:

Subd. 5. REQUIREMENT FOR AGREEMENTS. No more than 25 percent, by acreage, of the property to be acquired within a project which contains a redevelopment district, or ten percent, by acreage, of the property to be acquired within a project which contains a housing or economic development district, as set forth in the tax increment financing plan, shall at any time be owned by an authority as a result of acquisition with the proceeds of bonds issued pursuant to section 469.178 unless prior to acquisition in excess of the percentages, the authority has concluded an agreement for the development or redevelopment of the property acquired and which provides recourse for the authority should the development or redevelopment not be completed. This subdivision does not apply to a parcel of a district that is a designated hazardous substance site established under section 469.174, subdivision 16, or part of a hazardous substance subdistrict established under section 469.175, subdivision 7.

Sec. 18. Minnesota Statutes 1987 Supplement, section 469.176, subdivision 6, is amended to read:

Subd. 6. ACTION REQUIRED. If, after four years from the date of certification of the original assessed value of the tax increment financing district pursuant to section 469.177, no demolition, rehabilitation, or renovation of property or other site preparation, including improvement of a street adjacent to a parcel but not installation of utility service including sewer or water systems, has been commenced on a parcel located within a tax increment financing district by the authority or by the owner of the parcel in accordance with the tax increment financing plan, no additional tax increment may be taken from that parcel, and the original assessed value of that parcel shall be excluded from the original assessed value of the tax increment financing district. If the authority or the owner of the parcel subsequently commences demolition, rehabilitation, or renovation or other site preparation on that parcel including improvement of a street adjacent to that parcel, in accordance with the tax increment financing

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plan, the authority shall certify to the county auditor that the activity has commenced, and the county auditor shall certify the assessed value thereof as most recently certified by the commissioner of revenue and add it to the original assessed value of the tax increment financing district. The county auditor must enforce the provisions of this subdivision. The authority must submit to the county auditor evidence that the required activity has taken place for each parcel in the district. The evidence for a parcel must be submitted by February 1 of the fifth year following the year in which the parcel was certified as included in the district.

Sec. 19. Minnesota Statutes 1987 Supplement, section 469.177, subdivision 1, is amended to read:

Subdivision 1. **ORIGINAL ASSESSED VALUE.** 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 assessed value of the tax increment financing district as described in the tax increment financing plan and shall certify in each year thereafter the amount by which the original assessed value has increased or decreased as a result of a change in tax exempt status of property within the district, reduction or enlargement of the district or changes pursuant to subdivision 4. In the case of a mined underground space development district the county auditor shall certify the original assessed value as zero, plus the assessed value, if any, previously assigned to any subsurface area included in the mined underground space development district pursuant to section 272.04. 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 assessed value 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. The amount to be added to the original assessed value of the district as a result of previously tax exempt real property within the district becoming taxable shall be equal to the assessed value 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 value assessed by the assessor at the time of the transfer. The amount to be added to the original assessed value of the district as a result of enlargements thereof shall be equal to the assessed value 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. For districts approved under section 469.175, subdivision 3, or parcels added to existing districts after May 1, 1988, if the assessed value 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 assessed value must be added to the original assessed value. Each year the

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auditor shall also add to the original assessed value of each economic development district an amount equal to the original assessed value for the preceding year multiplied by the average percentage increase in the assessed valuation of all property included in the economic development district during the five years prior to certification of the district. The amount to be subtracted from the original assessed value 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 assessed value initially attributed to the property becoming tax exempt or being removed from the district. If the assessed value 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 assessed value 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 assessed value 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.

Sec. 20. Minnesota Statutes 1987 Supplement, section 469.177, is amended by adding a subdivision to read:

Subd. 1a. ORIGINAL MILL RATE. (a) At the time of the initial certification of the original assessed value for a tax increment financing district, the county auditor shall certify the original mill rate that applies to the district. The original mill rate is the sum of all the mill rates that apply to a property in the district for the taxes payable in the calendar year in which the initial certification of original assessed value is requested under subdivision 1. If the total mill rate applicable to properties in the tax increment financing district varies, the mill rate must be computed by determining the average total mill rate in the district, weighted on the basis of assessed value. The resulting mill rate is the original mill rate for the life of the district.

(b) In the case of districts certified during calendar year 1988, the original mill rate equals the amount calculated under paragraph (a) multiplied by 0.45.

Sec. 21. Minnesota Statutes 1987 Supplement, section 469.177, subdivision 3, is amended to read:

Subd. 3. TAX INCREMENT, RELATIONSHIP TO CHAPTER 473F. (a) Unless the governing body elects pursuant to clause (b) the following method of computation shall apply:

(1) The original assessed value and the current assessed value shall be determined before the application of the fiscal disparity provisions of chapter 473F. Where the original assessed value is equal to or greater than the current assessed value, there is no captured assessed value and no tax increment deter-

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mination. Where the original assessed value is less than the current assessed value, the difference between the original assessed value and the current assessed value is the captured assessed value. This amount less any portion thereof which the authority has designated, in its tax increment financing plan, to share with the local taxing districts is the retained captured assessed value of the authority.

(2) The county auditor shall exclude the retained captured assessed value of the authority from the taxable value of the local taxing districts in determining local taxing district mill rates. The mill rates so determined are to be extended against the retained captured assessed value of the authority as well as the taxable value of the local taxing districts. The tax generated by the extension of the lesser of (A) the local taxing district mill rates or (B) the original mill rate to the retained captured assessed value of the authority is the tax increment of the authority.

(b) The governing body may, by resolution approving the tax increment financing plan pursuant to section 469.175, subdivision 3, elect the following method of computation:

(1) The original assessed value shall be determined before the application of the fiscal disparity provisions of chapter 473F. The current assessed value shall exclude any fiscal disparity commercial-industrial assessed value increase between the original year and the current year multiplied by the fiscal disparity ratio determined pursuant to section 473F.08, subdivision 6. Where the original assessed value is equal to or greater than the current assessed value, there is no captured assessed value and no tax increment determination. Where the original assessed value is less than the current assessed value, the difference between the original assessed value and the current assessed value is the captured assessed value. This amount less any portion thereof which the authority has designated, in its tax increment financing plan, to share with the local taxing districts is the retained captured assessed value of the authority.

(2) The county auditor shall exclude the retained captured assessed value of the authority from the taxable value of the local taxing districts in determining local taxing district mill rates. The mill rates so determined are to be extended against the retained captured assessed value of the authority as well as the taxable value of the local taxing districts. The tax generated by the extension of the lesser of (A) the local taxing district mill rates or (B) the original mill rate to the retained captured assessed value of the authority is the tax increment of the authority.

(3) An election by the governing body pursuant to ~~part~~ paragraph (b) shall be submitted to the county auditor by the authority at the time of the request for certification pursuant to subdivision 1.

(c) The method of computation of tax increment applied to a district pursuant to ~~clause~~ paragraph (a) or (b) shall remain the same for the duration of the district, except that the governing body may elect to change its election from the method of computation in paragraph (a) to the method in paragraph (b).

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Sec. 22. Minnesota Statutes 1987 Supplement, section 469.177, subdivision 4, is amended to read:

Subd. 4. **PRIOR PLANNED IMPROVEMENTS.** The authority shall, after diligent search, accompany its request for certification to the county auditor pursuant to subdivision 1, or its notice of district enlargement pursuant to section 469.175, subdivision 4, with a listing of all properties within the tax increment financing district or area of enlargement for which building permits have been issued during the 18 months immediately preceding approval of the tax increment financing plan by the municipality pursuant to section 469.175, subdivision 3. The county auditor shall increase the original assessed value of the district by the assessed valuation of the ~~improvements~~ each improvement for which ~~the a~~ building permit was issued; ~~excluding the assessed valuation of improvements for which a building permit was issued during the three-month period immediately preceding said approval of the tax increment financing plan, as certified by the assessor.~~

Sec. 23. Minnesota Statutes 1987 Supplement, section 469.177, is amended by adding a subdivision to read:

Subd. 9. DISTRIBUTIONS OF EXCESS TAXES ON CAPTURED VALUE.

(a) If the amount of tax paid on captured value exceeds the amount of tax increment, the county auditor shall distribute the excess to the municipality, county, and school district as follows: each governmental unit's share of the excess equals

(1) the total amount of the excess for the tax increment financing district, multiplied by

(2) a fraction, the numerator of which is the current mill rate of the governmental unit less the governmental unit's mill rate for the year the original mill rate for the district was certified (in no case may this amount be less than zero) and the denominator of which is the sum of the numerators for the municipality, county, and school district.

If the entire increase in the mill rate is attributable to a taxing district, other than the municipality, county, or school district, then the excess must be distributed to the municipality, county, and school district in proportion to their respective mill rates.

(b) The amounts distributed shall be deducted in computing the levy limits of the taxing district for the succeeding taxable year.

(c) In the case of distributions to a school district, the county auditor shall report amounts distributed to the commissioner of education in the same manner as provided for excess increments under section 469.176, subdivision 2, and the distribution shall be treated as an excess increment for purposes of section 124.214, subdivision 3.

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Sec. 24. Minnesota Statutes 1987 Supplement, section 469.177, is amended by adding a subdivision to read:

Subd. 10. PAYMENT TO SCHOOL FOR REFERENDUM LEVY. The provisions of this subdivision apply to tax increment financing districts and projects for which certification was requested before May 1, 1988, that are located in a school district in which the voters have approved new millage or an increase in millage after the tax increment financing district was certified (1) if there are no outstanding bonds on May 1, 1988, to which increment from the district is pledged, or (2) if the referendum is approved after May 1, 1988, and there are no bonds outstanding at the time the referendum is approved, that were issued before May 1, 1988, or (3) if the referendum increasing the mill rate was approved after the most recent issue of bonds to which increment from the district is pledged. If clause (1) or (2) applies, the authority must annually pay to the school district an amount of increment equal to the increment that is attributable to the increase in the mill rate under the referendum. If clause (3) applies, upon approval by a majority vote of the governing body of the municipality and the school board, the authority must pay to the school district an amount of increment equal to the increment that is attributable to the increase in the mill rate under the referendum. The amounts of these increments may be expended and must be treated by the school district in the same manner as provided for the revenues derived from the referendum levy approved by the voters.

Sec. 25. Minnesota Statutes 1987 Supplement, section 469.179, is amended to read:

469.179 EXISTING PROJECTS.

Subdivision 1. EXEMPTION. The provisions of sections 469.174 to 469.178 shall not affect any project for which tax increment certification was requested pursuant to law prior to August 1, 1979, or any project carried on by an authority pursuant to section 469.033, subdivision 5, with respect to which the governing body has by resolution designated properties for inclusion in the district prior to August 1, 1979, except:

- (1) as otherwise expressly provided in sections 469.174 to 469.178; or
- (2) as an authority elects to proceed with an existing district, under the provisions of sections 469.174 to 469.178; or
- (3) that any enlargements of the geographic area of an existing tax increment financing district subsequent to August 1, 1979, shall be accomplished in accordance with and shall subject the property added as a result of the enlargement to the terms and conditions of sections 469.174 to 469.178 as provided in subdivision 2; or
- (4) that beginning with taxes payable in 1980, section 469.177, subdivision 3, clause (b), shall apply to all development districts created pursuant to Minnesota Statutes 1978, chapter 472A, or any special law, prior to August 1, 1979.

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Subd. 2. APPLICATION TO EXISTING DISTRICTS. If the development or redevelopment activity within the project or district of a tax increment financing project certified prior to August 1, 1979, is extended beyond the scope of activity set forth in the district's redevelopment plan under Minnesota Statutes, chapter 462, or Minnesota Statutes, chapter 472A, if applicable, after May 1, 1988, the authority must with regard to the new activity conform to the provisions of sections 469.174 to 469.178 with the following exceptions.

(a) Section 469.175, subdivision 3, paragraphs (1) and (5), shall not apply. Furthermore, the provisions of section 473F.02, subdivision 3, shall continue to apply to the entire district, if applicable.

(b) Section 469.177, subdivision 3, shall not apply.

Sec. 26. CITY OF VIRGINIA TAX INCREMENT FINANCING DISTRICT; PARCELS INCLUDED.

Redevelopment tax increment financing district No. 1 in enterprise zone development district No. 3 in the city of Virginia, is deemed for all purposes under Minnesota Statutes, sections 469.174 to 469.179 to include the following parcels of real property as of June 12, 1984:

(1) Parcel No. 90-124-245 - Ely 79.2' of Lot 1 and all of Lot 2, Block 3, Olcott Addition;

(2) Parcel No. 90-125-247 - Lot 3, Block 3, Olcott Addition; and

(3) Parcel No. 90-125-270 - Lot 4, Block 3, Olcott Addition.

Sec. 27. ORIGINAL ASSESSED VALUE.

The original assessed value of the parcels of real property described in sections 24 to 26 is deemed for all purposes under Minnesota Statutes, sections 469.174 to 469.179 to be the original assessed value of those parcels as of June 12, 1984.

Sec. 28. CAPTURED ASSESSED VALUE.

The captured assessed value of the parcels of real property described in sections 24 to 26 is deemed for all purposes under Minnesota Statutes, sections 469.174 to 469.179 to be the increased assessed value of those parcels computed in the manner prescribed by Minnesota Statutes, section 469.177, and in accordance with sections 26 to 28.

Sec. 29. TRANSITION RULES.

(a) The provisions of sections 3, 6, 10, and 14 do not apply to proposed tax increment financing districts for which the authority called for a public hearing in a resolution dated March 23, 1987, and for which a public hearing was held on April 28, 1987. The provisions of Minnesota Statutes 1987 Supplement,

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sections 469.174, subdivision 10, and 469.176, subdivision 4, apply to such districts.

(b) The provisions of sections 3, 6, 10, and 14 do not apply to candidate sites in the old highway 8 corridor tax increment project area, identified in the old highway 8 corridor plan as approved by an authority on October 14, 1986, if the requests for certification of the districts are filed with the county before January 1, 1998. The provisions of Minnesota Statutes 1987 Supplement, sections 469.174, subdivision 10, and 469.176, subdivision 4, apply to such districts.

(c) The provisions of section 14, subdivision 4c, do not apply to an economic development district located in a development district approved on November 9, 1987, provided the request for certification of the tax increment district is submitted to the county by September 30, 1988.

Sec. 30. EFFECTIVE DATES.

Sections 2, 5, 6, 7, 14, 16, subdivision 4e, 17, and the provisions of section 15 relating to the duration of hazardous substance sites and subdistricts are effective for hazardous substance sites and subdistricts designated and created after the day following final enactment. Except as otherwise specifically provided, sections 1, 3, 4, 8 to 12, 16, and 20 to 23, and the provisions of section 15 applying to soils condition districts are effective for districts and amendments adding geographic area to an existing district for which the request for certification was filed with the county auditor after May 1, 1988. Sections 13, 15, 16, subdivision 4g, 18, 24, and 25, and the provisions of section 21 allowing a change in the fiscal disparities election are effective May 1, 1988, except as otherwise specifically provided. Section 16, subdivision 4c, is effective for districts for which the request for certification is filed with the county before May 1, 1988, and to all increment collected after January 1, 1990. Sections 26 to 28 are effective upon approval by the city council of the city of Virginia and compliance with Minnesota Statutes, section 645.021. Section 29 is effective the day following final enactment.

ARTICLE 13

BUDGET RESERVE

Section 1. Minnesota Statutes 1987 Supplement, section 16A.15, subdivision 6, is amended to read:

Subd. 6. **BUDGET AND CASH FLOW RESERVE ACCOUNT.** A budget and cash flow reserve account is created in the general fund in the state treasury. The commissioner of finance shall, as authorized from time to time by law, restrict part or all of the budgetary balance in the general fund for use as the budget and cash flow reserve account. The commissioner of finance on July 1, 1987, shall transfer to the budget and cash flow reserve account the amount

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necessary such amounts as are available to bring the total amount, including any existing balance in the account on June 30, ~~1987~~ 1988, to ~~\$250,000,000~~ \$265,000,000. The amounts restricted shall remain in the account until drawn down under subdivision 1 or increased under section 16A.1541.

Sec. 2. Minnesota Statutes 1987 Supplement, section 16A.1541, is amended to read:

16A.1541 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 in the following order of priority:

(1) the amount necessary to reduce the property tax levy recognition percent under section 121.904, subdivision 4e, to 24 percent;

(2) the remainder (i) one-half to the greater Minnesota fund, but not to exceed \$120,000,000 and (ii) one-half to the budget and cash flow reserve account until the total amount in the account equals \$550,000,000.

The amounts necessary to meet the requirements of clauses (1) and (2) this section are appropriated from the general fund.

Sec. 3. TRANSFER RETURNED.

The Greater Minnesota Corporation shall return to the state treasury \$80,500,000 of the money transferred to it under Minnesota Statutes 1987 Supplement, section 16A.1541. The return must be made to the commissioner of finance, who shall credit the receipt to the general fund. The return must be made as soon as is practical, while minimizing any investment losses that might result from early redemption.

Sec. 4. APPROPRIATION REDUCTION.

The appropriation from the general fund under Minnesota Statutes 1987 Supplement, section 16A.1541 to reduce the property tax recognition percent is reduced to zero.

Sec. 5. EFFECTIVE DATE.

Sections 1 to 4 are effective the day following final enactment.

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ARTICLE 14

SPECIAL SERVICE DISTRICT PROCEDURES

Section 1. [428A.01] SPECIAL SERVICE DISTRICT PROCEDURES; DEFINITIONS.

Subdivision 1. APPLICABILITY. As used in sections 1 to 10, the terms defined in this section have the meanings given them.

Subd. 2. CITY. "City" means the city in which the special service district is authorized to be established under a special law.

Subd. 3. SPECIAL SERVICES. "Special services" has the meaning given in the city's enabling legislation.

Special services do not include a service that is ordinarily provided throughout the city from general fund revenues of the city unless an increased level of the service is provided in the special service district.

Subd. 4. SPECIAL SERVICE DISTRICT. "Special service district" means a defined area within the city where special services are rendered and the costs of the special services are paid from revenues collected from service charges imposed within that area.

Subd. 5. ASSESSED VALUE. "Assessed value" means the assessed value most recently certified by the county auditor before the effective date of the ordinance or resolution adopted under section 2 or 3.

Subd. 6. LAND AREA. "Land area" means the land area in the district that is subject to property taxes.

Sec. 2. [428A.02] ESTABLISHMENT OF SPECIAL SERVICE DISTRICT.

Subdivision 1. ORDINANCE. The governing body of the city may adopt an ordinance establishing a special service district. Only property that is classified under section 273.13 and used for commercial, industrial, or public utility purposes, or is vacant land zoned or designated on a land use plan for commercial or industrial use and located in the special service district, may be subject to the charges imposed by the city on the special service district. Other types of property may be included within the boundaries of the special service district but are not subject to the levies or charges imposed by the city on the special service district. If 50 percent or more of the market value of a parcel of property is classified under section 273.13 as commercial, industrial, or vacant land zoned or designated on a land use plan for commercial or industrial use, or public utility for the current assessment year, then the entire market value of the property is subject to a service charge based on assessed value for purposes of sections 1 to 10. The ordinance shall describe with particularity the area within the city to be included in the district and the special services to be furnished in the district. The ordinance may not be adopted until after a public hearing has been held on the question. Notice of the hearing shall include the time and place of hearing, a map showing the boundaries of the proposed district, and a statement that all persons owning property in the proposed district that would

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be subject to a service charge will be given opportunity to be heard at the hearing.

Subd. 2. NOTICE. Notice of the hearing must be given by publication in at least two issues of the official newspaper of the city. The two publications must be two weeks apart and the hearing must be held at least three days after the last publication. Not less than ten days before the hearing, notice must also be mailed to the owner of each parcel within the area proposed to be included in the district. For the purpose of giving mailed notice, owners are those shown on the records of the county auditor. Other records may be used to supply the necessary information. For properties that are tax exempt or subject to taxation on a gross earnings basis in lieu of property tax and are not listed on the records of the county auditor, the owners must be ascertained by any practicable means and mailed notice given them. At the public hearing a person affected by the proposed district may testify on any issues relevant to the proposed district. The hearing may be adjourned from time to time and the ordinance establishing the district may be adopted at any time within six months after the date of the conclusion of the hearing by a vote of the majority of the governing body of the city.

Subd. 3. CHARGES; RELATIONSHIP TO SERVICES. The city may impose service charges under sections 1 to 10 that are reasonably related to the special services provided. Charges for service shall be as nearly as possible proportionate to the cost of furnishing the service, and may be fixed on the basis of the service directly rendered, or by reference to a reasonable classification of the types of premises to which service is furnished, or on any other equitable basis.

Subd. 4. BENEFIT; OBJECTION. Before the ordinance is adopted or at the hearing at which it is to be adopted, any affected landowner may file a written objection with the city clerk asserting that the landowner's property should not be included in the district or should not be subjected to a service charge and objecting to:

(1) the inclusion of the landowner's property in the district, for the reason that the property would not receive services that are not provided throughout the city to the same degree;

(2) the levy of a service charge on the landowner's property, for the reason that the property is exempted under this article or the special law under which the district was created; or

(3) the fact that neither the landowner's property nor its use is benefited by the proposed special service.

The governing body shall make a determination on the objection within 30 days of its filing. Pending its determination, the governing body may delay adoption of the ordinance or it may adopt the ordinance with a reservation that the landowner's property may be excluded from the district or district service charges when the determination is made.

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Subd. 5. APPEAL TO DISTRICT COURT. Within 30 days after the determination of the objection, any person aggrieved, who is not precluded by failure to object before or at the hearing, or whose failure to object is due to a reasonable cause, may appeal to the district court by serving a notice upon the mayor or city clerk. The notice shall be filed with the court administrator of the district court within ten days after its service. The city clerk shall furnish the appellant a certified copy of the findings and determination of the governing body. The court may affirm the action objected to or, if the appellant's objections have merit, modify or cancel it. If the appellant does not prevail upon the appeal, the costs incurred shall be taxed to the appellant by the court and judgment entered for them. All objections shall be deemed waived unless presented on appeal.

Sec. 3. [428A.03] SERVICE CHARGE AUTHORITY; NOTICE AND HEARING REQUIREMENTS.

Subdivision 1. HEARING. Service charges may be imposed by the city within the special service district at a rate or amount sufficient to produce the revenues required to provide special services in the district. To determine the appropriate rate for a service charge based on assessed value, taxable property or value must be determined without regard to captured or original assessed value under section 469.177 or to the distribution or contribution value under section 473F.08. Service charges may not be imposed to finance a special service if the service is ordinarily provided by the city from its general fund revenues unless the service is provided in the district at an increased level. In that case, a service charge may be imposed only in the amount needed to pay for the increased level of service. A service charge may not be imposed on the receipts from the sale of intoxicating liquor, food, or lodging. Before the imposition of service charges in a district, for each calendar year, a hearing must be held under section 2 and notice must be given and must be mailed to any individual or business organization subject to a service charge. For purposes of this section, the notice shall also include:

(1) a statement that all interested persons will be given an opportunity to be heard at the hearing regarding a proposed service charge;

(2) the estimated cost of improvements to be paid for in whole or in part by service charges imposed under this section, the estimated cost of operating and maintaining the improvements during the first year and upon completion of the improvements, the proposed method and source of financing the improvements, and the annual cost of operating and maintaining the improvements;

(3) the proposed rate or amount of the proposed service charge to be imposed in the district during the calendar year and the nature and character of special services to be rendered in the district during the calendar year in which the service charge is to be collected; and

(4) a statement that the petition requirements of section 8 have either been met or do not apply to the proposed service charge.

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Within six months of the public hearing, the city may adopt a resolution imposing a service charge within the district not exceeding the amount or rate expressed in the notice issued under this section.

Subd. 2. EXEMPTION OF CERTAIN PROPERTIES FROM TAXES AND SERVICE CHARGES. Property exempt from taxation by section 272.02 is exempt from any service charges based on assessed value imposed under sections 1 to 10.

Subd. 3. LEVY LIMIT. Service charges imposed under sections 1 to 10 are not included in the calculation of levies or limits on levies imposed under law or charter.

Sec. 4. [428A.04] ENLARGEMENT OF SPECIAL SERVICE DISTRICTS.

Boundaries of a special service district may be enlarged only after hearing and notice as provided in sections 2 and 3. Notice must be served in the original district and in the area proposed to be added to the district. Property added to the district is subject to all service charges imposed within the district after the property becomes a part of the district if it is property of the type that is subject to service charges in the district. On the question of enlargement, the petition requirement in section 8 and the veto power in section 9 apply only to owners, individuals, and business organizations in the area proposed to be added to the district.

Sec. 5. [428A.05] COLLECTION OF SERVICE CHARGES.

Service charges may be imposed on the basis of the assessed value of the property on which the service charge is imposed but must be spread only upon the assessed value of the taxable property located in the geographic area described in the ordinance. Service charges based on assessed value may be payable and collected at the same time and in the same manner as provided for payment and collection of ad valorem taxes. Other service charges imposed must be collected as provided by ordinance. Service charges based on assessed value collected under sections 1 to 10 are not included in computations under section 469.177, chapter 473F, or any other law that applies to general ad valorem levies.

Sec. 6. [428A.06] BONDS.

At any time after a contract for the construction of all or part of an improvement authorized under sections 1 to 10 has been entered into or the work has been ordered done by day labor, the governing body of the city may issue obligations in the amount it deems necessary to defray in whole or in part the expense incurred and estimated to be incurred in making the improvement, including every item of cost from inception to completion and all fees and expenses incurred in connection with the improvement or the financing. The obligations are payable primarily out of the proceeds of the service charge based on assessed value imposed under section 3, or from any other special assessments or nontax revenues available to be pledged for their payment under charter or statutory authority, or from two or more of those sources. The governing body may, by resolution adopted prior to the sale of obligations, pledge the full faith, credit, and taxing power of the city to assure payment of

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the principal and interest if the proceeds of the service charge in the district are insufficient to pay the principal and interest. The obligations must be issued in accordance with chapter 475, except that an election is not required, and the amount of the obligations need not be included in determining the net debt of the city under the provisions of any law or charter limiting debt.

Sec. 7. [428A.07] ADVISORY BOARD.

The governing body of the city may create and appoint an advisory board for each special service district in the city to advise the governing body in connection with the construction, maintenance, and operation of improvements, and the furnishing of special services in a district. The advisory board shall make recommendations to the governing body on the requests and complaints of owners, occupants, and users of property within the district and members of the public. Before the adoption of any proposal by the governing body to provide services or impose service charges within the district, the advisory board of the district shall have an opportunity to review and comment upon the proposal.

Sec. 8. [428A.08] PETITION REQUIRED.

No action may be taken under section 2 unless owners of 25 percent or more of the land area of property that would be subject to service charges in the proposed special service district and owners of 25 percent or more of the assessed value of property that would be subject to service charges in the proposed special service district file a petition requesting a public hearing on the proposed action with the city clerk. No action may be taken under section 3 to impose a service charge based on assessed value unless owners of 25 percent or more of the land area subject to a proposed service charge and owners of 25 percent or more of the assessed value subject to a proposed service charge file a petition requesting a public hearing on the proposed action with the city clerk. No action may be taken under section 3 to impose any other type of service charge unless 25 percent or more of the individual or business organizations subject to the proposed service charge file a petition requesting a public hearing on the proposed action with the city clerk. If the boundaries of a proposed district are changed or the land area or assessed value subject to a service charge or the individuals or business organizations subject to a service charge are changed after the public hearing, a petition meeting the requirements of this section must be filed with the city clerk before the ordinance establishing the district or resolution imposing the service charge may become effective.

Sec. 9. [428A.09] VETO POWER OF OWNERS.

Subdivision 1. NOTICE OF RIGHT TO FILE OBJECTIONS. Except as provided in section 10, the effective date of any ordinance or resolution adopted under sections 2 and 3 must be at least 45 days after it is adopted. Within five days after adoption of the ordinance or resolution, a summary of the ordinance or resolution must be mailed to the owner of each parcel included in the special service district and any individual or business organization subject to a service charge in the same manner that notice is mailed under section 2. The mailing

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must include a notice that owners subject to a service charge based on assessed value and individuals and business organizations subject to a service charge imposed on another basis have a right to veto the ordinance or resolution by filing the required number of objections with the city clerk before the effective date of the ordinance or resolution and that a copy of the ordinance or resolution is on file with the city clerk for public inspection.

Subd. 2. REQUIREMENTS FOR VETO. If owners of 35 percent or more of the land area in the district subject to the service charge based on assessed value or owners of 35 percent or more of the assessed value in the district subject to the service charge based on assessed value file an objection to the ordinance adopted by the city under section 2 with the city clerk before the effective date of the ordinance, the ordinance does not become effective. If owners of 35 percent or more of the land area subject to the service charge based on assessed value or owners of 35 percent or more of the assessed value subject to the service charge based on assessed value file an objection to the resolution adopted imposing a service charge based on assessed value under section 3 with the city clerk before the effective date of the resolution, the resolution does not become effective. If 35 percent or more of individuals and business organizations subject to a service charge file an objection to the resolution adopted imposing a service charge on a basis other than assessed value under section 3 with the city clerk before the effective date of the resolution, the resolution does not become effective. In the event of a veto, no district shall be established during the current calendar year and until a petition meeting the qualifications set forth in this subdivision for a veto has been filed.

Sec. 10. [428A.10] EXCLUSION FROM PETITION REQUIREMENTS AND VETO POWER.

The petition requirements of section 8 and the right of owners and those subject to a service charge to veto a resolution in section 9 do not apply to second or subsequent years' applications of a service charge that is authorized to be in effect for more than one year under a resolution that has met the petition requirements of section 8 and which has not been vetoed under section 9 for the first year's application. A resolution imposing a service charge for more than one year must not be adopted unless the notice of public hearing required by section 3 and the notice mailed with the adopted resolution under section 9 include the following information:

(1) in the case of improvements, the maximum service charge to be imposed in any year and the maximum number of years the service charges imposed to pay for the improvement; and

(2) in the case of operating and maintenance services, the maximum service charge to be imposed in any year and the maximum number of years, or a statement that the service charge will be imposed for an indefinite number of years, the service charges will be imposed to pay for operation and maintenance services.

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The resolution may provide that the maximum service charge to be imposed in any year will increase or decrease from the maximum amount authorized in the preceding year based on an indicator of increased cost or a percentage amount established by the resolution.

ARTICLE 15

ROBBINSDALE SPECIAL SERVICE DISTRICT

Section 1. CITY OF ROBBINSDALE SPECIAL SERVICE DISTRICT; DEFINITIONS.

Subdivision 1. APPLICABILITY. For purposes of sections 1 and 2, the terms defined in this section have the meanings given them.

Subd. 2. CITY. "City" means the city of Robbinsdale.

Subd. 3. SPECIAL SERVICES. "Special services" means all services rendered or contracted for by the city, including, but not limited to:

(1) the repair, maintenance, operation, and construction of any improvements authorized by section 429.021;

(2) parking services rendered or contracted for by the city; and

(3) any other service provided to the public by the city that is authorized by law or charter.

Sec. 2. ESTABLISHMENT OF SPECIAL SERVICE DISTRICT.

Subdivision 1. ORDINANCE. The governing body of the city may adopt an ordinance establishing a special service district. The provisions of article 14 govern the establishment and operation of special service districts in the city.

Sec. 3. LOCAL APPROVAL.

This article takes effect the day after the governing body of the city of Robbinsdale complies with Minnesota Statutes, section 645.021, subdivision 3.

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ARTICLE 16

MINNEAPOLIS NEIGHBORHOODS SPECIAL SERVICE DISTRICTS

Section 1. DEFINITIONS.

Subdivision 1. TERMS DEFINED. For the purposes of sections 1 to 6, the terms defined in this section have the meanings given them.

Subd. 2. CITY. "City" means the city of Minneapolis.

Subd. 3. SPECIAL SERVICES. "Special services" means the following services rendered or contracted for by the city:

- (1) snow and ice removal;
- (2) sweeping and cleaning sidewalks, curbs, gutters, streets, and alleys;
- (3) litter, poster, and handbill removal;
- (4) construction, repair, operation, and maintenance of sidewalks, curbs, gutters, bus shelters, lighting, benches, chairs, tables, telephone booths, traffic signs, fire hydrants, newsstands, kiosks, trash receptacles, utility connections, marquees, awnings, canopies, display cases, information booths, and banners;
- (5) landscaping, planting, repair, maintenance, and care of trees, shrubs, bushes, flowers, grass, and other decorative materials;
- (6) security personnel, equipment, and systems;
- (7) approval and supervision of special activities;
- (8) insurance; and
- (9) administration, coordination, studies, and preparation of designs.

Special service district funds may be used to pay operating costs of a neighborhood business association composed of a majority of owners or operators of businesses located within the district.

Sec. 2. ESTABLISHMENT OF SPECIAL SERVICE DISTRICT.

Subdivision 1. ORDINANCE. The governing body of the city may adopt an ordinance establishing a special service district in any area zoned for commercial, business, or industrial use outside of the area bounded by the centerlines of the main channel of the Mississippi river, 10th Avenue South, Washington Avenue South, Chicago Avenue South, South 3rd Street, 11th Avenue South, South 6th Street, 5th Avenue South, South 12th Street, 4th Avenue South, East 16th Street, 1st Avenue South, Grant Street, Willow Street extended, Harmon Place, Interstate Highway 94, Highway 12, North 12th Street, and 3rd Avenue

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North; and, south of 28th Street, west of Fremont Avenue South, north of 31st Street, and east of Humboldt Avenue South; and outside any other existing special service district. The provisions of article 14 govern the establishment and operation of special service districts in the city under sections 1 to 6, except to the extent specified otherwise in sections 1 to 6.

Subd. 2. USE OF CITY EMPLOYEES. If the city determines that any of the special services to be provided are under the jurisdiction of a city public employee bargaining unit, the city shall negotiate with that unit to determine whether that service shall be provided by the city or contracted for with another service provider.

Sec. 3. SERVICE CHARGE ABATEMENT.

An individual or business organization subject to a service charge imposed under sections 1 to 6 may apply to the city for a service charge abatement for that calendar year on the basis of economic hardship. The city may grant the abatement of the service charge for the calendar year if the city determines that an economic hardship exists.

Sec. 4. BONDS.

The provisions of article 14, section 6, govern the issuance of bonds for the special service district, except that the obligations shall be payable primarily out of the proceeds of the service charge imposed under article 14, section 3. The governing body may, by resolution adopted before the sale of obligations, pledge the full faith, credit, and taxing power of the city to assure payment of the principal and interest if the proceeds of the service charge based on assessed value in the special service district are insufficient to pay the principal and interest.

Sec. 5. EXPIRATION.

A special service district established under this article shall expire four years after the date of its establishment unless renewed by following the procedure for establishing a district provided by article 14, section 2. After the expiration or termination of a district, service charges may continue to be imposed in the district to pay the costs of an improvement specified in section 1, subdivision 3, clause (4).

Sec. 6. ADVISORY BOARD.

Notwithstanding article 14, section 7, the city council must create and appoint an advisory board for the special service district to operate as provided in that section. All members of the advisory board must be property owners, tenants, or residents of the district.

Sec. 7. LOCAL APPROVAL.

This article takes effect the day after the governing body of the city of Minneapolis complies with Minnesota Statutes, section 645.021, subdivision 3.

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ARTICLE 17

MINNEAPOLIS DOWNTOWN SPECIAL SERVICE DISTRICTS

Section 1. DEFINITIONS.

Subdivision 1. TERMS DEFINED. For purposes of sections 1 to 7, the terms defined in this section have the meanings given them.

Subd. 2. CITY. "City" means the city of Minneapolis.

Subd. 3. PEDESTRIAN MALL. "Pedestrian mall" means an improvement designed and used primarily for the movement, safety, convenience, and enjoyment of pedestrians, whether or not a part of a street is set apart for a roadway for emergency vehicles, transit vehicles, or private vehicles at some or all times. A pedestrian mall includes related sidewalks, moving sidewalks, curbs, gutters, streets, parks, playgrounds, plazas, recreational facilities, performance areas, bus shelters, transit facilities and vehicles, sound and video systems, overhead and underground radiant heating devices, lighting, benches, chairs, tables, sculpture, telephone booths, traffic signs, fire hydrants, newsstands, kiosks, trash receptacles, utility connections, marquees, awnings, canopies, walls, bollards, chains, paintings, murals, alleys, display cases, fountains, sprinkler systems, restrooms, information booths, aquariums, aviaries, pedestrian tunnels, banners, pedestrian bridges, pedestrian ramps, pedestrian overpasses, pedestrian underpasses, drainage, sewers, and water mains. A pedestrian mall does not include a plaza adjacent to a convention center.

Subd. 4. SPECIAL SERVICES. "Special services" means the following services rendered or contracted for by the city:

- (a) snow and ice removal;
- (b) sweeping and cleaning of sidewalks, curbs, gutters, streets, and alleys;
- (c) litter, poster, and handbill removal;
- (d) construction, repair, operation, and maintenance of pedestrian malls;
- (e) repair and maintenance of capital improvements constructed with funds other than special service district proceeds;
- (f) landscaping, planting, repair, maintenance, and care of trees, shrubs, bushes, flowers, grass, and other decorative materials;
- (g) security personnel, equipment, and systems and coordination of private security, including lighting;
- (h) operation of public transit;
- (i) information and signs relating to parking and vehicle and pedestrian movement at street and skyway levels;

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- (j) approval, supervision, and coordination of special activities; and
- (k) administration, coordination, studies, and preparation of designs.

Sec. 2. ESTABLISHMENT OF SPECIAL SERVICE DISTRICT.

Subdivision 1. ORDINANCE. The governing body of the city may adopt an ordinance establishing special service districts in that part of the city bounded by the centerlines of the main channel of the Mississippi river, 10th Avenue South, Washington Avenue South, Chicago Avenue South, South 3rd Street, 11th Avenue South, South 6th Street, 5th Avenue South, South 12th Street, 4th Avenue South, East 16th Street, 1st Avenue South, Grant Street, Willow Street extended, Harmon Place, Interstate Highway 94, Highway 12, North 12th Street and 3rd Avenue North. Only property that is used for commercial, business, or industrial purposes or classified as public utility or vacant land and located in the special service district may be subject to the charges imposed by the city on the special service district. Property used for residential purposes, including condominiums, apartments, and cooperatives, or used by a church or a charitable organization organized under Minnesota Statutes, sections 315.44 and 315.49, or owned or leased in its entirety by a charitable organization described in section 501(c)(3) of the Internal Revenue Code, as amended through December 31, 1987, shall not be subject to any service charges under sections 1 to 6. Property owned by a unit of government and used to raise revenue, except public hospitals, libraries, and Orchestra Hall, shall be subject to service charges other than service charges based on assessed value. In addition, property that is exempt from taxation under Minnesota Statutes, section 272.02, is exempt from service charges based on assessed value imposed under sections 1 to 6, but is subject to other types of service charges under sections 1 to 6 unless otherwise exempted under this subdivision. The owner of any property that is exempted from any or all service charges under this subdivision may notify the governing body of its intent to receive the benefits provided to property within the special service district, and thereby elect to be subject to the service charges imposed for those services. Property may be served within the boundaries of the special service district whether or not the property is subject to the charges imposed by the city on the special service district. The ordinance must specifically describe the area within the city to be included in the district and the special services to be furnished in the district. The ordinance must state the reasons for establishment of a district. The ordinance may not be adopted until after a public hearing has been held on the question. The provisions of article 14 govern the establishment and operation of special service districts in the city under sections 1 to 7, except to the extent specified otherwise under sections 1 to 7.

Subd. 2. CONTRACTORS. Notwithstanding any other provision of law or charter to the contrary, the city may provide or contract for services in the district. All hiring by contractors must be done in accordance with the Federal Civil Rights Act of 1964, United States Code, title 21, sections 2000e to 2000e-17; Minnesota Statutes, section 363.03; and the Minneapolis Code of Ordinances, chapters 139 and 141.

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Subd. 3. CITY EMPLOYEES. Job activities for special services that are under the jurisdiction of any city public employee bargaining unit must be performed by a member of the bargaining unit.

Subd. 4. LEVEL OF SERVICE. The governing body of the city shall not transfer the financial burden of citywide services to the district nor discriminate against the district in reductions and increases in citywide services because of the existence of the district. Prior to establishment of a district, the city and the downtown management board, provided in section 6, shall meet to review the level of services in the downtown area in order to assure that downtown is equitably served through the city's normal operating budget. They shall meet each succeeding year prior to the adoption of a budget for the district and prior to imposition of a service charge in the district under article 14, section 3.

Sec. 3. LIMITATIONS.

Subdivision 1. SERVICES EXPENDITURES CAP. Service charges imposed in the special service district in any year for special services specified in section 1, subdivision 4, with the exception of construction under paragraph (d), must not exceed an amount equal to the funds raised by a levy of three mills on current assessed value of property subject to a service charge in the district under property tax classifications in effect on July 1, 1987.

Subd. 2. CAPITAL EXPENDITURES CAP. Service charges imposed in any year in a special service district established under sections 1 to 6 for construction of an improvement specified in section 1, subdivision 4, paragraph (d), must not exceed 50 percent of the total costs of the improvement, including interest, payable in that year; no more than 50 percent of the total costs of the improvement may be specially assessed under Minnesota Statutes, chapter 429 or 430.

Sec. 4. VETO POWERS.

Subdivision 1. GENERALLY. In addition to the provisions of article 14, section 9, relating to veto of the establishment of a district, the provisions of this section apply to special service districts established under sections 1 to 6.

Subd. 2. VETO OF PEDESTRIAN MALLS. The effective date of any imposition of service charge for construction of an improvement specified in section 1, subdivision 4, paragraph (d), under article 14, section 3, must be at least 45 days after it is adopted. Within five days after adoption, a summary of the city council action must be mailed to the owner of each parcel included in the special service district and any individual or business organization subject to a service charge in the same manner that notice is mailed under article 14, section 2. The mailing must include a notice that owners subject to a service charge based on assessed value and individuals and business organizations subject to a service charge have a right to veto the action by filing the required number of objections with the city clerk before the effective date of the imposition and that a copy of the action is on file with the city clerk for public

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inspection. If owners of at least 35 percent of the land area subject to a service charge based on assessed value or owners of at least 35 percent of the assessed value subject to the service charge based on assessed value file an objection to the service charge with the city clerk before the effective date, the service charge based on assessed value does not become effective. If individuals and business organizations subject to at least 35 percent of a service charge imposed on a basis other than assessed value file an objection to imposition of the service charge with the city clerk before the effective date, the service charge does not become effective. In the event of a veto, no service charge may be imposed in the district for construction of a pedestrian mall during the current calendar year and until a petition meeting the qualifications set forth in this subdivision for a veto has been filed. Service charges may continue to be levied and imposed in the district, regardless of a veto under this subdivision, to pay the costs of construction of an improvement specified in section 1, subdivision 4, paragraph (d), for which debt has been incurred and a service charge imposed during a prior year.

Subd. 3. VETO OF SERVICES. Each year after the fourth year after establishment of a district, the veto provisions of this subdivision apply, except that a veto is not effective until the year following the year of the veto. Four years after establishment of a district, the effective date of any imposition of service charge under article 14, section 3, for services specified in section 1, subdivision 4, with the exception of construction under paragraph (d), must be at least 45 days after it is adopted. Within five days after adoption, a summary of the city council action must be mailed to the owner of each parcel included in the special service district and any individual or business organization subject to a service charge, in the same manner that notice is mailed under article 14, section 2. The mailing must include a notice that owners subject to a service charge based on assessed value and individuals and business organizations subject to a service charge have a right to veto the action by filing the required number of objections with the city clerk before the effective date of the imposition, and that a copy of the action is on file with the city clerk for public inspection. If owners of at least 35 percent of the land area subject to a service charge based on assessed value or the owners of at least 35 percent of the assessed value subject to the service charge based on assessed value file an objection to the service charge for services under section 3 with the city clerk before the effective date, the service charge based on assessed value does not become effective. If individuals and business organizations subject to at least 35 percent of a service charge imposed on a basis other than assessed value file an objection to imposition of the service charge under section 3 with the city clerk before the effective date, the service charge does not become effective. In the event of a veto, no service charge may be imposed in the district for services during the current calendar year and until a petition meeting the qualifications set forth in this subdivision for a veto has been filed, and no service charge may be collected during a year for which a service charge has been vetoed. Service charges may continue to be imposed in the district, regardless of a veto under this subdivision, to pay the costs of services specified in section 1, subdivision 4, with the exception of construction under clause (d), for which debt has been incurred prior to the filing of a veto.

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Sec. 5. DEBT OBLIGATIONS.

Subdivision 1. GENERALLY. The provisions of this section apply to service districts created under sections 1 to 6 in lieu of the provisions of article 14, section 6.

Subd. 2. CERTIFICATES OF INDEBTEDNESS. Certificates of indebtedness may be issued for purposes of any work or service authorized under sections 1 to 6. The certificates shall be payable in not more than five years and shall be issued on the terms and in the manner determined by the issuer. The obligations are payable out of the proceeds of the tax or charge levied under article 14, section 3, in the same manner as bonds.

Subd. 3. BONDS. Obligations may be issued in the amount deemed necessary to defray in whole or in part the expense incurred and estimated to be incurred in making a pedestrian mall improvement authorized under sections 1 to 6, including every item of cost from inception to completion and all fees and expenses incurred in connection with the improvement or the financing. The obligations are payable primarily out of the proceeds of the charge levied under article 14, section 3, or from any other special assessments or nontax revenues available to be pledged for their payment under charter or statutory authority, or from two or more of those sources. The full faith, credit, and taxing power of the city may, by resolution adopted prior to the sale of obligations, be pledged to assure payment of the principal and interest if the proceeds of the service charge in the district and other pledged special assessments or revenues are insufficient to pay the principal and interest.

Subd. 4. PROCEDURES. Debt obligations must be issued in accordance with Minnesota Statutes, chapter 475, and the city charter, except that an election is not required under any circumstances, and the amount of the obligations need not be included in determining the net debt of the city.

Sec. 6. DOWNTOWN MANAGEMENT BOARD.

In lieu of the advisory board authorized under article 14, section 7, the city council shall create and provide for appointment of a downtown management board for the special service district to advise the governing body in connection with the furnishing of special services in a district. The downtown management board shall make recommendations to the governing body on the requests and complaints of owners, occupants, and users of property within the district and members of the public. Before the adoption of any proposal by the governing body to provide services or impose service charges within the district, the downtown management board of the district shall review and comment upon the proposal. The board may incorporate as a nonprofit corporation under Minnesota Statutes, chapter 317. The board shall have the power to enter into contracts. A majority of members of the board must be property owners or tenants in the district and subject to a service charge. At least one member must be an owner of commercial property.

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Sec. 7. CITY OPTION.

The city may elect to exercise the powers provided by sections 1 to 6 or the powers provided by general or special law relating to the same subject.

Sec. 8. EFFECTIVE DATE.

Sections 1 to 7 are effective the day after compliance with Minnesota Statutes, section 645.021, subdivision 3, by the governing body of the city of Minneapolis.

ARTICLE 18**WHITE BEAR LAKE SPECIAL SERVICE DISTRICTS****Section 1. DEFINITIONS.**

Subdivision 1. For the purposes of sections 1 and 2, the terms defined in this section have the meanings given them.

Subd. 2. "City" means the city of White Bear Lake.

Subd. 3. "Special services" mean:

(1) the promotion and management of a special service district as a trade or shopping area;

(2) parking services rendered or contracted for by the city; and

(3) the repair, maintenance, operation and replacement of improvements, within the boundaries of a special service district established under section 2.

Sec. 2. ESTABLISHMENT OF SPECIAL SERVICE DISTRICT.

Subdivision 1. ORDINANCE. The governing body of the city may adopt ordinances establishing special service districts in the following areas:

All that land zoned as "General Business (B-4)" or "Central Business (B-5)" within the following described area: Beginning at the northeast corner of the intersection of Minnesota State Highway 96E and U.S. Highway 61, thence easterly along the north right-of-way line of Minnesota State Highway 96E and Stewart Avenue, thence southerly along the east right-of-way line of Stewart Avenue a distance of 3,600 feet to the northeast intersection of Stewart Avenue with Lake Avenue, thence southwesterly along Lake Avenue a distance of 3,400 feet to the northwest corner of the intersection of Lake Avenue with U.S. Highway 61, thence northerly a distance of 2,600 feet along the east right-of-way line of Bald Eagle Avenue to a point of intersection with the north right-of-way line of 5th Street, thence easterly along the north right-of-way line of 5th Street a distance of 1,280 feet to a point of intersection with the west

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right-of-way line of Division Street, thence northerly along the west right-of-way line of Division Street a distance of 2,700 feet to a point of intersection with the north right-of-way line of 12th Street, thence easterly 1,200 feet along a line extended on the north right-of-way line of 12th Street to the intersection with the west right-of-way line of U.S. Highway 61, thence southeasterly 160 feet along the west right-of-way line of U.S. Highway 61 to the point of beginning.

The provisions of article 14 govern the establishment and operation of special service districts in the city, except to the extent otherwise specified in sections 1 and 2.

Sec. 3. LOCAL APPROVAL.

This article is effective the day after the governing body of the city of White Bear Lake complies with Minnesota Statutes, section 645.021, subdivision 3.

ARTICLE 19

MISCELLANEOUS

Section 1. Minnesota Statutes 1987 Supplement, section 69.54, is amended to read:

69.54 SURCHARGE ON PREMIUMS TO RESTORE DEFICIENCY IN SPECIAL FUND.

The commissioner shall order and direct a surcharge to be collected of two percent of the fire, lightning, and sprinkler leakage gross premiums, less return premiums, on all direct business received by any licensed foreign or domestic fire insurance company on property in this city of the first class, or by its agents for it, in cash or otherwise. This surcharge shall be due and payable from these companies to the state treasurer on March ~~15~~ 31, May ~~15~~ 31, and November ~~15~~ 30 of each calendar year, and if not paid within 30 days after these dates, a penalty of ten percent shall accrue thereon and thereafter this sum and penalty shall draw interest at the rate of one percent per month until paid.

Sec. 2. Minnesota Statutes 1986, section 183.411, subdivision 1, is amended to read:

Subdivision 1. **DEFINITION.** For the purpose of this section "stationary show boiler" means a boiler that is used only for display and demonstration purposes. In recognition of the historical significance of show boilers in maintaining a working reminder of Minnesota's agricultural and lumber industries, show boilers and engines are considered to be historical artifacts.

Sec. 3. Minnesota Statutes 1986, section 183.411, subdivision 3, is amended to read:

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Subd. 3. **LICENSES.** A license to operate steam farm traction engines, portable and stationary show engines and portable and stationary show boilers shall be issued to an applicant who:

(a) is 18 years of age or older;

(b) has two licensed second class, grade A engineers or steam traction engineers, or any combination thereof, cosign the application; attesting to the applicant's competence in operating said devices;

(c) passes a written test for competence in operating said devices; ~~and~~

(d) has at least 25 hours of actual operating experience on said devices; and

(e) pays the required fee.

A license shall be valid for the lifetime of the licensee. A one time fee set by the commissioner pursuant to section 16A.128, shall be charged for the license.

Sec. 4. Minnesota Statutes 1986, section 183.411, is amended by adding a subdivision to read:

Subd. 5. LICENSED OPERATOR; PRESENCE REQUIRED. An operator licensed under this section must be present when a traction engine, portable or stationary show engine, or portable or stationary show boiler is in operation and a member of the public is present.

Sec. 5. Minnesota Statutes 1986, section 183.466, is amended to read:

183.466 STANDARDS OF REPAIRS.

The ~~recommended~~ rules for repair of boilers and pressure vessels for use in this state shall be those established by the national board of boiler and pressure vessel inspectors inspection code and the rules of the division of boiler inspection adopted by the department of labor and industry.

Sec. 6. Minnesota Statutes 1986, section 183.51, subdivision 4, is amended to read:

Subd. 4. **CHIEF ENGINEER, GRADE A.** A person seeking licensure as a chief engineer, Grade A, shall be at least 18 years of age and have ~~habits and~~ experience which ~~justify the belief~~ verifies that the person is competent to take charge of and be responsible for the safe operation and maintenance of all classes of boilers, steam engines, ~~or~~ and turbines and their appurtenances; and, before receiving a license, the applicant shall take and subscribe an oath attesting to at least five years actual experience in operating such boilers, including at least two years experience in operating such engines or turbines.

Sec. 7. Minnesota Statutes 1986, section 183.51, subdivision 7, is amended to read:

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Subd. 7. **FIRST-CLASS ENGINEER, GRADE A.** A person seeking licensure as a first-class engineer, Grade A, shall be at least 18 years of age and have ~~habits and~~ experience which ~~justify the belief~~ verifies that the person is competent to take charge of and be responsible for the safe operation and maintenance of all classes of boilers, engines, ~~or~~ and turbines and their appurtenances of not more than 300 horsepower or to operate as a shift engineer in a plant of unlimited horsepower. Before receiving a license, the applicant shall take and subscribe an oath attesting to at least three years actual experience in operating such boilers, including at least two years experience in operating such engines; or turbines.

Sec. 8. Minnesota Statutes 1986, section 183.51, subdivision 10, is amended to read:

Subd. 10. **SECOND-CLASS ENGINEER, GRADE A.** A person seeking licensure as a second-class engineer, Grade A, shall be at least 18 years of age and have ~~habits and~~ experience which ~~justify the belief~~ verifies that the person is competent to take charge of and be responsible for the safe operation and maintenance of all classes of boilers, engines, ~~or~~ and turbines and their appurtenances of not more than 100 horsepower or to operate as a shift engineer in a plant of not more than 300 horsepower, or to assist the shift engineer, under direct supervision, in a plant of unlimited horsepower. Before receiving a license the applicant shall take and subscribe an oath attesting to at least one year of actual experience in operating such boilers, including at least one year of experience in operating such engines; or turbines.

Sec. 9. Minnesota Statutes 1987 Supplement, section 256B.431, subdivision 2b, as amended by H.F. No. 2126, if enacted, is amended to read:

Subd. 2b. **OPERATING COSTS, AFTER JULY 1, 1985.** (a) For rate years beginning on or after July 1, 1985, the commissioner shall establish procedures for determining per diem reimbursement for operating costs.

(b) The commissioner shall contract with an econometric firm with recognized expertise in and access to national economic change indices that can be applied to the appropriate cost categories when determining the operating cost payment rate.

(c) The commissioner shall analyze and evaluate each nursing home's cost report of allowable operating costs incurred by the nursing home during the reporting year immediately preceding the rate year for which the payment rate becomes effective.

(d) The commissioner shall establish limits on actual allowable historical operating cost per diems based on cost reports of allowable operating costs for the reporting year that begins October 1, 1983, taking into consideration relevant factors including resident needs, geographic location, size of the nursing home, and the costs that must be incurred for the care of residents in an efficiently and economically operated nursing home. In developing the geo-

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graphic groups for purposes of reimbursement under this section, the commissioner shall ensure that nursing homes in any county contiguous to the Minneapolis-St. Paul seven-county metropolitan area are included in the same geographic group. The limits established by the commissioner shall not be less, in the aggregate, than the 60th percentile of total actual allowable historical operating cost per diems for each group of nursing homes established under subdivision 1 based on cost reports of allowable operating costs in the previous reporting year. For rate years beginning on or after July 1, 1987, or until the new base period is established, facilities located in geographic group I as described in Minnesota Rules, part 9549.0052 (Emergency), on January 1, 1987, may choose to have the commissioner apply either the care related limits or the other operating cost limits calculated for facilities located in geographic group II, or both, if either of the limits calculated for the group II facilities is higher. The efficiency incentive for geographic group I nursing homes must be calculated based on geographic group I limits. The phase-in must be established utilizing the chosen limits. For purposes of these exceptions to the geographic grouping requirements, the definitions in Minnesota Rules, parts 9549.0050 to 9549.0059 (Emergency), and 9549.0010 to 9549.0080, apply. The limits established under this paragraph remain in effect until the commissioner establishes a new base period. Until the new base period is established, the commissioner shall adjust the limits annually using the appropriate economic change indices established in paragraph (e). In determining allowable historical operating cost per diems for purposes of setting limits and nursing home payment rates, the commissioner shall divide the allowable historical operating costs by the actual number of resident days, except that where a nursing home is occupied at less than 90 percent of licensed capacity days, the commissioner may establish procedures to adjust the computation of the per diem to an imputed occupancy level at or below 90 percent. The commissioner shall establish efficiency incentives as appropriate. The commissioner may establish efficiency incentives for different operating cost categories. The commissioner shall consider establishing efficiency incentives in care related cost categories. The commissioner may combine one or more operating cost categories and may use different methods for calculating payment rates for each operating cost category or combination of operating cost categories. For the rate year beginning on July 1, 1985, the commissioner shall:

(1) allow nursing homes that have an average length of stay of 180 days or less in their skilled nursing level of care, 125 percent of the care related limit and 105 percent of the other operating cost limit established by rule; and

(2) exempt nursing homes licensed on July 1, 1983, by the commissioner to provide residential services for the physically handicapped under Minnesota Rules, parts 9570.2000 to 9570.3600, from the care related limits and allow 105 percent of the other operating cost limit established by rule.

For the purpose of calculating the other operating cost efficiency incentive for nursing homes referred to in clause (1) or (2), the commissioner shall use the other operating cost limit established by rule before application of the 105 percent.

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(e) The commissioner shall establish a composite index or indices by determining the appropriate economic change indicators to be applied to specific operating cost categories or combination of operating cost categories.

(f) Each nursing home shall receive an operating cost payment rate equal to the sum of the nursing home's operating cost payment rates for each operating cost category. The operating cost payment rate for an operating cost category shall be the lesser of the nursing home's historical operating cost in the category increased by the appropriate index established in paragraph (e) for the operating cost category plus an efficiency incentive established pursuant to paragraph (d) or the limit for the operating cost category increased by the same index. If a nursing home's actual historic operating costs are greater than the prospective payment rate for that rate year, there shall be no retroactive cost settle-up. In establishing payment rates for one or more operating cost categories, the commissioner may establish separate rates for different classes of residents based on their relative care needs.

(g) The commissioner shall include the reported actual real estate tax liability or payments in lieu of real estate tax of each nursing home as an operating cost of that nursing home. ~~Except as provided in Minnesota Rules, parts 9549.0010 to 9549.0080, the commissioner shall allow an amount for payments in lieu of real estate tax assessed by a municipality, city, township, or county that does not exceed an amount equivalent to a similar assessment for fire, police, or sanitation services assessed to all other nonprofit or governmental entities located in the municipality, city, township, or county in which a nursing home to be assessed is located.~~ Allowable costs under this subdivision for payments made by a nonprofit nursing home that are in lieu of real estate taxes shall not exceed the amount which the nursing home would have paid to a city or township and county for fire, police, sanitation services, and road maintenance costs had real estate taxes been levied on that property for those purposes. For rate years beginning on or after July 1, 1987, the reported actual real estate tax liability or payments in lieu of real estate tax of nursing homes shall be adjusted to include an amount equal to one-half of the dollar change in real estate taxes from the prior year. The commissioner shall include a reported actual special assessment, and reported actual license fees required by the Minnesota department of health, for each nursing home as an operating cost of that nursing home. Total adjusted real estate tax liability, payments in lieu of real estate tax, actual special assessments paid, and license fees paid as required by the Minnesota department of health, for each nursing home (1) shall be divided by actual resident days in order to compute the operating cost payment rate for this operating cost category, (2) shall not be used to compute the 60th percentile or other operating cost limits established by the commissioner, and (3) shall not be increased by the composite index or indices established pursuant to paragraph (e).

(h) For rate years beginning on or after July 1, 1987, the commissioner shall adjust the rates of a nursing home that meets the criteria for the special dietary needs of its residents as specified in section 144A.071, subdivision 3, clause (c),

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and the requirements in section 31.651. The adjustment for raw food cost shall be the difference between the nursing home's allowable historical raw food cost per diem and 115 percent of the median historical allowable raw food cost per diem of the corresponding geographic group.

The rate adjustment shall be reduced by the applicable phase-in percentage as provided under subdivision 2h.

Sec. 10. [270.0681] TAX INFORMATION SAMPLE DATA.

Subdivision 1. PREPARATION OF SAMPLES. The commissioner of revenue shall prepare microdata samples of income tax returns and other information useful for purposes of (1) estimating state revenues, (2) simulating the effect of changes or proposed changes in state and federal tax law on the amount of state revenues, and (3) analyzing the incidence of present or proposed taxes.

Subd. 2. COORDINATING COMMITTEE. A coordinating committee is established to oversee and coordinate preparation of the microdata samples. The committee consists of (1) the director of the research division of the department of revenue who shall serve as chair of the committee, (2) the state economist, (3) the chair of the committee on taxes of the house of representatives or the chair's designee, and (4) the chair of the committee on taxes and tax laws of the senate or the chair's designee. The committee shall consider the analysis needs and use of the microdata samples by the finance and revenue departments and the legislature in designing and preparing the samples, including the type of data to be included, the structure of the samples, size of the samples, and other relevant factors.

Subd. 3. CONTENTS OF SAMPLES. The samples must consist of information derived from a random sample of federal and Minnesota individual income tax returns. The samples prepared in odd numbered years must be augmented by additional information from other sources as the coordinating committee determines is feasible and appropriate. The coordinating committee shall consider inclusion of (1) information derived from property tax refund returns, (2) the estimated market value of the taxpayer's home from the homestead declaration, and (3) information from other sources, such as the surveys conducted by the United States departments of commerce and labor.

Subd. 4. CONSULTATION ON ANALYSIS MODELS. The coordinating committee shall facilitate regular consultation among the department of revenue, the department of finance, and house and senate staffs in development and maintenance of their respective computer models used to analyze the microdata samples. The committee shall encourage efforts to attain more commonality in the models, greater sharing of program development efforts and programming tasks, and more consistency in the resulting analyses.

Sec. 11. Minnesota Statutes 1986, section 270.70, subdivision 1, is amended to read:

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Subdivision 1. **AUTHORITY OF COMMISSIONER.** If any tax payable to the commissioner of revenue or to the department of revenue is not paid when due, such tax may be collected by the commissioner of revenue within five years after the date of assessment of the tax, or if the tax judgment has been filed, within the statutory period of enforcement of a valid tax judgment, by a levy upon all property and rights to property, including any property in the possession of law enforcement officials, of the person liable for the payment or collection of such tax (except that which is exempt from execution pursuant to section 550.37) or property on which there is a lien provided in section 270.69. For this purpose, the term "tax" shall include any penalty, interest and costs properly payable. The term "levy" includes the power of distraint and seizure by any means.

Sec. 12. Minnesota Statutes 1986, section 271.01, subdivision 5, is amended to read:

Subd. 5. **JURISDICTION.** The tax court shall have statewide jurisdiction. Except for an appeal to the supreme court or any other appeal allowed under this subdivision, the tax court shall be the sole, exclusive, and final authority for the hearing and determination of all questions of law and fact arising under the tax laws of the state, as defined in this subdivision, in those cases that have been appealed to the tax court and in any case that has been transferred by the district court to the tax court. The tax court shall have no jurisdiction in any case that does not arise under the tax laws of the state or in any criminal case or in any case determining or granting title to real property or in any case that is under the jurisdiction of the probate court. The small claims division of the tax court shall have no jurisdiction in any case dealing with property valuation or assessment for property tax purposes until the taxpayer has appealed the valuation or assessment to the town or city board of equalization and to the county board of equalization, except for those taxpayers whose original assessments are determined by the commissioner of revenue. The tax court shall have no jurisdiction in any case involving an order of the state board of equalization unless a taxpayer contests the valuation of property. Only the taxes, aids and related matters contained in chapters 60A, 69, 124, 270, 272, 273, 274, 275, 276, 277, 278, 279, 285, 287, 288, 290, 290A, 291, 292, 293, 294, 295, 296, 297, 297A, 297B, 297C, 297D, 298, 299, 299F, 473, 473F, and 477A shall be considered tax laws of this state subject to the jurisdiction of the tax court. This subdivision shall not be construed to prevent an appeal, as provided by law, to an administrative agency, board of equalization, or to the commissioner of revenue. Wherever used in this chapter, the term commissioner shall mean the commissioner of revenue, unless otherwise specified.

Sec. 13. Minnesota Statutes 1986, section 287.21, is amended by adding a subdivision to read:

Subd. 4. **TAX-FORFEITED LAND.** Before a state deed for tax-forfeited land may be issued, the deed tax must be paid by purchasers of tax-forfeited land, persons who redeem tax-forfeited land, or local units of government that apply for use or purchase of tax-forfeited land.

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Sec. 14. Minnesota Statutes 1987 Supplement, section 295.32, is amended to read:

295.32 GROSS EARNINGS TAX; ANNUAL RETURN.

Every telegraph company as defined in section 295.01, subdivision 9, shall file a return with the commissioner of revenue, in such form as the commissioner shall prescribe, containing a true and just report of its gross earnings derived from business within the state during the preceding calendar year, and make payment of the tax based upon the following percentages of such gross earnings:

for calendar years beginning before December 31, 1989, 6 percent,

for calendar year 1990, ~~4.5~~ 4 percent,

for calendar year 1991, ~~3~~ 2 percent,

~~for calendar year 1992, 1.5 percent, and~~

for calendar years beginning after December 31, ~~1992~~ 1991, exempt.

Such return and payment of the tax due therewith shall be submitted on or before March first of each year, and shall be in lieu of all ad valorem taxes upon the property of such company within the state for the year during which such gross earnings accrued. The provisions of chapter 294 and acts amendatory thereto, shall be applicable to such telegraph companies and to the returns and to the taxes submitted therewith by them.

Sec. 15. Minnesota Statutes 1986, section 297D.08, is amended to read:

297D.08 TAX RATE.

A tax is imposed on marijuana and controlled substances as defined in section 297D.01 at the following rates:

(1) on each gram of marijuana, or each portion of a gram, \$3.50; and

(2) on each gram of controlled substance, or portion of a gram, \$200; or

(3) on each ~~50~~ ten dosage units of a controlled substance that is not sold by weight, or portion thereof, ~~\$2,000~~ \$400.

Sec. 16. Minnesota Statutes 1987 Supplement, section 298.22, subdivision 1, is amended to read:

Subdivision 1. (1) The office of commissioner of iron range resources and rehabilitation is created. The commissioner shall be appointed by the governor under the provisions of section 15.06.

(2) The commissioner may hold such other positions or appointments as are not incompatible with duties as commissioner of iron range resources and reha-

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bilitation. The commissioner may appoint a deputy commissioner. All expenses of the commissioner, including the payment of such assistance as may be necessary, shall be paid out of the amounts appropriated by section 298.28. The compensation of the commissioner shall be set by the legislative coordinating commission and may not exceed the maximum salary set for the commissioner of administration under section 15A.081, subdivision 1.

(3) When the commissioner shall determine that distress and unemployment exists or may exist in the future in any county by reason of the removal of natural resources or a possibly limited use thereof in the future and the decrease in employment resulting therefrom, now or hereafter, the commissioner may use such amounts of the appropriation made to the commissioner of revenue in section 298.28 as are determined to be necessary and proper in the development of the remaining resources of said county and in the vocational training and rehabilitation of its residents, except that the amount needed to cover cost overruns awarded to a contractor by an arbitrator in relation to a contract awarded by the commissioner or in effect after July 1, 1985, is appropriated from the general fund. For the purposes of this section, "development of remaining resources" includes, but is not limited to, the promotion of tourism.

Sec. 17. Minnesota Statutes 1987 Supplement, 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 set by the Minnesota development board for comparable small business development loans at that time 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 area defined in section 273.134, and as otherwise provided in this section.

Sec. 18. Minnesota Statutes 1986, section 298.223, is amended to read:

298.223 TACONITE AREA ENVIRONMENTAL PROTECTION FUND.

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 area defined in section 273.134 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:

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(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 area defined in section 273.134;

(d) monitoring of mineral industry related health problems among mining employees.

Subd. 2. ADMINISTRATION. The taconite environmental protection fund shall be administered by the commissioner of the iron range resources and rehabilitation board. The commissioner shall by September 1 of each year prepare a list of projects to be funded from the taconite environmental protection fund, with such supporting information including description of the projects, plans, and cost estimates as may be necessary. Upon recommendation of the iron range resources and rehabilitation board, this list shall be submitted to the legislative advisory commission for its review. This list with the recommendation of the legislative advisory commission shall then be transmitted to the governor by November 1 of each year. By December 1 of each year, the governor shall approve or disapprove, or return for further consideration, each individual project. Funds for a project may be expended only upon approval of the project by the governor.

The commissioner may submit supplemental projects for approval at any time. Supplemental projects approved by the board must be submitted to the members of the legislative advisory commission for their review and recommendations of further review. If a recommendation is not provided within ten days, no further review by the legislative advisory commission is required, and the governor shall approve or disapprove each project or return it for further consideration. If the recommendation by any member is for further review the governor shall submit the request to the legislative advisory commission for its review and recommendation. Failure or refusal of the commission to make a recommendation promptly is a negative recommendation.

Subd. 3. APPROPRIATION. There is hereby annually appropriated to the commissioner of iron range resources and rehabilitation such funds as are necessary to carry out the projects approved and such funds as are necessary for administration of this section. Annual administrative costs, not including detailed engineering expenses for the projects, shall not exceed five percent of the amount annually expended from the fund.

Funds for the purposes of this section are provided by section 298.28, subdivision 11 relating to the taconite environmental protection fund.

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Sec. 19. Minnesota Statutes 1986, section 298.28, subdivision 3, is amended to read:

Subd. 3. **CITIES; TOWNS.** (a) 12.5 cents per taxable ton, less any amount distributed under subdivision 8, and paragraph (b) of this subdivision, must be allocated to the taconite municipal aid account to be distributed as provided in section 298.282.

(b) An amount must be allocated to towns or cities that is annually certified by the county auditor of a county containing a taconite tax relief area within which there is (1) an organized township if, as of January 2, 1982, more than 75 percent of the assessed valuation of the township consists of iron ore or (2) a city if, as of January 2, 1980, more than 75 percent of the assessed valuation of the city consists of iron ore.

(c) The amount allocated under paragraph (b) will be the portion of a township's or city's certified levy equal to the proportion of (1) the difference between 50 percent of January 2, 1982, assessed value in the case of a township and 50 percent of the January 2, 1980, assessed value in the case of a city and its current assessed value to (2) the sum of its current assessed value plus the difference determined in (1), provided that the amount distributed shall not exceed \$55 per capita in the case of a township or \$75 per capita in the case of a city. For purposes of this limitation, population will be determined according to the 1980 decennial census conducted by the United States Bureau of the Census. The county auditor shall extend the township's or city's levy against the sum of the township's or city's current assessed value plus the difference between 50 percent of its January 2, 1982, assessed value and its current assessed value in the case of a township and between 50 percent of its January 2, 1980, assessed value and its current assessed value in the case of a city. If the current assessed value of the township exceeds 50 percent of the township's January 2, 1982, assessed value, or if the current assessed value of the city exceeds 50 percent of the city's January 2, 1980, assessed value, this paragraph shall not apply.

Sec. 20. Minnesota Statutes 1986, section 373.40, subdivision 4, as added by H.F. No. 1796, if enacted, is amended to read:

Subd. 4. **LIMITATIONS ON AMOUNT.** A county, other than Hennepin or Ramsey, may not issue bonds under this section if the maximum amount of principal and interest to become due in any year on all the outstanding bonds issued pursuant to this section (including the bonds to be issued) will equal or exceed one mill multiplied by the taxable assessed value of property in the county. Ramsey county may not issue bonds under this section if the maximum amount of principal and interest to become due in any year on all the outstanding bonds issued pursuant to this section (including the bonds to be issued) will equal or exceed 1.2 mills multiplied by the taxable assessed value of property in the county. Hennepin county may not issue bonds under this section if the maximum amount of principal and interest to become due in any year on all the

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outstanding bonds issued pursuant to this section together with the bonds proposed to be issued, will equal or exceed one-half mill multiplied by the taxable assessed value of the property in the county. Calculation of the limit must be made using the taxable assessed value for the taxes payable year in which the obligations are issued and sold. This section does not limit the authority to issue bonds under any other special or general law.

Sec. 21. Minnesota Statutes 1986, section 387.212, is amended to read:

387.212 CONTINGENT FUND.

The board of county commissioners in any county may create a sheriff's contingent fund and may credit thereto not more than ~~\$3,000~~ \$10,000. The money in such fund may be used for the advancement and reimbursement of expenses of the sheriff and the sheriff's office. Such moneys shall be disbursed by the county treasurer in accordance with rules and regulations prescribed by the board. Any balance remaining at the end of the year shall be transferred to the revenue fund.

Sec. 22. [424A.10] STATE SUPPLEMENTAL BENEFIT; VOLUNTEER FIREFIGHTERS.

Subdivision 1. DEFINITION. For purposes of this section, "qualified recipient" means an individual who receives an involuntary lump sum distribution of pension or retirement benefits from a firefighters' relief association for service performed as a volunteer firefighter.

Subd. 2. PAYMENT OF SUPPLEMENTAL BENEFIT. Upon the payment by a firefighters' relief association of an involuntary lump sum distribution to a qualified recipient, the association must pay a supplemental benefit to the qualified recipient. Notwithstanding any law to the contrary, the relief association may pay the supplemental benefit out of its special fund. The amount of this benefit equals ten percent of the regular involuntary lump sum distribution that is paid on the basis of service as a volunteer firefighter. In no case may the amount of the supplemental benefit exceed \$1,000.

Subd. 3. STATE REIMBURSEMENT. By February 15 of each year, the relief association shall apply to the commissioner of revenue for state reimbursement of the amount of supplemental benefits paid under subdivision 2 during the preceding calendar year. By March 15 the commissioner shall reimburse the relief association for the amount of the supplemental benefits paid to qualified recipients. The commissioner of revenue shall prescribe the form of and supporting information that must be supplied as part of the application for state reimbursement. The reimbursement payment must be deposited in the special fund of the relief association.

Subd. 4. IN LIEU OF INCOME TAX EXCLUSION. The supplemental benefit provided by this section is in lieu of the state income tax exclusion for involuntary lump sum distributions of retirement benefits paid to volun-

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teer firefighters. If the law is modified to exclude or exempt volunteer firefighters' lump sum distributions from state income taxation, the supplemental benefits under this section may no longer be paid beginning with the first calendar year in which the exclusion or exemption is effective. This subdivision does not apply to exemption of all or part of a lump sum distribution under section 290.032 or 290.0802.

Sec. 23. Minnesota Statutes 1987 Supplement, section 469.170, is amended by adding a subdivision to read:

Subd. 5d. AMENDMENT OF PLANS. A written multiyear enterprise zone tax credit distribution plan submitted under subdivision 5a, 5b, or 5c, may be amended, provided that an initial amendment may be made no sooner than two years from the date of submission of the original plan, and subsequent amendments may be made no sooner than two years after the most recent prior amendment.

Sec. 24. Minnesota Statutes 1986, section 473.843, subdivision 2, is amended to read:

Subd. 2. DISPOSITION OF PROCEEDS. After reimbursement to the department of revenue for costs incurred in administering this section, the proceeds of the fees imposed under this section, including interest and penalties, must be deposited as follows:

(a) one-half of the proceeds must be deposited in the landfill abatement fund established in section 473.844; and

(b) one-half of the proceeds must be deposited in the metropolitan landfill contingency action fund established in section 473.845.

Sec. 25. Minnesota Statutes 1986, section 507.235, subdivision 1, is amended to read:

Subdivision 1. FILING REQUIRED. All contracts for deed executed on or after January 1, 1984, shall be recorded within six months in the office of the county recorder or registrar of titles in the county in which the land is situated. This filing period may be extended if failure to pay the property tax due in the current year on a parcel as required in section 272.121 has prevented filing and recording of the contract. In the case of a parcel that was divided and classified under section 273.13 as class 1a or 1b, the period may be extended to October 31 of the year in which the sale occurred, and in the case of a parcel that was divided and classified under section 273.13 as class 2a, the period may be extended to November 30 of the year in which the sale occurred.

Sec. 26. Minnesota Statutes 1987 Supplement, section 508.25, is amended to read:

508.25 RIGHTS OF PERSON HOLDING CERTIFICATE OF TITLE.

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Every person receiving a certificate of title pursuant to a decree of registration and every subsequent purchaser of registered land who receives a certificate of title in good faith and for a valuable consideration shall hold it free from all encumbrances and adverse claims, excepting only the estates, mortgages, liens, charges, and interests as may be noted in the last certificate of title in the office of the registrar, and also excepting any of the following rights or encumbrances subsisting against it, if any:

(1) Liens, claims, or rights arising or existing under the laws or the constitution of the United States, which this state cannot require to appear of record;

(2) The lien of any real property tax or special assessment for which the land has not been sold at the date of the certificate of title;

(3) Any lease for a period not exceeding three years when there is actual occupation of the premises thereunder;

(4) All rights in public highways upon the land;

(5) The right of appeal, or right to appear and contest the application, as is allowed by this chapter;

(6) The rights of any person in possession under deed or contract for deed from the owner of the certificate of title;

(7) Any outstanding mechanics lien rights which may exist under sections 514.01 to 514.17.

~~(8) No existing or future liens or judgments, notwithstanding section 508.63, arising under the laws of this state for the nonpayment of any amounts due under chapter 268 or any tax administered by the commissioner of revenue may encumber title to lands registered under chapter 508 unless filed under the terms of chapter 508.~~

Sec. 27. Laws 1988, chapter 516, section 3, is amended to read:

Sec. 3. AREA OF OPERATION.

The area of operation of the joint authority and the project for purposes of Minnesota Statutes, section 469.174, subdivision 8 shall include all of Cook county. The Grand Marais city council must approve any project ~~as defined in Minnesota Statutes, section 469.174, subdivision 8,~~ and any economic development district as defined in Minnesota Statutes, section 469.101, if the project or economic development district includes real property within the boundaries of Grand Marais or includes real property owned by Grand Marais.

Sec. 28. H.F. No. 1796, section 6, if enacted, is amended to read:

Sec. 6. EFFECTIVE DATE.

Section 5 is effective upon compliance by the Hennepin county board with

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Minnesota Statutes, section 645.021. The rest of this act is effective June 1, 1988.

Sec. 29. REFUNDING BONDS.

The city of Little Falls in Morrison county, by resolution of its city council, may issue and sell general obligation refunding bonds of the city in a principal amount not exceeding \$3,300,000, the proceeds of which are to be used to refund the city's general obligation tax increment bonds of 1985. The refunding bonds shall be issued and sold in accordance with Minnesota Statutes, chapter 475, except that:

(1) the refunding bonds shall be treated as obligations described in Minnesota Statutes, section 475.58, subdivision 1, paragraph (3);

(2) Minnesota Statutes, section 475.67, subdivision 12, shall not apply;

(3) the amount of bonds issued shall not be included in computing any debt limitation applicable to the city; and

(4) the levy of taxes required by Minnesota Statutes, section 475.61, to pay the principal of and interest on the bonds shall not be subject to any levy limitation or be included in computing or applying any levy limitation applicable to the city.

Sec. 30. APPLICATION OF PROCEEDS OF REFUNDED BONDS.

The city of Little Falls in Morrison county, by resolution of its city council, may appropriate any of the unexpended proceeds of its general obligation tax increment bonds of 1985, except proceeds held in the debt service fund for the bonds, to any other municipal purpose for which the city could issue its bonds, including the purposes set forth in Minnesota Statutes, section 475.52, subdivision 1 or 2, 429.021, or 444.075. To the extent that the proceeds are appropriated for an improvement for which special assessments are levied or tax increments are collectible, the city shall appropriate the receipts from the special assessments or tax increments, subject to any prior pledge of them to secure other obligations of the city, to the payment of the general obligation tax increment bonds of 1985, or to the payment of any refunding bonds issued pursuant to section 29.

Sec. 31. CITY OF HERMANTOWN; PROPERTY TAXES ON LAND HELD FOR ECONOMIC DEVELOPMENT.

Notwithstanding the time limitation contained in Minnesota Statutes 1986, section 272.02, subdivision 5, the holding of property that has been held for seven years as of August 1, 1987, by the city of Hermantown for later resale for economic development purposes is a public purpose under Minnesota Statutes, section 272.02, subdivision 1, clause (7), for a period not to exceed 10 years. This section does not apply if buildings or other improvements are constructed after acquisition of the property, and if more than one-half of the floor space of the buildings or improvements that is available for lease to or use by a private individual, corporation, or other entity is leased to or otherwise used by a

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private individual, corporation, or other entity. This section does not create an exemption from Minnesota Statutes, section 272.01, subdivision 2; 272.68; 273.19; or 469.040, subdivision 3; or other provision of law providing for the taxation of or for payments in lieu of taxes for publicly held property which is leased, loaned, or otherwise made available and used by a private person.

Sec. 32. [383A.65] RAMSEY COUNTY; AUTHORIZATION FOR BONDS.

Ramsey county may issue general obligation bonds in one or more series in an amount not to exceed \$2,000,000, in the aggregate, to finance the restoration of the concourse of the St. Paul union depot as a facility for the exhibition of works of art, the proceeds of which may not be used for that purpose until \$500,000 in operational funding has been committed by nonpublic sources. The bonds shall be issued pursuant to Minnesota Statutes, chapter 475, except that the bonds shall not be subject to its election requirements or debt limits. They shall not be subject to any other debt or tax levy limitations applicable to the county and shall not be considered in calculating amounts subject to any other debt or tax levy limitations. Levies by the county for debt servicing payment for the retirement of the bonds shall be exempt from and disregarded in the calculation of all tax levy limitations applicable to the county.

Sec. 33. CITY OF SHAFER BOND ISSUE.

The city of Shafer may issue general obligation bonds of the city in an aggregate principal amount not to exceed \$40,000 to finance the acquisition and betterment of a municipal building. The bonds shall be issued and sold in accordance with the provisions of Minnesota Statutes, chapter 475, including the provision requiring the approval of a majority of the electors voting on the question of issuing the bonds. Notwithstanding any other statutory or charter provision, the principal amount of bonds issued shall not be included in computing any debt limit applicable to the city, nor shall the taxes required to be levied to pay the principal of and interest on the bonds be subject to any levy limitation or be included in computing any levy limitation applicable to the city.

Sec. 34. STEARNS COUNTY; PROPERTY TAX REFUND.

Stearns county shall refund to Lake Koronis Assembly Grounds the property taxes assessed in 1985, paid in 1986, for the parcels identified as 26-16447-03, 26-15788-00, 26-15790-00, 26-15788-04, 26-16447-02, 26-16447-04, 26-16447-16, 26-16447-06, and 26-16447-07.

Stearns county shall refund to Lake Koronis Assembly Grounds the amount of \$4,786 according to the following schedule:

one-third by August 1, 1988;

one-third by July 1, 1989; and

one-third by July 1, 1990.

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The refund shall be paid from the property taxes and charged against the receipts held by the county for the taxing jurisdictions in the same proportion as the taxes paid on this property in 1986. No interest shall be paid on the amounts refunded.

Sec. 35. HARDSHIP LOANS.

Notwithstanding the limitations on the metropolitan council's authority to make hardship loans in Minnesota Statutes, section 473.167, subdivision 2a, paragraph (b), the council may make hardship loans until December 31, 1988, to Washington county to purchase homestead property from and provide relocation assistance to property owners affected by hardship acquisitions incurred because of adoption of the Washington county Big Marine Park master plan. Except as provided in this section, the hardship loans must be made in accordance with Minnesota Statutes, section 473.167, subdivisions 2 and 2a.

Sec. 36. APPROPRIATION.

(a) \$49,000 is appropriated for fiscal year 1989 from the general fund to the commissioner of revenue for purposes of preparing income tax samples under section 10.

(b) \$263,000 is appropriated for fiscal year 1988 from the general fund to the commissioner of revenue for purposes of administering restoration of property tax refunds under article 4, section 12. Amounts not expended in fiscal year 1988 are available in fiscal year 1989.

(c) \$45,000 is appropriated for fiscal year 1989 from the general fund to the commissioner of revenue for purposes of administering property tax refund targeting under article 4, section 7.

(d) \$165,000 is appropriated for fiscal year 1989 from the general fund to the commissioner of revenue for purposes of administering the property tax reform provisions of article 5.

(e) \$600,000 is appropriated for fiscal year 1989 from the general fund to the commissioner of revenue to make reimbursement payments to firefighters' relief associations under section 22.

Sec. 37. REPEALER.

(a) Minnesota Statutes 1987 Supplement, sections 296.02, subdivisions 2a and 2b, as amended by H.F. No. 1749, if enacted, and 296.025, subdivisions 2a and 2b, as amended by H.F. No. 1749, if enacted, are repealed.

(b) Laws 1987, chapter 268, article 3, section 11 is repealed.

Sec. 38. EFFECTIVE DATE.

Sections 1, 15, and 19 are effective July 1, 1988. Section 13 is effective for

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all instruments recorded after May 31, 1987. Sections 11, 12, 14, 16, 17, 18, 21, 23, 24, 25, 36, and 37, paragraph (b), are effective the day following final enactment. Sections 20 and 28 are effective June 1, 1988. Section 26 is effective retroactive to August 1, 1987. Section 22 is effective for lump sums paid after December 31, 1986. Section 27 is effective at the same time Laws 1988, chapter 516, is effective.

Pursuant to Minnesota Statutes, section 645.023, subdivision 1, paragraph (a), sections 29, 30, and 33 are effective without local approval on the day following final enactment.

Section 31 is effective the day after compliance with Minnesota Statutes, section 645.021 by the city council of Hermantown and terminates effective with taxes levied in 1989, payable 1990. Section 32 is effective the day after filing of certificates of local approval by the governing body of the city of St. Paul and the Ramsey county board in compliance with Minnesota Statutes, section 645.021, subdivision 3. Section 37, paragraph (a) is effective retroactive to July 1, 1987.

Section 27 is effective the day after compliance by the governing bodies of Cook county and the city of Grand Marais with Minnesota Statutes, section 645.021, subdivision 3.

Section 35 is effective in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Approved May 7, 1988

CHAPTER 720—S.F.No. 2292

An act relating to libraries; excluding library services levies from certain levy limitations; amending Minnesota Statutes 1986, section 134.34, by adding a subdivision.

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

Section 1. Minnesota Statutes 1986, section 134.34, is amended by adding a subdivision to read:

Subd. 6. EFFECT OF LEVY LIMITATIONS. Notwithstanding any law to the contrary, levies authorized in this section for library services are not included in the portion of county or city levies subject to levy limitations.

Approved May 7, 1988

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