

Presented to the governor May 16, 2002

Signed by the governor May 20, 2002, 10:14 a.m.

CHAPTER 377—H.F.No. 2498

An act relating to financing and operation of state and local government; modifying provisions relating to income, franchise, sales and use, property, MinnesotaCare, gross receipts, liquor, insurance, solid waste management, estate, minerals, and other taxes, property tax refunds, tax liens, and tax administration; imposing a wind energy production tax; modifying property tax and other state aids and credits; changing education aids and levies; modifying tax court jurisdiction; authorizing local units of government to levy, impose, or abate taxes, issue debt, and exercise other powers; extending and authorizing certain expenditures from the northeast Minnesota economic protection trust fund; modifying levy limits; providing powers to and imposing duties on the commissioner of revenue and other officials; clarifying utility rate reduction provisions mandated by property tax reductions; modifying tax increment financing and other economic development provisions; providing a time limit for offset of federal tax refunds; changing lawful purpose for purposes of lawful gambling; providing for data privacy and exchange of data; modifying certain debt limits; repealing an annexation provision; making technical corrections; providing for the transfer of funds; providing for a budget reserve; appropriating money; amending Minnesota Statutes 2000, sections 16A.152, by adding a subdivision; 40A.151, subdivision 1; 40A.152, subdivisions 1, 3; 69.77, by adding a subdivision; 126C.44; 168A.05, by adding subdivisions; 270.063, subdivision 4; 270.60, subdivision 4; 270B.01, subdivision 8; 270B.02, subdivision 4; 270B.14, subdivision 8; 272.02, subdivision 15, by adding subdivisions; 272.0212, subdivision 4; 273.125, subdivisions 3, 4; 273.1398, subdivisions 1a, 2, 3; 278.01, subdivision 1; 279.01, subdivision 3; 289A.10, subdivision 1; 289A.19, subdivision 1; 290.01, subdivision 19a; 290.067, subdivisions 1, 2a; 290.081; 290.17, subdivisions 2, 3; 290.191, subdivision 4; 290A.03, subdivision 3; 291.03, subdivision 1; 295.53, subdivision 1; 295.57, by adding a subdivision; 296A.18, subdivision 8; 297A.66, by adding a subdivision; 297A.67, subdivision 5, by adding a subdivision; 297A.68, by adding a subdivision; 297A.71, by adding subdivisions; 297A.96; 297G.07, subdivision 1; 297H.06, subdivision 2; 297I.05, subdivision 11; 298.27; 298.28, subdivisions 5, 9b, 11; 298.291; 469.1813, by adding a subdivision; 477A.011, subdivision 20; 477A.15; Minnesota Statutes 2001 Supplement, sections 69.021, subdivision 5; 124D.86, subdivision 3; 126C.17, subdivision 7a; 126C.21, subdivision 4; 126C.40, subdivision 1; 126C.43, subdivision 3; 126C.48, subdivision 8; 216B.1646; 270.69, subdivision 2; 270.691, subdivision 8; 270B.02, subdivision 3; 270B.08, subdivision 2; 271.01, subdivision 5; 271.21, subdivision 2; 272.02, subdivision 22; 272.028; 273.121; 273.124, subdivision 11; 273.13, subdivisions 22, 24, 25; 273.1384, subdivisions 1, 2; 273.1392; 273.1398, subdivisions 4c, 4d; 275.065, subdivision 3; 275.70, subdivision 5; 275.71, subdivisions 2, 3, 6; 275.74, subdivision 2; 276.04, subdivision 2; 289A.02, subdivision 7; 289A.20, subdivisions 2, 4; 289A.60, subdivision 2; 290.01, subdivisions 19, 19b, 19c, 19d, 31; 290.0675, subdivisions 1, 3; 290.091, subdivision 2; 290.0921, subdivisions 2, 3, 6; 290.21, subdivision 4; 290A.03, subdivision 15; 290A.04, subdivision 2h; 291.005, subdivision 1; 295.60, subdivisions 2, 7, by adding subdivisions; 297A.61, subdivisions 3, 26, 31; 297A.66, subdivision 1; 297A.67, subdivisions 25, 29; 297A.68, subdivision 3; 297A.70, subdivisions 3, 10; 297A.71, subdivision 23; 297A.75; 297A.995, subdivision 4; 298.01, subdivisions 3b, 4c; 298.225, subdivision 1; 298.28, subdivisions 4, 6, 9a, 10; 298.296, subdivision 2; 349.12, subdivision 25; 469.1734,

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subdivision 6; 469.1763, subdivision 6; 469.1792, subdivision 1; 477A.011, subdivision 36; 477A.0123; 477A.013, subdivision 9; 477A.03, subdivision 2; 477A.07, subdivisions 1, 2, 3; Laws 1990, chapter 604, article 6, section 9, subdivision 1, as amended; Laws 1993, chapter 375, article 5, section 42; Laws 1995, chapter 264, article 5, section 45, subdivision 1, as amended; Laws 1998, chapter 389, article 3, section 42; Laws 1998, chapter 389, article 8, section 37, subdivision 2; Laws 2001, First Special Session chapter 5, article 9, section 3; Laws 2001, First Special Session chapter 5, article 12, sections 11, 82, 95; Laws 2001, First Special Session chapter 6, article 1, section 53; Laws 2001, First Special Session chapter 6, article 4, sections 25, 27, subdivision 9; Laws 2001, First Special Session chapter 6, article 5, section 12; proposing coding for new law in Minnesota Statutes, chapters 126C; 272; repealing Minnesota Statutes 2000, sections 272.02, subdivision 40; 290.01, subdivisions 19g, 32; 290.0921, subdivision 5; 291.03, subdivision 2; 295.44; 297A.68, subdivision 26; Minnesota Statutes 2001 Supplement, sections 469.176, subdivision 1h; Laws 2001, First Special Session chapter 5, article 3, section 88; Minnesota Rules, parts 8130.1400; 8130.2100; 8130.2350; 8130.2600; 8130.3000; 8130.3850; 8130.5000.

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

ARTICLE 1

INCOME AND FRANCHISE TAXES

Section 1. Minnesota Statutes 2001 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 amount of salary expense not allowed 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;

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(5) the deduction for capital losses pursuant to sections 1211 and 1212 of the Internal Revenue Code, except that:

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

(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 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 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) 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;

(10) 80 percent 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;

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

(12) the amount of handicap access expenditures in the taxable year which are not allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

(13) the amount of qualified research expenses not allowed for federal income tax purposes under section 280C(c) of the Internal Revenue Code, but only to the extent that the amount exceeds the amount of the credit allowed under section 290.068;

(14) the amount of salary expenses not allowed for federal income tax purposes due to claiming the Indian employment credit under section 45A(a) of the Internal Revenue Code;

(15) the amount of any refund of environmental taxes paid under section 59A of the Internal Revenue Code;

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

(17) for a corporation whose foreign sales corporation, as defined in section 922 of the Internal Revenue Code, constituted a foreign operating corporation during the any taxable years year ending during calendar year 1992 before January 1, 1995, and a return was filed by August 15, 1996, claiming the deduction under this subdivision for income received from the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of income excluded under section 114 of the Internal Revenue Code, provided the income is not income of a foreign operating company.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2000.

Sec. 2. Minnesota Statutes 2000, section 290.081, is amended to read:

290.081 INCOME OF NONRESIDENTS, RECIPROCITY.

(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 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.

(b) When it is deemed to be in the best interests of the people of this state, the commissioner may determine that the provisions of elause paragraph (a) shall not apply. As long as the provisions of elause paragraph (a) apply between Minnesota and Wisconsin, the provisions of elause paragraph (a) shall apply to any individual who is domiciled in Wisconsin.

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(c) For the purposes of clause paragraph (a), whenever the Wisconsin tax on Minnesota residents which would have been paid Wisconsin without clause paragraph (a) exceeds the Minnesota tax on Wisconsin residents which would have been paid Minnesota without clause paragraph (a), or vice versa, then the state with the net revenue loss resulting from clause paragraph (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.

(d) Interest shall be is payable on all delinquent balances amounts calculated under paragraph (c) relating to taxable years beginning after December 31, 1977 December 31, 2000. Interest accrues from July 1 of the taxable year. 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.

(e) 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.

(f) 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.

EFFECTIVE DATE. This section is effective the day following final enactment. Income tax reciprocity under Minnesota Statutes, section 290.081, with the state of Wisconsin is terminated effective for taxable years beginning after December 31, 2002, unless the state of Wisconsin agrees, in writing, by October 1, 2002, that interest will be included in payments as required by this section, calculated from the date specified under this section at a rate at least equal to the rate under Minnesota Statutes, section 270.75, and beginning with the payment due in December 2002. If income tax reciprocity is terminated, the requirement under Minnesota Statutes, section 136A.08, subdivision 3, that an income tax reciprocity agreement be in effect as a condition for a higher education reciprocity is suspended through the 2003-2004 school year.

Sec. 3. Minnesota Statutes 2001 Supplement, section 290.0921, subdivision 2, is amended to read:

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

(b) "Alternative minimum taxable net income" is alternative minimum taxable income,

(1) less the exemption amount, and

(2) apportioned or allocated to Minnesota under section 290.17, 290.191, or 290.20.

(c) The "exemption amount" is \$40,000, reduced, but not below zero, by 25 percent of the excess of alternative minimum taxable income over \$150,000.

(d) "Minnesota alternative minimum taxable income" is alternative minimum taxable net income, less the deductions for alternative tax net operating loss under subdivision 4; charitable contributions under subdivision 5; and dividends received under subdivision 6. The sum of the deductions under this paragraph may not exceed 90 percent of alternative minimum taxable net income. This limitation does not apply to:

(1) a deduction for dividends paid to or received from a corporation which is subject to tax under section 290.36 and which is a member of an affiliated group of corporations as defined by the Internal Revenue Code; or

(2) a deduction for dividends received from a property and casualty insurer as defined under section 60A.60, subdivision 8, which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and either: (i) the dividend is eliminated in consolidation under Treasury Regulation 1.1502-14(a), as amended through December 31, 1989; or (ii) the dividend is deducted under an election under section 243(b) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2002.

Sec. 4. Minnesota Statutes 2001 Supplement, section 290.0921, subdivision 6, is amended to read:

Subd. 6. **DIVIDENDS RECEIVED.** (a) A deduction is allowed from alternative minimum taxable net income equal to the deduction for dividends received under section 290.21, subdivision 4, for purposes of calculating taxable income under section 290.01, subdivision 29.

(b) The amount of the deduction must not exceed 90 percent of alternative minimum taxable net income.

This limitation does not apply to:

(1) dividends paid to or received from a corporation which is subject to tax under section 290.36 and which is a member of an affiliated group of corporations as defined by the Internal Revenue Code; or

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(2) dividends received from a property and casualty insurer as defined under section 60A.60, subdivision 8, which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and either: (i) the dividend is eliminated in consolidation under Treasury Regulation 1.1502-14(a), as amended through December 31, 1989; or (ii) the dividend is deducted under an election under section 243(b) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2002.

Sec. 5. Minnesota Statutes 2000, section 290.191, subdivision 4, is amended to read:

Subd. 4. **APPORTIONMENT FORMULA FOR CERTAIN MAIL ORDER BUSINESSES.** If the business of a corporation, partnership, or proprietorship consists exclusively of the selling of tangible personal property and services at retail, as defined in section 297A.61, subdivision 4, paragraph (a), in response to orders received by United States mail, telephone, facsimile, or other electronic media, and 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 its 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:

(1) the sale not in the ordinary course of business of tangible or intangible assets used in conducting business activities must be disregarded; and

(2) property and payroll at a distribution center outside of Minnesota are disregarded if the sole activity at the distribution center is the filling of orders, and no solicitation of orders occurs at the distribution center.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2001.

Sec. 6. Minnesota Statutes 2001 Supplement, section 290.21, subdivision 4, is amended to read:

Subd. 4. (a)(1) 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 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; and

(2)(i) the remaining 20 percent of dividends if the dividends received are the stock in an affiliated company transferred in an overall plan of reorganization and the

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dividend is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended through December 31, 1989; or

(ii) the remaining 20 percent of dividends if the dividends are received from a corporation which is subject to tax under section 290.36 and which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and the dividend is eliminated in consolidation under Treasury Department Regulation 1.1502-14(a), as amended through December 31, 1989, or is deducted under an election under section 243(b) of the Internal Revenue Code; or

(iii) the remaining 20 percent of the dividends if the dividends are received from a property and casualty insurer as defined under section 60A.60, subdivision 8, which is a member of an affiliated group of corporations as defined by the Internal Revenue Code and either: (A) the dividend is eliminated in consolidation under Treasury Regulation 1.1502-14(a), as amended through December 31, 1989; or (B) the dividend is deducted under an election under section 243(b) of the Internal Revenue Code.

(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 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.

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.

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.

(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

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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.

(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) the percentage allowed 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.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2002.

ARTICLE 2

FEDERAL UPDATE

Section 1. Minnesota Statutes 2001 Supplement, section 289A.02, subdivision 7, is amended to read:

Subd. 7. **INTERNAL REVENUE CODE.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~June 15, 2001~~ March 15, 2002.

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

Sec. 2. Minnesota Statutes 2001 Supplement, section 289A.20, subdivision 2, is amended to read:

Subd. 2. **WITHHOLDING FROM WAGES, ENTERTAINER WITHHOLDING, WITHHOLDING FROM PAYMENTS TO OUT-OF-STATE CONTRACTORS, AND WITHHOLDING BY PARTNERSHIPS AND SMALL BUSINESS CORPORATIONS.** (a) A tax required to be deducted and withheld during the quarterly period must be paid on or before the last day of the month following the close of the quarterly period, unless an earlier time for payment is provided. A tax required to be deducted and withheld from compensation of an entertainer and from a payment to an out-of-state contractor must be paid on or before the date the return for such tax must be filed under section 289A.18, subdivision 2. Taxes required to be deducted and withheld by partnerships and S corporations must be paid on or before the date the return must be filed under section 289A.18, subdivision 2.

(b) An employer who, during the previous quarter, withheld more than \$1,500 of tax under section 290.92, subdivision 2a or 3, or 290.923, subdivision 2, must deposit tax withheld under those sections with the commissioner within the time allowed to

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deposit the employer's federal withheld employment taxes under Treasury Regulation Code of Federal Regulations, title 26, section 31.6302-1, as amended through December 31, 2001, without regard to the safe harbor or de minimis rules in subparagraph (f) or the one-day rule in subsection (c), clause (3). Taxpayers must submit a copy of their federal notice of deposit status to the commissioner upon request by the commissioner.

(c) The commissioner may prescribe by rule other return periods or deposit requirements. In prescribing the reporting period, the commissioner may classify payors according to the amount of their tax liability and may adopt an appropriate reporting period for the class that the commissioner judges to be consistent with efficient tax collection. In no event will the duration of the reporting period be more than one year.

(d) If less than the correct amount of tax is paid to the commissioner, proper adjustments with respect to both the tax and the amount to be deducted must be made, without interest, in the manner and at the times the commissioner prescribes. If the underpayment cannot be adjusted, the amount of the underpayment will be assessed and collected in the manner and at the times the commissioner prescribes.

(e) If the aggregate amount of the tax withheld during a fiscal year ending June 30 under section 290.92, subdivision 2a or 3, is equal to or exceeds the amounts established for remitting federal withheld taxes pursuant to the regulations promulgated under section 6302(h) of the Internal Revenue Code, the employer must remit each required deposit for wages paid in the subsequent calendar year by electronic means.

(f) A third-party bulk filer as defined in section 290.92, subdivision 30, paragraph (a), clause (2), who remits withholding deposits must remit all deposits by electronic means as provided in paragraph (e), regardless of the aggregate amount of tax withheld during a fiscal year for all of the employers.

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

Sec. 3. Minnesota Statutes 2001 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;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Sec. 4. Minnesota Statutes 2000, 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 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) of the Internal Revenue Code, 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 regulated investment company as defined in section 851(a) of the Internal Revenue Code, or the fund of the regulated investment company as defined in section 851(g) of the Internal Revenue Code, making the payment; and

(iii) for the purposes of items (i) and (ii), interest on obligations of an Indian tribal government described in section 7871(c) of the Internal Revenue Code shall be treated as interest income on obligations of the state in which the tribe is located;

(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. For the purpose of this paragraph, the disallowance of itemized deductions under section 68 of the Internal Revenue Code of 1986, income tax is the last itemized deduction disallowed;

(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;

(4) the amount of income taxes paid or accrued within the taxable year under this chapter and income taxes paid to any other state or any province or territory of Canada, to the extent allowed as a deduction in determining federal adjusted gross income. For the purpose of this paragraph, income taxes do not include the taxes imposed by sections 290.0922, subdivision 1, paragraph (b), 290.9727, 290.9728, and 290.9729;

(5) the amount of expense, interest, or taxes disallowed pursuant to section 290.10; and

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(6) the amount of a partner's pro rata share of net income which does not flow through to the partner because the partnership elected to pay the tax on the income under section 6242(a)(2) of the Internal Revenue Code; and

(7) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for tax years ending after September 10, 2001.

Sec. 5. Minnesota Statutes 2001 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;

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

(4) contributions made in taxable years beginning after December 31, 1981, and before January 1, 1985, to a qualified governmental pension plan, an individual retirement account, simplified employee pension, or qualified plan covering a

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self-employed person 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, less any amount allowed to be subtracted as a distribution under this subdivision or a predecessor provision in taxable years that began before January 1, 2000. This subtraction applies only for taxable years beginning after December 31, 1999, and before January 1, 2001. If an individual's subtraction under this clause exceeds the individual's taxable income, the excess may be carried forward to taxable years beginning after December 31, 2000, and before January 1, 2002;

~~(5)~~ income as provided under section 290.0802;

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

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

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

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

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

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

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

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

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

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

EFFECTIVE DATE. This section is effective the day following final enactment, except that clause (12) is effective for tax years ending after September 10, 2001.

Sec. 6. Minnesota Statutes 2001 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:

(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, including but not limited to the tax imposed under section 290.0922, 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; 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; the District of Columbia; or Indian tribal governments;

(3) exempt-interest dividends received as defined in section 852(b)(5) of the Internal Revenue Code;

(4) the amount of any net operating loss deduction taken for federal income tax purposes under section 172 or 832(c)(10) of the Internal Revenue Code or operations loss deduction under section 810 of the Internal Revenue Code;

(5) the amount of any special deductions taken for federal income tax purposes under sections 241 to 247 of the Internal Revenue Code;

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

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(7) the amount of any capital losses deducted for federal income tax purposes under sections 1211 and 1212 of the Internal Revenue Code;

(8) the exempt foreign trade income of a foreign sales corporation under sections 921(a) and 291 of the Internal Revenue Code;

(9) the amount of percentage depletion deducted under sections 611 through 614 and 291 of the Internal Revenue Code;

(10) 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, the amount of the amortization deduction allowed in computing federal taxable income for those facilities;

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

(12) the amount of any environmental tax paid under section 59(a) of the Internal Revenue Code;

(13) the amount of a partner's pro rata share of net income which does not flow through to the partner because the partnership elected to pay the tax on the income under section 6242(a)(2) of the Internal Revenue Code; and

(14) the amount of net income excluded under section 114 of the Internal Revenue Code;

(15) any increase in subpart F income, as defined in section 952(a) of the Internal Revenue Code, for the taxable year when subpart F income is calculated without regard to the provisions of section 614 of Public Law Number 107-147; and

(16) 80 percent of the depreciation deduction allowed under section 168(k) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for tax years ending after September 10, 2001.

Sec. 7. Minnesota Statutes 2001 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 amount of salary expense not allowed 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

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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, except that:

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

(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 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 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

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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) 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;

(10) 80 percent 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;

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

(12) the amount of handicap access expenditures in the taxable year which are not allowed to be deducted or capitalized under section 44(d)(7) of the Internal Revenue Code;

(13) the amount of qualified research expenses not allowed for federal income tax purposes under section 280C(c) of the Internal Revenue Code, but only to the extent that the amount exceeds the amount of the credit allowed under section 290.068;

(14) the amount of salary expenses not allowed for federal income tax purposes due to claiming the Indian employment credit under section 45A(a) of the Internal Revenue Code;

(15) the amount of any refund of environmental taxes paid under section 59A of the Internal Revenue Code;

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

(17) for a corporation whose foreign sales corporation, as defined in section 922 of the Internal Revenue Code, constituted a foreign operating corporation during the taxable years ending during calendar year 1992 and a return was filed by August 15, 1996, claiming the deduction under this subdivision for income received from the foreign operating corporation, an amount equal to 1.23 multiplied by the amount of income excluded under section 114 of the Internal Revenue Code, provided the income is not income of a foreign operating company;

(18) any decrease in subpart F income, as defined in section 952(a) of the Internal Revenue Code, for the taxable year when subpart F income is calculated without regard to the provisions of section 614 of Public Law Number 107-147; and

(19) in each of the five tax years immediately following the tax year in which an addition is required under subdivision 19c, clause (16), an amount equal to one-fifth of

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the delayed depreciation. For purposes of this clause, "delayed depreciation" means the amount of the addition made by the taxpayer under subdivision 19c, clause (16). The resulting delayed depreciation cannot be less than zero.

EFFECTIVE DATE. This section is effective for tax years ending after September 10, 2001.

Sec. 8. Minnesota Statutes 2001 Supplement, section 290.01, subdivision 31, is amended to read:

Subd. 31. **INTERNAL REVENUE CODE.** Unless specifically defined otherwise, "Internal Revenue Code" means the Internal Revenue Code of 1986, as amended through ~~June 15, 2001~~ March 15, 2002.

EFFECTIVE DATE. This section is effective at the same time and in the same manner as the federal changes made by the Victims of Terrorism Tax Relief Act of 2001, Public Law Number 107-134, and by the Job Creation and Worker Assistance Act of 2002, Public Law Number 107-147, become effective.

Sec. 9. Minnesota Statutes 2000, section 290.067, subdivision 1, is amended to read:

Subdivision 1. **AMOUNT OF CREDIT.** (a) A taxpayer may take as a credit against the tax due from the taxpayer and a spouse, if any, under this chapter an amount equal to the dependent care credit for which the taxpayer is eligible pursuant to the provisions of section 21 of the Internal Revenue Code subject to the limitations provided in subdivision 2 except that in determining whether the child qualified as a dependent, income received as a Minnesota family investment program grant or allowance to or on behalf of the child must not be taken into account in determining whether the child received more than half of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of the Internal Revenue Code do not apply.

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

(c) If a married couple:

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

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

(3) does not participate in a dependent care assistance program as defined in section 129 of the Internal Revenue Code, in lieu of the actual employment related

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expenses paid for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of (i) the combined earned income of the couple or (ii) \$2,400 the amount of the maximum limit for one qualified individual under section 21(c) and (d) of the Internal Revenue Code will be deemed to be the employment related expense paid for that child. The earned income limitation of section 21(d) of the Internal Revenue Code shall not apply to this deemed amount. These deemed amounts apply regardless of whether any employment-related expenses have been paid.

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

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

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

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

In the case of a nonresident, part-year resident, or a person who has earned income not subject to tax under this chapter, 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.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2002.

Sec. 10. Minnesota Statutes 2001 Supplement, section 290.091, subdivision 2, is amended to read:

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

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

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

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

(i) the Minnesota charitable contribution deduction;

(ii) the medical expense deduction;

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

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

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(v) ~~holocaust victims' settlement payments to the extent allowed under section 290.01, subdivision 19b;~~

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

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

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

(6) the amount of addition required by section 290.01, subdivision 19a, clause (7);

less the sum of the amounts determined under the following:

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

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

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

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

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

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

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

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

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

(f) "Minnesota charitable contribution deduction" means a charitable contribution deduction under section 170 of the Internal Revenue Code to or for the use of an entity

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described in Minnesota Statutes 2000, section 290.21, subdivision 3, clauses (a) to (e). When the federal deduction for charitable contributions is limited under section 170(b) of the Internal Revenue Code, the allowable contributions in the year of contribution are deemed to be first contributions to entities described in Minnesota Statutes 2000, section 290.21, subdivision 3, clauses (a) to (e).

EFFECTIVE DATE. This section is effective the day following final enactment, except that clause (6) is effective for tax years ending after September 10, 2001.

Sec. 11. Minnesota Statutes 2001 Supplement, section 290.0921, subdivision 3, is amended to read:

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

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

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

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

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

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

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

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

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~~(5)~~ (7) The tax preference for depletion under section 57(a)(1) of the Internal Revenue Code does not apply.

~~(6)~~ (8) The tax preference for intangible drilling costs under section 57(a)(2) of the Internal Revenue Code must be calculated without regard to subparagraph (E) and the subtraction under section 290.01, subdivision 19d, clause (4).

~~(7)~~ (9) The tax preference for tax exempt interest under section 57(a)(5) of the Internal Revenue Code does not apply.

~~(8)~~ (10) The tax preference for charitable contributions of appreciated property under section 57(a)(6) of the Internal Revenue Code does not apply.

~~(9)~~ (11) For purposes of calculating the tax preference for accelerated depreciation or amortization on certain property placed in service before January 1, 1987, under section 57(a)(7) of the Internal Revenue Code, the deduction allowable for the taxable year is the deduction allowed under section 290.01, subdivision 19e.

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

~~(10)~~ (12) For purposes of calculating the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code, the term "alternative minimum taxable income" as it is used in section 56(g) of the Internal Revenue Code, means alternative minimum taxable income as defined in this subdivision, determined without regard to the adjustment for adjusted current earnings in section 56(g) of the Internal Revenue Code.

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

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

EFFECTIVE DATE. This section is effective for tax years ending after September 10, 2001.

Sec. 12. Minnesota Statutes 2001 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 ~~June 15, 2001~~ March 15, 2002.

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

EFFECTIVE DATE. This section is effective at the same time and manner as the changes to federal adjusted gross income made by the Victims of Terrorism Tax Relief Act of 2001, Public Law Number 107-134, and by the Job Creation and Worker Assistance Act of 2002, Public Law Number 107-147, become effective.

ARTICLE 3

SALES AND USE TAXES

Section 1. Minnesota Statutes 2000, section 270.60, subdivision 4, is amended to read:

Subd. 4. **PAYMENTS TO COUNTIES.** (a) The commissioner shall pay to a county in which an Indian gaming casino is located ten percent of the state share of all taxes generated from activities on reservations and collected under a tax agreement under this section with the tribal government for the reservation located in the county. If the tribe has casinos located in more than one county, the payment must be divided equally among the counties in which the casinos are located.

(b) A county is a qualified county under this subdivision if one of the following conditions is met:

(1) the county's per capita income is less than 80 percent of the state per capita personal income, based on the most recent estimates made by the United States Bureau of Economic Analysis; or

(2) 30 percent or more of the total market value of real property in the county is exempt from ad valorem taxation.

(e) The commissioner shall make the payments required under this subdivision by February 28 of the year following the year the taxes are collected.

(d) (c) An amount sufficient to make the payments authorized by this subdivision, not to exceed \$1,100,000 in any fiscal year, is annually appropriated from the general fund to the commissioner. If the authorized payments exceed the amount of the appropriation, the commissioner shall first proportionately reduce the payments to counties other than qualified counties so that the total amount equals the appropriation. If the authorized payments to qualified counties also exceed the amount of the appropriation, the commissioner shall then proportionately reduce the rate so that the total amount to be paid to qualified counties equals the appropriation.

EFFECTIVE DATE. This section is effective for payments made after December 31, 2002.

Sec. 2. Minnesota Statutes 2001 Supplement, section 289A.20, subdivision 4, is amended to read:

Subd. 4. **SALES AND USE TAX.** (a) The taxes imposed by chapter 297A are due and payable to the commissioner monthly on or before the 20th day of the month

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following the month in which the taxable event occurred, or following another reporting period as the commissioner prescribes or as allowed under section 289A.18, subdivision 4, paragraph (f), except that use taxes due on an annual use tax return as provided under section 289A.11, subdivision 1, are payable by April 15 following the close of the calendar year.

(b) For a fiscal year ending before July 1, 2002, a vendor having a liability of \$120,000 or more during a fiscal year ending June 30 must remit the June liability for the next year in the following manner:

(1) Two business days before June 30 of the year, the vendor must remit ~~62~~ 75 percent of the estimated June liability to the commissioner.

(2) On or before August 20 of the year, the vendor must pay any additional amount of tax not remitted in June.

(c) A vendor having a liability of \$120,000 or more during a fiscal year ending June 30 must remit all liabilities on returns due for periods beginning in the subsequent calendar year by electronic means on or before the 20th day of the month following the month in which the taxable event occurred, or on or before the 20th day of the month following the month in which the sale is reported under section 289A.18, subdivision 4, except for ~~62~~ 75 percent of the estimated June liability, which is due two business days before June 30. The remaining amount of the June liability is due on August 20.

EFFECTIVE DATE. This section is effective for June 2002 and June 2003 tax liabilities.

Sec. 3. Minnesota Statutes 2001 Supplement, section 297A.61, subdivision 3, is amended to read:

Subd. 3. **SALE AND PURCHASE.** (a) "Sale" and "purchase" include, but are not limited to, each of the transactions listed in this subdivision.

(b) Sale and purchase include:

(1) any transfer of title or possession, or both, of tangible personal property, whether absolutely or conditionally, for a consideration in money or by exchange or barter; and

(2) the leasing of or the granting of a license to use or consume, for a consideration in money or by exchange or barter, tangible personal property, other than a manufactured home used for residential purposes for a continuous period of 30 days or more.

(c) Sale and purchase include 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.

(d) Sale and purchase include the preparing for a consideration of food. Notwithstanding section 297A.67, subdivision 2, taxable food includes, but is not limited to, the following:

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- (1) prepared food sold by the retailer;
- (2) soft drinks;
- (3) candy; and
- (4) all food sold through vending machines.

(e) A sale and a purchase includes the furnishing for a consideration of electricity, gas, water, or steam for use or consumption within this state.

(f) A sale and a purchase includes the transfer for a consideration of computer software.

(g) A sale and a purchase includes the furnishing for a consideration of the following services:

(1) the privilege of admission to places of amusement, recreational areas, or athletic events, and the making available of amusement devices, tanning facilities, reducing salons, steam baths, turkish baths, health clubs, and spas or athletic facilities;

(2) lodging and related services by a hotel, rooming house, resort, campground, motel, or trailer camp and the granting of any similar license to use real property other than the renting or leasing of it for a continuous period of 30 days or more;

(3) parking services, whether on a contractual, hourly, or other periodic basis, except for parking at a meter;

(4) the granting of membership in a club, association, or other organization if:

(i) 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

(ii) use of the sports and athletic facility is not made available to the general public on the same basis as it is made available to members.

Granting of membership means 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; ~~and~~

(5) delivery of aggregate materials and concrete block; and

(6) services as provided in this clause:

(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;

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(iii) building and residential cleaning, maintenance, and disinfecting and exterminating services;

(iv) detective, security, burglar, fire alarm, and armored car services; but not including services performed within the jurisdiction they serve by off-duty licensed peace officers as defined in section 626.84, subdivision 1, or services provided by a nonprofit organization for monitoring and electronic surveillance of persons placed on in-home detention pursuant to court order or under the direction of the Minnesota department of corrections;

(v) pet grooming services;

(vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; indoor plant care; tree, bush, shrub, and stump removal; and tree trimming for public utility lines. Services performed under a construction contract for the installation of shrubbery, plants, sod, trees, bushes, and similar items are not taxable;

(vii) massages, except when provided by a licensed health care facility or professional or upon written referral from a licensed health care facility or professional for treatment of illness, injury, or disease; and

(viii) the furnishing of lodging, board, and care services for animals in kennels and other similar arrangements, but excluding veterinary and horse boarding services.

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. Services performed by a partnership or association for another partnership or association are not taxable 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 members of an affiliated group under United States Code, title 26, section 1504, and that are eligible to file a consolidated tax return for federal income tax purposes.

(h) A sale and a purchase includes the furnishing for a consideration of tangible personal property or taxable services by the United States or any of its agencies or instrumentalities, or the state of Minnesota, its agencies, instrumentalities, or political subdivisions.

(i) A sale and a purchase includes the furnishing for a consideration of telecommunications services, including cable television services and direct satellite services. Telecommunications services are taxed to the extent allowed under federal law if those services:

(1) either (i) originate and terminate in this state; or (ii) originate in this state and terminate outside the state and the service is charged to a telephone number customer located in this state or to the account of any transmission instrument in this state; or (iii)

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originate outside this state and terminate in this state and the service is charged to a telephone number customer located in this state or to the account of any transmission instrument in this state; or

(2) are rendered by providing a private communications service for which the customer has one or more locations within Minnesota connected to the service and the service is charged to a telephone number customer located in this state or to the account of any transmission instrument in this state.

All charges for mobile telecommunications services, as defined in United States Code, title 4, section 124, are deemed to be provided by the customer's home service provider and sourced to the customer's place of primary use and are subject to tax based upon the customer's place of primary use in accordance with the Mobile Telecommunications Sourcing Act, United States Code, title 4, sections 116 to 126. All other definitions and provisions of the Mobile Telecommunications Sourcing Act as provided in United States Code, title 4, are hereby adopted.

(j) A sale and a purchase includes the furnishing for a consideration of installation if the installation charges would be subject to the sales tax if the installation were provided by the seller of the item being installed.

EFFECTIVE DATE. This section is effective for sales made after June 30, 2002.

Sec. 4. Minnesota Statutes 2001 Supplement, section 297A.61, subdivision 31, is amended to read:

Subd. 31. **PREPARED FOOD.** "Prepared food" means ~~(i)~~ food that meets either of the following conditions:

(1) the food is sold with eating utensils provided by the seller, including plates, knives, forks, spoons, glasses, cups, napkins, or straws; or

(2) the food is sold in a heated state or heated by the seller; ~~(ii)~~ or two or more food ingredients are mixed or combined by the seller for sale as a single item; ~~or (iii)~~ food sold with eating utensils provided by the seller, including plates, knives, forks, spoons, glasses, cups, napkins, or straws. Prepared food does not include, except for:

(i) bakery items, including, but not limited to, bread, rolls, buns, biscuits, bagels, croissants, pastries, donuts, danish, cakes, tortes, pies, tarts, muffins, bars, cookies, tortillas;

(ii) ready-to-eat meat and seafood in an unheated state sold by weight;

(iii) eggs, fish, meat, poultry, and foods containing these raw animal foods requiring cooking by the consumer as recommended by the Food and Drug Administration in chapter 3, part 401.11 of its food code so as to prevent food borne illnesses;
or

(iv) food that is only sliced, repackaged, or pasteurized by the seller.

EFFECTIVE DATE. With the exception of clause (2), item (ii), this section is effective for sales and purchases made after June 30, 2002. Clause (2), item (ii), is

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effective for sales and purchases made after June 30, 2002, and before January 1, 2006.

Sec. 5. Minnesota Statutes 2001 Supplement, section 297A.66, subdivision 1, is amended to read:

Subdivision 1. **DEFINITIONS.** (a) To the extent allowed by the United States Constitution and the laws of the United States, "retailer maintaining a place of business in this state," or a similar term, means a retailer:

(1) having or maintaining within this state, directly or by a subsidiary or an affiliate, an office, place of distribution, sales or sample room or place, warehouse, or other place of business; or

(2) having a representative, including, but not limited to, an affiliate agent, salesperson, canvasser, or solicitor operating in this state under the authority of the retailer or its subsidiary, for any purpose, including the repairing, selling, delivering, installing, or soliciting of orders for the retailer's goods or services, or the leasing of tangible personal property located in this state, whether the place of business or agent, representative, affiliate, salesperson, canvasser, or solicitor is located in the state permanently or temporarily, or whether or not the retailer or, subsidiary, or affiliate is authorized to do business in this state.

(b) "Destination of a sale" means 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. The delivery may be made by any means, including the United States Postal Service or a for-hire carrier.

EFFECTIVE DATE. (a) This section is effective the day following final enactment and is intended to confirm the original intent of the legislature in enacting Minnesota Statutes, section 297A.66, and its predecessor provisions.

(b) A retailer may elect that the provisions of this section apply only to sales it made after August 31, 2002, by notifying the commissioner and by applying for a permit under Minnesota Statutes, section 297A.84, by August 15, 2002, to collect the tax imposed under Minnesota Statutes, chapter 297A. A retailer qualifies under this paragraph only if it:

(1) did not maintain an office, place of distribution, sales or sample room or place, warehouse, or other place of business in Minnesota except through an affiliate or did not have a representative, agent, salesperson, canvasser, or solicitor in Minnesota except through an affiliate; and

(2) has not registered to collect tax under Minnesota Statutes, chapter 297A, as of the date of enactment of this section.

Sec. 6. Minnesota Statutes 2000, section 297A.66, is amended by adding a subdivision to read:

Subd. 4. **AFFILIATED ENTITIES.** (a) An entity is an "affiliate" of the retailer for purposes of subdivision 1, paragraph (a), if:

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(1) the entity uses its facilities or employees in this state to advertise, promote, or facilitate the establishment or maintenance of a market for sales of items by the retailer to purchasers in this state or for the provision of services to the retailer's purchasers in this state, such as accepting returns of purchases for the retailer, providing assistance in resolving customer complaints of the retailer, or providing other services; and

(2) the retailer and the entity are related parties.

(b) Two entities are related parties under this section if one of the entities meets at least one of the following tests with respect to the other entity:

(1) one or both entities is a corporation, and one entity and any party related to that entity in a manner that would require an attribution of stock from the corporation to the party or from the party to the corporation under the attribution rules of section 318 of the Internal Revenue Code owns directly, indirectly, beneficially, or constructively at least 50 percent of the value of the corporation's outstanding stock;

(2) one or both entities is a partnership, estate, or trust and any partner or beneficiary, and the partnership, estate, or trust and its partners or beneficiaries own directly, indirectly, beneficially, or constructively, in the aggregate, at least 50 percent of the profits, capital, stock, or value of the other entity or both entities; or

(3) an individual stockholder and the members of the stockholder's family (as defined in section 318 of the Internal Revenue Code) owns directly, indirectly, beneficially, or constructively, in the aggregate, at least 50 percent of the value of both entities' outstanding stock.

(c) An entity is an affiliate under the provisions of this subdivision if the requirements of paragraphs (a) and (b) are met during any part of the 12-month period ending on the first day of the month before the month in which the sale was made.

EFFECTIVE DATE. (a) This section is effective the day following final enactment and is intended to confirm the original intent of the legislature in enacting Minnesota Statutes, section 297A.66, and its predecessor provisions.

(b) A retailer may elect that the provisions of this section apply only to sales it made after August 31, 2002, by notifying the commissioner and by applying for a permit under Minnesota Statutes, section 297A.84, by August 15, 2002, to collect the tax imposed under Minnesota Statutes, chapter 297A. A retailer qualifies under this paragraph only if it:

(1) did not maintain an office, place of distribution, sales or sample room or place, warehouse, or other place of business in Minnesota except through an affiliate or did not have a representative, agent, salesperson, canvasser, or solicitor in Minnesota except through an affiliate; and

(2) has not registered to collect tax under Minnesota Statutes, chapter 297A, as of the date of enactment of this section.

Sec. 7. Minnesota Statutes 2000, section 297A.67, subdivision 5, is amended to read:

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Subd. 5. **EXEMPT MEALS AT SCHOOLS.** Meals and lunches served at public and private elementary, middle, or secondary schools, universities, or colleges as defined in section 120A.05 are exempt. Meals and lunches served to students at a college, university, or private career school under a board contract are exempt. For purposes of this subdivision, "meals and lunches" does not include sales from vending machines.

EFFECTIVE DATE. This section is effective for sales and purchases made after June 30, 2002. However, for vending machine contracts entered into by a school, as defined in section 120A.05, prior to May 30, 2002, food sales from vending machines continue to be exempt under this subdivision for one year after the effective date of the contract.

Sec. 8. Minnesota Statutes 2000, section 297A.67, is amended by adding a subdivision to read:

Subd. 13a. **INSTRUCTIONAL MATERIALS.** Instructional materials, other than textbooks, that are prescribed for use in conjunction with a course of study in a post-secondary school, college, university, or private career school to students who are regularly enrolled at such institutions are exempt. For purposes of this subdivision, "instructional materials" means materials required to be used directly in the completion of the course of study, including, but not limited to, interactive CDs, tapes, and computer software.

Instructional materials do not include general reference works or other items incidental to the instructional process such as pens, pencils, paper, folders, or computers. For purposes of this subdivision, "school" and "private career school" have the meanings given in subdivision 13.

EFFECTIVE DATE. This section is effective for sales after June 30, 2003.

Sec. 9. Minnesota Statutes 2001 Supplement, section 297A.67, subdivision 25, is amended to read:

Subd. 25. **MAINTENANCE OF CEMETERY GROUNDS.** Lawn care and related services used in the maintenance of cemetery grounds are exempt. For purposes of this subdivision, "lawn care and related services" means the services listed in section 297A.61, subdivision 3, paragraph (g), clause (5) (6), item (vi), and "cemetery" means a cemetery for human burial.

Sec. 10. Minnesota Statutes 2001 Supplement, section 297A.67, subdivision 29, is amended to read:

Subd. 29. **ENERGY EFFICIENT PRODUCTS.** (a) A residential lighting fixture or a compact fluorescent bulb is exempt if it has an energy star label.

(b) The following products are exempt if they have an energyguide label that indicates that the product meets or exceeds the standards listed below:

- (1) an electric heat pump hot water heater with an energy factor of at least 1.9;
- (2) a natural gas water heater with an energy factor of at least 0.62; ~~and~~

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- (3) a propane gas or fuel oil water heater with an energy factor of at least 0.62;
(4) a natural gas furnace with an annual fuel utilization efficiency greater than 92 percent; and
(5) a propane gas or fuel oil furnace with an annual fuel utilization efficiency greater than 92 percent.

(c) A photovoltaic device is exempt. For purposes of this subdivision, "photovoltaic device" means a solid-state electrical device, such as a solar module, that converts light directly into direct current electricity of voltage-current characteristics that are a function of the characteristics of the light source and the materials in and design of the device. A "solar module" is a photovoltaic device that produces a specified power output under defined test conditions, usually composed of groups of solar cells connected in series, in parallel, or in series-parallel combinations.

(d) For purposes of this subdivision, "energy star label" means the label granted to certain products that meet United States Environmental Protection Agency and United States Department of Energy criteria for energy efficiency. For purposes of this subdivision, "energyguide label" means the label that the United States Federal Trade Commissioner requires manufacturers to apply to certain appliances under United States Code, title 16, part 305.

EFFECTIVE DATE. This section is effective for sales and purchases made on or after the day following final enactment and before August 1, 2005.

Sec. 11. Minnesota Statutes 2001 Supplement, section 297A.68, subdivision 3, is amended to read:

Subd. 3. **MATERIALS USED IN PROVIDING CERTAIN TAXABLE SERVICES.** (a) Materials stored, used, or consumed in providing a taxable service listed in section 297A.61, subdivision 3, paragraph (g), clause ~~(5)~~ (6), intended to be sold ultimately at retail are exempt.

(b) This exemption includes, but is not limited to:

(1) chemicals, lubricants, packaging materials, seeds, trees, fertilizers, and herbicides, if these items are used or consumed in providing the taxable service;

(2) chemicals used to treat waste generated as a result of providing the taxable service;

(3) accessory tools, equipment, and other items that are separate detachable units used in providing the service and that have an ordinary useful life of less than 12 months; and

(4) fuel, electricity, gas, and steam used or consumed in the production process, except that electricity, gas, or steam used for space heating, cooling, or lighting is exempt if (i) it is in excess of average climate control or lighting, and (ii) it is necessary to produce that particular service.

(c) This exemption does not include machinery, equipment, implements, tools, accessories, appliances, contrivances, furniture, and fixtures used in providing the taxable service.

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Sec. 12. Minnesota Statutes 2001 Supplement, section 297A.70, subdivision 10, is amended to read:

Subd. 10. **NONPROFIT TICKETS OR ADMISSIONS.** (a) Tickets or admissions to an event are exempt if all the gross receipts are recorded as such, in accordance with generally accepted accounting principles, on the books of one or more organizations that provide an opportunity for citizens of the state to participate in the creation, performance, or appreciation of the arts, and provided that each organization is either:

(1) an organization described in section 501(c)(3) of the Internal Revenue Code in which voluntary contributions make up at least the following percent of the organization's annual revenue in its most recently completed 12-month fiscal year, or in the current year if the organization has not completed a 12-month fiscal year:

(i) for sales made after July 31, 2001, and before July 1, 2002, for the organization's fiscal year completed in calendar year 2000, three percent;

(ii) for sales made on or after July 1, 2002, and on or before June 30, 2003, for the organization's fiscal year completed in calendar year 2001, three percent;

(iii) for sales made on or after July 1, 2003, and on or before June 30, 2004, for the organization's fiscal year completed in calendar year 2002, four percent; and

(iv) for sales made in each 12-month period, beginning on July 1, 2004, and each subsequent year, for the organization's fiscal year completed in the preceding calendar year, five percent; or

(2) a municipal board that promotes cultural and arts activities; or

(3) the University of Minnesota, provided that the event is held at a university-owned facility.

The exemption only applies if the entire proceeds, after reasonable expenses, are used solely to provide opportunities for citizens of the state to participate in the creation, performance, or appreciation of the arts.

(b) Tickets or admissions to the premises of the Minnesota zoological garden are exempt, provided that the exemption under this paragraph does not apply to tickets or admissions to performances or events held on the premises unless the performance or event is sponsored and conducted exclusively by the Minnesota zoological board or employees of the Minnesota zoological garden.

EFFECTIVE DATE. This section is effective for tickets and admissions to events held after July 31, 2001, but does not apply to events for which sales of tickets or admissions were made prior to August 1, 2001.

Sec. 13. Minnesota Statutes 2001 Supplement, section 297A.71, subdivision 23, is amended to read:

Subd. 23. **CONSTRUCTION MATERIALS FOR QUALIFIED LOW-INCOME HOUSING PROJECTS.** (a) Purchases of materials and supplies used or consumed in and equipment incorporated into the construction, improvement, or

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expansion of qualified low-income housing projects are exempt from the tax imposed under this chapter if the owner of the qualified low-income housing project is:

(1) the public housing agency or housing and redevelopment authority of a political subdivision;

(2) an entity exercising the powers of a housing and redevelopment authority within a political subdivision;

(3) a limited partnership in which the sole general partner is an authority under clause (1) or an entity under clause (2); or

(4) a nonprofit corporation subject to the provisions of chapter 317A, and qualifying under section 501(c)(3) or 501(c)(4) of the Internal Revenue Code of 1986, as amended; or

(5) an owner entity, as defined in Code of Federal Regulations, title 24, part 941.604, for a qualified low-income housing project described in paragraph (b), clause (5).

This exemption applies regardless of whether the purchases are made by the owner of the facility or a contractor.

(b) For purposes of this exemption, "qualified low-income housing project" means:

(1) a housing or mixed use project in which at least 20 percent of the residential units are qualifying low-income rental housing units as defined in section 273.126;

(2) a federally assisted low-income housing project financed by a mortgage insured or held by the United States Department of Housing and Urban Development under United States Code, title 12, section 1701s, 1715l(d)(3), 1715l(d)(4), or 1715z-1; United States Code, title 42, section 1437f; the Native American Housing Assistance and Self-Determination Act, United States Code, title 25, section 4101 et seq.; or any similar successor federal low-income housing program;

(3) a qualified low-income housing project as defined in United States Code, title 26, section 42(g), meeting all of the requirements for a low-income housing credit under section 42 of the Internal Revenue Code regardless of whether the project actually applies for or receives a low-income housing credit; or

(4) a project that will be operated in compliance with Internal Revenue Service revenue procedure 96-32; or

(5) a housing or mixed use project in which all or a portion of the residential units are subject to the requirements of section 5 of the United States Housing Act of 1937.

(c) For a project, a portion of which is not used for low-income housing units, the amount of purchases that are exempt under this subdivision must be determined by multiplying the total purchases, as specified in paragraph (a), by the ratio of:

(1) the total gross square footage of units subject to the income limits under section 273.126, the financing for the project, the federal low-income housing tax

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credit, revenue procedure 96-32, or section 5 of the United States Housing Act of 1937, as applicable to the project; and

(2) the total gross square footage of all units in the project.

(d) The tax must be imposed and collected as if the rate under section 297A.62, subdivision 1, applied, and then refunded in the manner provided in section 297A.75.

EFFECTIVE DATE. Paragraph (a), clause (5), and paragraph (b), clause (5), are effective retroactive for sales and purchases made after July 31, 2001. For sales and purchases made after July 31, 2001, and before July 1, 2002, an owner entity under this section must apply to the commissioner of revenue for a refund of the tax paid on the exempt amount as determined under this section. The rest of the section is effective for sales made after June 30, 2002.

Sec. 14. Minnesota Statutes 2000, section 297A.71, is amended by adding a subdivision to read:

**Subd. 28. CONSTRUCTION MATERIALS AND EQUIPMENT; REPLACE-
MENT AGRICULTURAL PROCESSING FACILITY.** Materials and supplies used or consumed in, and machinery and equipment incorporated into, the construction of a meat-packing or meat-processing facility are exempt if:

(1) the cost of the project exceeds \$75,000,000; and

(2) the facility replaces a facility that was destroyed by fire.

EFFECTIVE DATE. This section is effective for sales and purchases made after March 31, 2002, and before January 1, 2005.

Sec. 15. Minnesota Statutes 2000, section 297A.71, is amended by adding a subdivision to read:

Subd. 29. HYDROELECTRIC GENERATING FACILITY. Materials and supplies used or consumed in the construction of a hydroelectric generating facility that meets the requirements of this subdivision are exempt. To qualify for the exemption under this subdivision, a hydroelectric generating facility must:

(1) utilize two turbine generators at a dam site existing on March 31, 1994;

(2) be located on publicly owned land and within 2,500 feet of a 13.8 kilovolt distribution circuit; and

(3) be eligible to receive a renewable energy production incentive payment under section 216C.41.

EFFECTIVE DATE. This section is effective for sales made after August 31, 2002, and on or before December 31, 2003.

Sec. 16. Minnesota Statutes 2000, section 297A.71, is amended by adding a subdivision to read:

Subd. 30. NONPROFIT ARTS ORGANIZATION. Materials, equipment, and supplies incorporated into the construction or renovation of a state bond financed

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facility funded in 2002 which is owned or operated by a nonprofit arts organization are exempt.

EFFECTIVE DATE. This section is effective for sales and purchases made the day after final enactment and before July 1, 2007.

Sec. 17. Minnesota Statutes 2001 Supplement, section 297A.75, is amended to read:

297A.75 REFUND; APPROPRIATION.

Subdivision 1. **TAX COLLECTED.** The tax on the gross receipts from the sale of the following exempt items must be imposed and collected as if the sale were taxable and the rate under section 297A.62, subdivision 1, applied. The exempt items include:

- (1) capital equipment exempt under section 297A.68, subdivision 5;
- (2) building materials for an agricultural processing facility exempt under section 297A.71, subdivision 13;
- (3) building materials for mineral production facilities exempt under section 297A.71, subdivision 14;
- (4) building materials for correctional facilities under section 297A.71, subdivision 3;
- (5) building materials used in a residence for disabled veterans exempt under section 297A.71, subdivision 11;
- (6) chair lifts, ramps, elevators, and associated building materials exempt under section 297A.71, subdivision 12;
- (7) building materials for the Long Lake Conservation Center exempt under section 297A.71, subdivision 17; ~~and~~
- (8) materials, supplies, fixtures, furnishings, and equipment for a county law enforcement and family service center under section 297A.71, subdivision 26; and
- (9) materials and supplies for qualified low-income housing under section 297A.71, subdivision 23.

Subd. 2. **REFUND; ELIGIBLE PERSONS.** Upon application on forms prescribed by the commissioner, a refund equal to the tax paid on the gross receipts of the exempt items must be paid to the applicant. Only the following persons may apply for the refund:

- (1) for subdivision 1, clauses (1) to (3), the applicant must be the purchaser;
- (2) for subdivision 1, clauses (4), (7), and (8), the applicant must be the governmental subdivision;
- (3) for subdivision 1, clause (5), the applicant must be the recipient of the benefits provided in United States Code, title 38, chapter 21; ~~and~~

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(4) for subdivision 1, clause (6), the applicant must be the owner of the homestead property; and

(5) for subdivision 1, clause (9), the owner of the qualified low-income housing project.

Subd. 3. **APPLICATION.** (a) The application must include sufficient information to permit the commissioner to verify the tax paid. If the tax was paid by a contractor, subcontractor, or builder, under subdivision 1, clause (4), (5), (6), (7), or (8), or (9), the contractor, subcontractor, or builder must furnish to the refund applicant a statement including the cost of the exempt items and the taxes paid on the items unless otherwise specifically provided by this subdivision. The provisions of sections 289A.40 and 289A.50 apply to refunds under this section.

(b) An applicant may not file more than two applications per calendar year for refunds for taxes paid on capital equipment exempt under section 297A.68, subdivision 5.

Subd. 4. **INTEREST.** Interest must be paid on the refund at the rate in section 270.76 from the date the refund claim is filed for taxes paid under subdivision 1, clauses (1) to (3), and (5), and from 60 days after the date the refund claim is filed with the commissioner for claims filed under subdivision 1, clauses (4), (6), (7), and (8), and (9).

Subd. 5. **APPROPRIATION.** The amount required to make the refunds is annually appropriated to the commissioner.

EFFECTIVE DATE. This section is effective for sales made after June 30, 2002.

Sec. 18. Minnesota Statutes 2000, section 297A.96, is amended to read:

297A.96 LOCAL ADMISSIONS AND AMUSEMENT TAXES; EXEMPTION FOR ARTS ORGANIZATIONS.

If an event is sponsored by a nonprofit arts organization, then Amounts charged for admission to the an event or to the organization's premises described in section 297A.70, subdivision 10, paragraph (a), are not subject to a tax imposed by a local unit of government or imposed on sales taking place in a single named local unit of government on sales of admissions or amusements, under a law other than a general sales tax law.

EFFECTIVE DATE. This section is effective for tickets and admissions to events held after July 31, 2001, but does not apply to events for which sales of tickets or admissions were made prior to August 1, 2001.

Sec. 19. Minnesota Statutes 2001 Supplement, section 297A.995, subdivision 4, is amended to read:

Subd. 4. **AUTHORITY TO ENTER AGREEMENT.** The commissioner of revenue is authorized and directed to enter into the agreement with one or more states to simplify and modernize sales and use tax administration in order to substantially reduce the burden of tax compliance for all sellers and for all types of commerce. In

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furtherance of the agreement, the commissioner is authorized to act jointly with other states that are members of the agreement to establish standards for certification of a certified service provider and certified automated system and establish performance standards for multistate sellers.

The commissioner of revenue is further directed to negotiate the agreement with the express intention of ensuring uniform sales and use taxation as applied to like-kind transactions.

The commissioner is further authorized to take other actions reasonably required to implement the provisions set forth in this article. Other actions authorized by this section include, but are not limited to, the adoption of rules and regulations and the joint procurement, with other member states, of goods and services in furtherance of the cooperative agreement.

The commissioner or the commissioner's designee is following officials are authorized to represent this state before the other states that are signatories to the agreement:

- (1) the commissioner or the commissioner's designee;
- (2) the chair of the house committee with jurisdiction over taxes or the house chair's designee; and
- (3) the chair of the senate committee with jurisdiction over taxes or the senate chair's designee.

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

Sec. 20. Laws 1990, chapter 604, article 6, section 9, subdivision 1, as amended by Laws 1991, chapter 291, article 8, section 25, is amended to read:

Subdivision 1. **AUTHORIZATION.** Notwithstanding Minnesota Statutes, section 469.190, 477A.016, or other law, in addition to the tax authorized in Laws 1986, chapter 391, section 4, the governing body of the city of Bloomington may impose a tax of up to one two percent on the gross receipts from the furnishing for consideration of lodging at a hotel, motel, rooming house, tourist court, or resort, other than the renting or leasing of it for a continuous period of 30 days or more, located in the city. The city may agree with the commissioner of revenue that a tax imposed under this section shall be collected by the commissioner together with the tax imposed by Minnesota Statutes, chapter 297A, and subject to the same interest, penalties, and other rules and that its proceeds, less the cost of collection, shall be remitted to the city. The proceeds of the tax must be used by the Bloomington convention bureau only to market and promote the city as a tourist or convention center. If the duties of the convention bureau as they existed on January 1, 1991, are assigned to another agency, the tax shall cease.

EFFECTIVE DATE; LOCAL APPROVAL. This section takes effect the day after the governing body of the city of Bloomington complies with Minnesota Statutes, section 645.021, subdivision 3.

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Sec. 21. Laws 1998, chapter 389, article 8, section 37, subdivision 2, is amended to read:

Subd. 2. **APPOINTMENT OF MEMBERS.** The citizen review panel must consist of 17 members, each of whom represents one of the district councils consists of three residents from each of the seven city council wards, for a total of 21 members. The mayor must appoint the members, and the appointments are subject to confirmation by a majority vote of the city council. Members serve for a term of four years. Elected officials and employees of the city are ineligible to serve as members of the panel.

EFFECTIVE DATE. This section is effective upon approval by the governing body of the city of St. Paul and compliance with Minnesota Statutes, section 645.021.

Sec. 22. Laws 2001, First Special Session chapter 5, article 12, section 11, the effective date, is amended to read:

EFFECTIVE DATE. This section is effective January 1, 2002, however, for contracts entered into before January 1, 2002, the sale price for aggregate materials and concrete block does not include delivery charges until January 1, 2005.

Sec. 23. Laws 2001, First Special Session chapter 5, article 12, section 82, the effective date, is amended to read:

EFFECTIVE DATE. This section is effective January 1, 2003 for sales and purchases made after December 31, 2005.

Sec. 24. Laws 2001, First Special Session chapter 5, article 12, section 95, is amended to read:

Sec. 95. **REPEALER.**

(a) Minnesota Statutes 2000, sections 297A.61, subdivision 16; 297A.68, subdivision 21; and 297A.71, subdivisions subdivision 2 and 16, are repealed effective for sales and purchases occurring after June 30, 2001, except that the repeal of section 297A.61, subdivision 16, paragraph (d), is effective for sales and purchases occurring after July 31, 2001.

(b) Minnesota Statutes 2000, sections 297A.62, subdivision 2, and 297A.64, subdivision 1, are repealed effective for sales and purchases made after December 31, 2005.

(c) Minnesota Statutes 2000, section 297A.71, subdivision 15, is repealed effective for sales and purchases made after June 30, 2002.

(d) Minnesota Statutes 2000, section 289A.60, subdivision 15, is repealed effective for liabilities after January 1, 2003 2004.

(e) Minnesota Statutes 2000, section 297A.71, subdivision 16, is repealed effective for sales and purchases occurring after December 31, 2002.

EFFECTIVE DATE. Paragraph (d) is effective the day after final enactment. Paragraphs (a) and (e) are effective for sales and purchases made on or after June 30, 2001, for projects begun prior to June 30, 2001.

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Sec. 25. ROCHESTER LODGING TAX.

Subdivision 1. AUTHORIZATION. Notwithstanding Minnesota Statutes, section 469.190 or 477A.016, or any other law, the city of Rochester may impose an additional tax of one percent on the gross receipts from the furnishing for consideration of lodging at a hotel, motel, rooming house, tourist court, or resort, other than the renting or leasing of it for a continuous period of 30 days or more.

Subd. 2. DISPOSITION OF PROCEEDS. The gross proceeds from any tax imposed under subdivision 1 must be used by the city to fund a local convention or tourism bureau for the purpose of marketing and promoting the city as a tourist or convention center.

EFFECTIVE DATE. This section is effective for lodging furnished on or after July 1, 2002.

Sec. 26. REPEALER.

Minnesota Statutes 2000, section 297A.68, subdivision 26, is repealed effective for sales and purchases made after June 30, 2002.

ARTICLE 4**PROPERTY TAXES**

Section 1. Minnesota Statutes 2000, section 168A.05, is amended by adding a subdivision to read:

Subd. 1a. MANUFACTURED HOMES; PROPERTY TAXES MUST BE PAID. In the case of a manufactured home as defined in section 327.31, subdivision 6, the department shall not issue a certificate of title unless the application under section 168A.04 is accompanied with a statement from the county auditor or county treasurer where the manufactured home is presently located, stating that all personal property taxes levied on the unit that are due from the current owner at the time of transfer for which the application applies, have been paid.

EFFECTIVE DATE. This section is effective for certificates of title issued by the department on or after July 1, 2002.

Sec. 2. Minnesota Statutes 2000, section 168A.05, is amended by adding a subdivision to read:

Subd. 1b. EXEMPTION. The provisions of subdivision 1a shall not apply to: (i) a manufactured home which is sold or otherwise disposed of pursuant to section 504B.271 by the owner of a manufactured home park as defined in section 327.14, subdivision 3, or (ii) a manufactured home which is sold pursuant to section 504B.265 by the owner of a manufactured home park.

New language is indicated by underline, deletions by strikeout.

EFFECTIVE DATE. This section is effective for certificates of title issued by the department on or after July 1, 2002.

Sec. 3. Minnesota Statutes 2001 Supplement, section 216B.1646, is amended to read:

216B.1646 RATE REDUCTION; PROPERTY TAX REDUCTION.

(a) The commission shall, by any method the commission finds appropriate, reduce the amounts ~~rates~~ each electric utility subject to rate regulation by the commission charges its customers to reflect, on an ongoing basis, the amount by which each utility's property tax on the personal property of its electric generation, transmission, or distribution system from taxes payable in 2001 to taxes payable in 2002 is reduced. The commission must ensure that, to the extent feasible, each dollar of personal property tax reduction allocated to Minnesota consumers retroactive to January 1, 2002, results in a dollar of savings to the utility's customers. A utility may voluntarily pass on any additional property tax savings in the same manner as approved by the commission under this paragraph.

(b) By April 10, 2002, each utility shall submit a filing to the commission containing:

(1) certified information regarding the utility's property tax savings allocated to Minnesota retail customers; and

(2) a proposed method of passing these savings on to Minnesota retail customers.

The utility shall provide the information in clause (1) to the commissioner of revenue at the same time. The commissioner shall notify the commission within 30 days as to the accuracy of the property tax data submitted by the utility.

(c) For purposes of this section, "personal property" means tools, implements, and machinery of the generating plant. It does not apply to transformers, transmission lines, distribution lines, or any other tools, implements, and machinery that are part of an electric substation, wherever located.

EFFECTIVE DATE. This section is effective retroactive to July 1, 2001.

Sec. 4. Minnesota Statutes 2001 Supplement, 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 probate jurisdiction of the district court. The small claims division of the tax court shall have ~~no jurisdiction in any case dealing with~~

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property valuation or assessment for property tax purposes until the taxpayer has appealed the valuation or assessment to the county board of equalization, and in those towns and cities which have not transferred their duties to the county, the town or city board of equalization, except for: (i) those taxpayers whose original assessments are determined by the commissioner of revenue; (ii) those taxpayers appealing a denial of a current year application for the homestead classification for their property and the denial was not reflected on a valuation notice issued in the year; and (iii) any case dealing with property valuation, assessment, or taxation for property tax purposes and meeting the jurisdictional requirements of section 271.21, subdivision 2, paragraph (e) only as provided in section 271.21, subdivision 2. 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. Laws governing taxes, aids, and related matters administered by the commissioner of revenue, laws dealing with property valuation, assessment or taxation of property for property tax purposes, and any other laws that contain provisions authorizing review of taxes, aids, and related matters by the tax court 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, review under section 274.13, subdivision 1c, or to the commissioner of revenue. Wherever used in this chapter, the term commissioner shall mean the commissioner of revenue, unless otherwise specified.

EFFECTIVE DATE. This section is effective for petitions filed pertaining to the 2002 assessment, and thereafter.

Sec. 5. Minnesota Statutes 2001 Supplement, section 271.21, subdivision 2, is amended to read:

Subd. 2. **JURISDICTION.** At the election of the taxpayer, the small claims division shall have jurisdiction only in the following matters:

(a) cases involving valuation, assessment, or taxation of real or personal property, if the taxpayer has satisfied the requirements of section 271.01, subdivision 5, and:

(i) the issue is a denial of a current year application for the homestead classification for the taxpayer's property and the denial was not reflected on a valuation notice issued in the year; or

(ii) in the case of nonhomestead property, only one parcel is included in the petition, the entire parcel is classified as homestead class 1a or 1b under section 273.13 and the parcel contains no more than one dwelling unit;

(iii) the entire property is classified as agricultural homestead class 2a or 1b under section 273.13; or

(iv) the assessor's estimated market value of the property included in the petition is less than \$100,000 \$300,000; or

(b) any other case concerning the tax laws as defined in section 271.01, subdivision 5, not involving valuation, assessment, or taxation of real and personal

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property in which the amount in controversy does not exceed \$5,000, including penalty and interest; or

(c) cases involving valuation, assessment, or taxation of real or personal property if:

(i) the issue is a denial of a current year application for the homestead classification for the taxpayer's property;

(ii) only one parcel is included in the petition, the entire parcel is classified as homestead 1a or 1b pursuant to section 273.13, and the parcel contains no more than one dwelling unit; or

(iii) the assessor's estimated market value of the property included in the petition is less than \$300,000.

EFFECTIVE DATE. This section is effective for petitions filed pertaining to the 2002 assessment, and thereafter.

Sec. 6. Minnesota Statutes 2001 Supplement, section 272.02, subdivision 22, is amended to read:

Subd. 22. **WIND ENERGY CONVERSION SYSTEMS.** (a) Small scale wind energy conversion systems installed after January 1, 1991, and used as an electric power source are exempt.

"Small scale wind energy conversion systems" are wind energy conversion systems, as defined in section 216C.06, subdivision 12, including the foundation or support pad, which (i) are used as an electric power source; (ii) are located within one county and owned by the same owner; and (iii) produce two megawatts or less of electricity as measured by nameplate ratings.

(b) Medium scale wind energy conversion systems installed after January 1, 1991, are treated as follows: (i) the foundation and support pad are taxable; (ii) the associated supporting and protective structures are exempt for the first five assessment years after they have been constructed, and thereafter, 30 percent of the market value of the associated supporting and protective structures are taxable; and (iii) the turbines, blades, transformers, and its related equipment, are exempt. "Medium scale wind energy conversion systems" are wind energy conversion systems as defined in section 216C.06, subdivision 12, including the foundation or support pad, which: (i) are used as an electric power source; (ii) are located within one county and owned by the same owner; and (iii) produce more than two but equal to or less than 12 megawatts of energy as measured by nameplate ratings.

(c) Large scale wind energy conversion systems installed after January 1, 1991, are treated as follows: 25 percent of the market value of all property is taxable, including (i) the foundation and support pad; (ii) the associated supporting and protective structures; and (iii) the turbines, blades, transformers, and its related equipment. "Large scale wind energy conversion systems" are wind energy conversion systems as defined in section 216C.06, subdivision 12, including the foundation or support pad, which (i) are used as an electric power source; and (ii) produce more than

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12 megawatts of energy as measured by nameplate ratings.

(d) The total size of a wind energy conversion system under this subdivision shall be determined according to this paragraph. Unless the systems are interconnected with different distribution systems, the nameplate capacity of one wind energy conversion system shall be combined with the nameplate capacity of any other wind energy conversion system that is:

- (1) located within five miles of the wind energy conversion system;
- (2) constructed within the same calendar year as the wind energy conversion system; and
- (3) under common ownership.

In the case of a dispute, the commissioner of commerce shall determine the total size of the system, and shall draw all reasonable inferences in favor of combining the systems.

(e) In making a determination under paragraph (d), the commissioner of commerce may determine that two wind energy conversion systems are under common ownership when the underlying ownership structure contains similar persons or entities, even if the ownership shares differ between the two systems. Wind energy conversion systems are not under common ownership solely because the same person or entity provided equity financing for the systems. All real and personal property of a wind energy conversion system as defined in section 272.029, subdivision 2, is exempt from property tax except that the land on which the property is located remains taxable.

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

Sec. 7. Minnesota Statutes 2000, section 272.02, is amended by adding a subdivision to read:

Subd. 51. ELECTRIC GENERATION FACILITY; PERSONAL PROPERTY. Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of a combined cycle natural gas turbine electric generation facility of between 43 and 46 megawatts of installed capacity and that meets the requirements of this subdivision is exempt. At the time of construction, the facility must:

- (1) utilize a combined cycle gas turbine generator fueled by natural gas;
- (2) be connected to an existing 115-kilovolt high-voltage electric transmission line that is within one mile of the facility;
- (3) be located on an underground natural gas storage aquifer;
- (4) be designed as an intermediate load facility; and
- (5) have received, by resolution, the approval from the governing body of the county for the exemption of personal property under this subdivision.

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Construction of the facility must be commenced after January 1, 2002, and before January 1, 2004. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

EFFECTIVE DATE. This section is effective for assessment year 2002 and thereafter.

Sec. 8. Minnesota Statutes 2000, section 272.02, is amended by adding a subdivision to read:

Subd. 52. ELECTRIC GENERATION FACILITY; PERSONAL PROPERTY. Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of a simple-cycle combustion-turbine electric generation facility of more than 40 megawatts and less than 50 megawatts of installed capacity and that meets the requirements of this subdivision is exempt. At the time of construction, the facility must:

- (1) utilize natural gas as a primary fuel;
- (2) be located within two miles of parallel existing 36-inch natural gas pipelines and an existing 115-kilovolt high-voltage electric transmission line;
- (3) be designed to provide peaking, emergency backup, or contingency services; and
- (4) satisfy a resource deficiency identified in an approved integrated resource plan filed under section 216B.2422.

Construction of the facility must be commenced after January 1, 2001, and before January 1, 2005. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

EFFECTIVE DATE. This section is effective for assessment year 2002 and thereafter.

Sec. 9. Minnesota Statutes 2000, section 272.02, is amended by adding a subdivision to read:

Subd. 53. ELECTRIC GENERATION FACILITY; PERSONAL PROPERTY. Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of a 3.2 megawatt run-of-the-river hydroelectric generation facility and that meets the requirements of this subdivision is exempt. At the time of construction, the facility must:

- (1) utilize two turbine generators at a dam site existing on March 31, 1994;
- (2) be located on publicly owned land and within 1,500 feet of a 13.8 kilovolt distribution substation; and
- (3) be eligible to receive a renewable energy production incentive payment under section 216C.41.

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Construction of the facility must be commenced after January 1, 2002, and before January 1, 2004. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

EFFECTIVE DATE. This section is effective for assessment year 2002 and thereafter.

Sec. 10. Minnesota Statutes 2000, section 272.02, is amended by adding a subdivision to read:

Subd. 54. SMALL BIOMASS ELECTRIC GENERATION FACILITY; PERSONAL PROPERTY. Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of an electrical generating facility that meets the requirements of this subdivision is exempt. At the time of construction the facility must:

- (1) have a generation capacity of less than 25 megawatts;
- (2) provide process heating needs in addition to electrical generation; and
- (3) utilize agricultural by-products from the malting process and other biomass fuels as its primary fuel source.

Construction of the facility must be commenced after January 1, 2002, and before January 1, 2006. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or facility.

EFFECTIVE DATE. This section is effective for assessment year 2003 and thereafter.

Sec. 11. Minnesota Statutes 2000, section 272.02, is amended by adding a subdivision to read:

Subd. 55. ELECTRIC GENERATION FACILITY; PERSONAL PROPERTY. Notwithstanding subdivision 9, clause (a), attached machinery and other personal property which is part of an electric generating facility that meets the requirements of this subdivision is exempt. At the time of construction, the facility must be sited on an energy park that (i) is located on an active mining site, or on a former mining or industrial site where mining or industrial operations have terminated, (ii) is within a tax relief area as defined in section 273.134, (iii) has on-site access to existing railroad infrastructure, (iv) has direct rail access to a Great Lakes port, (v) has sufficient private water resources on site, and (vi) is designed to host at least 500 megawatts of electrical generation.

Construction of the first 250 megawatts of the facility must be commenced after January 1, 2002, and before January 1, 2005. Construction of up to an additional 750 megawatts of generation must be commenced before January 1, 2010. Property eligible for this exemption does not include electric transmission lines and interconnections or gas pipelines and interconnections appurtenant to the property or the facility.

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

EFFECTIVE DATE. This section is effective for assessment year 2003 and thereafter.

Sec. 12. Minnesota Statutes 2001 Supplement, section 272.028, is amended to read:

272.028 PAYMENT IN LIEU OF PERSONAL PROPERTY PRODUCTION TAX; WIND GENERATION FACILITIES.

A developer of a new or existing ~~medium or large scale~~ wind energy conversion system, as defined under section ~~272.02, subdivision 22, paragraphs (b) and (c), 272.029, subdivision 2,~~ may negotiate with the city or town and the county where the wind energy conversion system is located to establish a payment in lieu of tax on personal property used to generate electric power the wind energy production tax imposed under section 272.029. The in lieu payment is to provide fees or compensation to the host jurisdictions to maintain public infrastructure and services. A host jurisdiction includes a city or town and the county in which a facility is located. The payment in lieu of personal property the wind energy production tax may be based on production capacity, historical production, or other factors agreed upon by the parties. The payment in lieu of tax agreement must be signed by the parties and filed with the commissioner of revenue and the county recorder. Upon execution and filing of the agreement, the personal property to which the in lieu payment applies shall be deemed exempt from tax under section ~~272.02, subdivision 22, paragraphs (b) and (c).~~ This Exemption from the tax under section 272.029 shall be effective for the assessment year in which the in lieu payment is agreed upon and shall remain exempt for the same duration as the in lieu payments under this section are in effect.

Sec. 13. [272.029] WIND ENERGY PRODUCTION TAX.

Subdivision 1. PRODUCTION TAX. A tax is imposed on the production of electricity from a wind energy conversion system installed after January 1, 1991, and used as an electric power source.

Subd. 2. DEFINITIONS. (a) For the purposes of this section, the term:

(1) "wind energy conversion system" has the meaning given it in section 216C.06, subdivision 12;

(2) "large scale wind energy conversion system" means a wind energy conversion system of more than 12 megawatts, as measured by the nameplate capacity of the system or as combined with other systems as provided in paragraph (b);

(3) "medium scale wind energy conversion system" means a wind energy conversion system of over two and not more than 12 megawatts, as measured by the nameplate capacity of the system or as combined with other systems as provided in paragraph (b); and

(4) "small scale wind energy conversion system" means a wind energy conversion system of two megawatts and under, as measured by the nameplate capacity of the system or as combined with other systems as provided in paragraph (b).

New language is indicated by underline, deletions by strikeout.

(b) For systems installed and contracted for after January 1, 2002, the total size of a wind energy conversion system under this subdivision shall be determined according to this paragraph. Unless the systems are interconnected with different distribution systems, the nameplate capacity of one wind energy conversion system shall be combined with the nameplate capacity of any other wind energy conversion system that is:

- (1) located within five miles of the wind energy conversion system;
- (2) constructed within the same calendar year as the wind energy conversion system; and
- (3) under common ownership.

In the case of a dispute, the commissioner of commerce shall determine the total size of the system, and shall draw all reasonable inferences in favor of combining the systems.

(c) In making a determination under paragraph (b), the commissioner of commerce may determine that two wind energy conversion systems are under common ownership when the underlying ownership structure contains similar persons or entities, even if the ownership shares differ between the two systems. Wind energy conversion systems are not under common ownership solely because the same person or entity provided equity financing for the systems.

Subd. 3. RATE OF TAX. (a) The owner of a wind energy conversion system shall pay a tax based on the following schedule:

- (1) for a large scale wind energy conversion system, .12 cents per kilowatt-hour of electricity produced by the system;
- (2) for a medium scale wind energy conversion system, .036 cents per kilowatt-hour of electricity produced by the system; and
- (3) for a small scale wind energy conversion system of two megawatts or less, but greater than .25 megawatts capacity, .012 cents per kilowatt-hour of electricity produced by the system.

(b) Small scale wind energy conversion systems with the capacity of .25 megawatts or less, and small scale wind energy conversion systems with a capacity of two megawatts or less that are owned by a political subdivision, are exempt from the wind energy production tax.

Subd. 4. REPORTS. (a) An owner of a wind energy conversion system subject to tax under subdivision 3 shall file a report with the commissioner of revenue annually on or before March 1 detailing the amount of electricity in kilowatt-hours that was produced by the wind energy conversion system for the previous calendar year. The commissioner shall prescribe the form of the report. The report must contain the information required by the commissioner to determine the tax due to each county under this section for the current year. If an owner of a wind energy conversion system subject to taxation under this section fails to file the report by the due date, the

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commissioner of revenue shall determine the tax based upon the nameplate capacity of the system multiplied by a capacity factor of 40 percent.

(b) On or before March 31, the commissioner of revenue shall notify the owner of the wind energy conversion systems of the tax due to each county for the current year and shall certify to the county auditor of each county in which the systems are located the tax due from each owner for the current year.

Subd. 5. PAYMENT OF TAX; COLLECTION. The amount of production tax determined under subdivision 4 must be paid to the county treasurer at the time and in the manner provided for payment of property taxes under section 277.01, subdivision 3, and, if unpaid, is subject to the same enforcement, collection, and interest and penalties as delinquent personal property taxes. Except to the extent inconsistent with this section, the provisions of sections 277.01 to 277.24 and 278.01 to 278.13 apply to the taxes imposed under this section, and for purposes of those provisions, the taxes imposed under this section are considered personal property taxes.

Subd. 6. DISTRIBUTION OF REVENUES. Revenues from the taxes imposed under subdivision 5 must be part of the settlement between the county treasurer and the county auditor under section 276.09. The revenue must be distributed by the county auditor or the county treasurer to all taxing jurisdictions in which the wind energy conversion system is located, in the same proportion that each of the taxing jurisdiction's current year's net tax capacity based tax rate is to the current year's total net tax capacity based rate.

EFFECTIVE DATE. This section is effective for all energy produced by wind energy conversion systems after December 31, 2002.

Sec. 14. Minnesota Statutes 2001 Supplement, section 273.124, subdivision 11, is amended to read:

Subd. 11. LIMITATION ON HOMESTEAD REDUCTIONS TREATMENT.

(a) For taxes payable in 2003 through 2005 only, if the assessor has classified a property as both homestead and nonhomestead, the greater of:

(1) the value attributable to the portion of the property used as a homestead; or

(2) the homestead value amount determined under paragraph (b), is entitled to assessment as a homestead under section 273.13, subdivision 22 or 23.

(b) For taxes payable in 2003 only, the homestead value amount is \$60,000. For taxes payable in 2004 only, the homestead value amount is \$45,000. For taxes payable in 2005 only, the homestead value amount is \$30,000.

(c) If the assessor has classified a property as both homestead and nonhomestead, 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. 15. Minnesota Statutes 2000, section 273.125, subdivision 3, is amended to read:

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Subd. 3. **TAX STATEMENTS; PENALTIES; COLLECTIONS.** Not later than July 15 in the year of assessment the county treasurer shall mail to the taxpayer a statement of tax due on a manufactured home. The taxes are due on the last day of August, or 20 days after the postmark date on the envelope containing the property tax statement, whichever is later, except that if the tax exceeds \$50, one-half of the amount due may be paid on August 31, or 20 days after the postmark date on the envelope containing the property tax statement, whichever is later, and the remainder on November 15. Taxes remaining unpaid after the due date are delinquent, and a penalty of eight percent must be assessed and collected as part of the unpaid taxes. The tax statement must contain a sentence notifying the taxpayer that the title to the manufactured home cannot be transferred unless the property taxes are paid.

EFFECTIVE DATE. This section is effective for tax statements issued in 2003 and thereafter.

Sec. 16. Minnesota Statutes 2001 Supplement, section 273.13, subdivision 22, is amended to read:

Subd. 22. **CLASS 1.** (a) Except as provided in subdivision 23 and in paragraphs (b) and (c), real estate which is residential and used for homestead purposes is class 1a. In the case of a duplex or triplex in which one of the units is used for homestead purposes, the entire property is deemed to be used for homestead purposes. The market value of class 1a property must be determined based upon the value of the house, garage, and land.

The first \$500,000 of market value of class 1a property has a net class rate of one percent of its market value; and the market value of class 1a property that exceeds \$500,000 has a class rate of 1.25 percent of its market value.

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

(1) any blind person, or the blind person and the blind person's spouse; 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) 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

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(ii) receives 90 percent or more of total household income, as defined in section 290A.03, subdivision 5, 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

(G) pension, annuity, or other income paid as a result of that disability from a private pension or disability plan, including employer, employee, union, and insurance plans and

(iii) has household income as defined in section 290A.03, subdivision 5, of \$50,000 or less; or

(4) any person who is permanently and totally disabled and whose household income as defined in section 290A.03, subdivision 5, is 275 percent or less of the federal poverty level.

Property is classified and assessed under clause (4) only if the government agency or income-providing source certifies, upon the request of the homestead occupant, that the homestead occupant satisfies the disability requirements of this paragraph.

Property is classified and assessed pursuant to clause (1) only if the commissioner of economic security certifies to the assessor that the homestead occupant satisfies the requirements of this paragraph.

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 class rate of .45 percent of its market value. The remaining market value of class 1b property has a class rate using the rates for class 1a 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 250 days in the year preceding the year of assessment, and that includes a portion used as a homestead by the owner, which includes a dwelling occupied as a homestead by a shareholder of a corporation that owns the resort or a partner in a partnership that owns the resort, even

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if the title to the homestead is held by the corporation or partnership. For purposes of this clause, property is devoted to a commercial purpose on a specific day if any portion of the property, excluding the portion used exclusively as a homestead, is used for residential occupancy and a fee is charged for residential occupancy. The first \$500,000 of market value of class 1c property has a class rate of one percent, and the remaining market value of class 1c property has a class rate of one percent, 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. If any portion of the class 1c resort property is classified as class 4c under subdivision 25, the entire property must meet the requirements of subdivision 25, paragraph (d), clause (1), to qualify for class 1c treatment under this paragraph.

(d) Class 1d property includes structures that meet all of the following criteria:

(1) the structure is located on property that is classified as agricultural property under section 273.13, subdivision 23;

(2) the structure is occupied exclusively by seasonal farm workers during the time when they work on that farm, and the occupants are not charged rent for the privilege of occupying the property, provided that use of the structure for storage of farm equipment and produce does not disqualify the property from classification under this paragraph;

(3) the structure meets all applicable health and safety requirements for the appropriate season; and

(4) the structure is not salable as residential property because it does not comply with local ordinances relating to location in relation to streets or roads.

The market value of class 1d property has the same class rates as class 1a property under paragraph (a).

EFFECTIVE DATE. This section is effective for taxes payable in 2003 and subsequent years.

Sec. 17. Minnesota Statutes 2001 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. The market value of class 4a property has a class rate of 1.8 percent for taxes payable in 2002, 1.5 percent for taxes payable in 2003, and 1.25 percent for taxes payable in 2004 and thereafter, except that class 4a property consisting of a structure for which construction commenced after June 30, 2001, has a class rate of 1.25 percent of market value for taxes payable in 2003 and subsequent years.

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(b) Class 4b includes:

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

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

(c) Class 4bb includes;

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

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

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

(d) Class 4c property includes:

(1) except as provided in subdivision 22, paragraph (c), real property devoted to temporary and seasonal residential occupancy for recreation purposes, including real property devoted to temporary and seasonal residential occupancy for recreation purposes and not devoted to commercial purposes for more than 250 days in the year preceding the year of assessment. For purposes of this clause, property is devoted to a commercial purpose on a specific day if any portion of the property is used for residential occupancy, and a fee is charged for residential occupancy. In order for a property to be classified as class 4c, seasonal recreational residential for commercial purposes, at least 40 percent of the annual gross lodging receipts related to the property must be from business conducted during 90 consecutive days and either (i) at least 60 percent of all paid bookings by lodging guests during the year must be for periods of at least two consecutive nights; or (ii) at least 20 percent of the annual gross receipts must be from charges for rental of fish houses, boats and motors, snowmobiles, downhill or cross-country ski equipment, or charges for marina services, launch services, and guide services, or the sale of bait and fishing tackle. For purposes of this determination, a paid booking of five or more nights shall be counted as two bookings. Class 4c also includes commercial use real property used exclusively for recreational purposes in conjunction with class 4c property devoted to temporary and seasonal residential occupancy for recreational purposes, up to a total of two acres, provided the

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property is not devoted to commercial recreational use for more than 250 days in the year preceding the year of assessment and is located within two miles of the class 4c property with which it is used. Class 4c property classified in this clause also includes the remainder of class 1c resorts provided that the entire property including that portion of the property classified as class 1c also meets the requirements for class 4c under this clause; otherwise the entire property is classified as class 3. Owners of real property devoted to temporary and seasonal residential occupancy for recreation purposes and all or a portion of which was devoted to commercial purposes for not more than 250 days in the year preceding the year of assessment desiring classification as class 1c or 4c, must submit a declaration to the assessor designating the cabins or units occupied for 250 days or less in the year preceding the year of assessment by January 15 of the assessment year. Those cabins or units and a proportionate share of the land on which they are located will be designated class 1c or 4c as otherwise provided. The remainder of the cabins or units and a proportionate share of the land on which they are located will be designated as class 3a. The owner of property desiring designation as class 1c or 4c property must provide guest registers or other records demonstrating that the units for which class 1c or 4c designation is sought were not occupied for more than 250 days in the year preceding the assessment if so requested. The portion of a property operated as a (1) restaurant, (2) bar, (3) gift shop, and (4) other nonresidential facility operated on a commercial basis not directly related to temporary and seasonal residential occupancy for recreation purposes shall not qualify for class 1c or 4c;

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

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

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

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

(3) real property up to a maximum of one acre of land owned by a nonprofit community service oriented organization; provided that the property is not used for a revenue-producing activity for more than six days in the calendar year preceding the year of assessment and the property is not used for residential purposes on either a temporary or permanent basis. For purposes of this clause, a "nonprofit community service oriented organization" means any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, fraternal, civic, or educational purposes, and which is exempt from federal income taxation pursuant to section 501(c)(3), (10), or (19) of the Internal Revenue Code of 1986, as amended through December 31, 1990. For purposes of this clause, "revenue-producing activities" shall include but not be limited to property or that portion of the property that is used as an on-sale intoxicating liquor or 3.2 percent malt liquor establishment licensed under chapter 340A, a restaurant open to the public, bowling alley, a retail store, gambling conducted by organizations licensed under chapter 349, an insurance

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business, or office or other space leased or rented to a lessee who conducts a for-profit enterprise on the premises. Any portion of the property which is used for revenue-producing activities for more than six days in the calendar year preceding the year of assessment shall be assessed as class 3a. The use of the property for social events open exclusively to members and their guests for periods of less than 24 hours, when an admission is not charged nor any revenues are received by the organization shall not be considered a revenue-producing activity;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

EFFECTIVE DATE. This section is effective for assessment year 2002 and thereafter, for taxes payable in 2003 and thereafter.

Sec. 18. Minnesota Statutes 2001 Supplement, section 273.1384, subdivision 1, is amended to read:

Subdivision 1. **RESIDENTIAL HOMESTEAD MARKET VALUE CREDIT.** Each county auditor shall determine a homestead credit for each class 1a, 1b, 1c, and 2a homestead property within the county equal to 0.4 percent of the market value of the property. The amount of homestead credit for a homestead may not exceed \$304 and is reduced by .09 percent of the market value in excess of \$76,000. In the case of an agricultural or resort homestead, only the market value of the house, garage, and immediately surrounding one acre of land is eligible in determining the property's homestead credit. In the case of a property which is classified as part homestead and part nonhomestead, the credit shall apply only to the homestead portion of the property.

EFFECTIVE DATE. This section is effective for taxes payable in 2003 and subsequent years.

Sec. 19. Minnesota Statutes 2001 Supplement, section 273.1384, subdivision 2, is amended to read:

Subd. 2. **AGRICULTURAL HOMESTEAD MARKET VALUE CREDIT.** Property classified as class 2a agricultural homestead is eligible for an agricultural credit. The credit is equal to ~~0.2~~ 0.3 percent of the first \$115,000 of the property's market value. The credit under this subdivision is limited to ~~\$230~~ \$345 for each homestead. The credit is reduced by .05 percent of the market value in excess of \$115,000, subject to a maximum reduction of \$115.

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

Sec. 20. Minnesota Statutes 2000, section 273.1398, subdivision 1a, is amended to read:

Subd. 1a. **TAX BASE DIFFERENTIAL.** (a) For aids payable in ~~2000~~ 2003, the tax base differential is:

(1) 0.45 percent of the assessment year 1998 taxable market value of class 2a agricultural homestead property, excluding the house, garage, and surrounding one acre of land, between \$115,000 and \$600,000 and over 320 acres, minus the value over \$600,000 that is less than 320 acres 31 percent of the assessment year 2000 net tax capacity of public utility property reported by the county on the 2000 abstract of assessment as public utility land and buildings valued up to \$150,000; plus

(2) 0.5 percent of the assessment year 1998 taxable market value of noncommercial seasonal recreational residential property over \$75,000 in value 34 percent of the assessment year 2000 net tax capacity of public utility property reported by the county on the 2000 abstract of assessment as public utility land and buildings valued over \$150,000; plus

(3) for purposes of computing the fiscal disparity adjustment only, 0.2 percent of the assessment year 1998 taxable market value of class 3 commercial-industrial property over \$150,000 34 percent of the assessment year 2000 net tax capacity of public utility property reported by the county on the 2000 abstract of assessment as public utility machinery, systems of electric utilities-transmission, systems of electric utilities-distribution, and systems of gas utilities.

(b) For the purposes of the distribution of homestead and agricultural credit aid for aids payable in 2000, the commissioner of revenue shall use the best information available as of June 30, 1999, to make an estimate of the value described in paragraph (a), clause (1). The commissioner shall adjust the distribution of homestead and agricultural credit aid for aids payable in 2001 and subsequent years if new information regarding the value described in paragraph (a), clause (1), becomes available after June 30, 1999. Notwithstanding the computation in paragraph (a), the tax base differential shall be zero in all counties in which the sum of the net tax capacities of properties described in paragraph (a) does not exceed 40 percent of the total assessment year 2000 net tax capacity of the county.

Sec. 21. Minnesota Statutes 2000, section 273.1398, subdivision 2, is amended to read:

Subd. 2. **HOMESTEAD AND AGRICULTURAL CREDIT AID.** (a) Home-stead and agricultural credit aid for each unique taxing jurisdiction equals the product of (1) the homestead and agricultural credit aid base, and (2) the growth adjustment factor, plus the net tax capacity adjustment and the fiscal disparity adjustment.

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(b) For the purposes of determining the net tax capacity adjustment for aids payable in 2003, the "current local tax rate" and the "previous net tax capacity" as defined under subdivision 1 shall be determined using tax capacities and tax rates in effect for taxes payable in 2001.

Sec. 22. Minnesota Statutes 2001 Supplement, section 275.065, subdivision 3, is amended to read:

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

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

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

(d) The notice must state for each parcel:

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

(2) the items listed below, shown separately by county, city or town, and state determined school general tax, net of the education residential and agricultural homestead credit under section ~~273.1382~~ 273.1384, voter approved school levy, other local school levy, and the sum of the special taxing districts, and as a total of all taxing authorities:

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

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

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

(iv) the proposed tax amount.

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

In the case of a town or the state ~~determined school~~ general tax, the final tax shall also be its proposed tax unless the town changes its levy at a special town meeting under section 365.52. If a school district has certified under section 126C.17, subdivision 9, that a referendum will be held in the school district at the November general election, the county auditor must note next to the school district's proposed amount that a referendum is pending and that, if approved by the voters, the tax amount may be higher than shown on the notice. In the case of the city of Minneapolis, the levy for the Minneapolis library board and the levy for Minneapolis park and recreation shall be listed separately from the remaining amount of the city's levy. In the case of a parcel where tax increment or the fiscal disparities areawide tax under chapter 276A or 473F applies, the proposed tax levy on the captured value or the proposed tax levy on the tax capacity subject to the areawide tax must each be stated separately and not included in the sum of the special taxing districts; and

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

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

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

(1) special assessments;

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

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

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

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

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

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

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

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

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

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

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

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

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

(3) metropolitan mosquito control commission under section 473.711.

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

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

EFFECTIVE DATE. This section is effective for notices of proposed property taxes prepared in 2002, for taxes payable in 2003, and thereafter.

Sec. 23. Minnesota Statutes 2001 Supplement, section 276.04, subdivision 2, is amended to read:

Subd. 2. **CONTENTS OF TAX STATEMENTS.** (a) The treasurer shall provide for the printing of the tax statements. The commissioner of revenue shall prescribe the

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form of the property tax statement and its contents. The statement must contain a tabulated statement of the dollar amount due to each taxing authority and the amount of the state tax from the parcel of real property for which a particular tax statement is prepared. The dollar amounts attributable to the county, the state tax, the voter approved school tax, the other local school tax, the township or municipality, and the total of the metropolitan special taxing districts as defined in section 275.065, subdivision 3, paragraph (i), must be separately stated. The amounts due all other special taxing districts, if any, may be aggregated. If the county levy under this paragraph includes an amount for a lake improvement district as defined under sections 103B.501 to 103B.581, the amount attributable for that purpose must be separately stated from the remaining county levy amount. The amount of the tax on homesteads qualifying under the senior citizens' property tax deferral program under chapter 290B is the total amount of property tax before subtraction of the deferred property tax amount. The amount of the tax on contamination value imposed under sections 270.91 to 270.98, if any, must also be separately stated. 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 amount of market value excluded under section 273.11, subdivision 16, if any, must also be listed on the tax statement.

(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) Real and personal property tax statements must contain the following information in the order given in this paragraph. The information must contain the current year tax information in the right column with the corresponding information for the previous year in a column on the left:

- (1) the property's estimated market value under section 273.11, subdivision 1;
- (2) the property's taxable market value after reductions under section 273.11, subdivisions 1a and 16;
- (3) the property's gross tax, calculated by adding the property's total property tax to the sum of the aids enumerated in clause (4);
- (4) a total of the following aids:
 - (i) education aids payable under chapters 122A, 123A, 123B, 124D, 125A, 126C, and 127A;
 - (ii) local government aids for cities, towns, and counties under chapter 477A;
 - (iii) disparity reduction aid under section 273.1398; and
 - (iv) homestead and agricultural credit aid under section 273.1398;
- (5) for homestead residential and agricultural properties, the credits under section 273.1384;

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(6) any credits received under sections 273.119; 273.123; 273.135; 273.1391; 273.1398, subdivision 4; 469.171; and 473H.10, except that the amount of credit received under section 273.135 must be separately stated and identified as "taconite tax relief"; and

(7) the net tax payable in the manner required in paragraph (a).

(d) If the county uses envelopes for mailing property tax statements and if the county agrees, a taxing district may include a notice with the property tax statement notifying taxpayers when the taxing district will begin its budget deliberations for the current year, and encouraging taxpayers to attend the hearings. If the county allows notices to be included in the envelope containing the property tax statement, and if more than one taxing district relative to a given property decides to include a notice with the tax statement, the county treasurer or auditor must coordinate the process and may combine the information on a single announcement.

The commissioner of revenue shall certify to the county auditor the actual or estimated aids enumerated in clause (4) that local governments will receive in the following year. The commissioner must certify this amount by January 1 of each year.

EFFECTIVE DATE. This section is effective for property tax statements prepared in 2003 and thereafter.

Sec. 24. Laws 1998, chapter 389, article 3, section 42, is amended to read:

Sec. 42. TRANSFER OF PROPERTY; PAYMENT OF DEFERRED TAXES.

Subdivision 1. **ADDITIONAL TAX.** The assessor shall make a separate determination of the market value and net tax capacity of a property qualifying under section 38 as if sections 39 and 40 did not apply. The tax based upon the appropriate local tax rate applicable to such property in the taxing district shall be recorded on the property assessment records.

Subd. 2. **RECAPTURE.** (a) Property or any portion thereof qualifying under section 38 is subject to additional taxes if:

(1) ownership of the property is transferred to anyone other than the spouse or child of the current owner; ~~or;~~

(2) the current owner or the spouse or child of the current owner has not conveyed or entered into a contract before July 1, ~~2002~~ 2007, to convey the property to a nonprofit foundation or corporation ~~created to own and operate~~ operating the property as an art park providing the services included in section 38, clauses (2) to (5); ~~or~~

(3) the nonprofit foundation or corporation to which the property was transferred ceases to provide the services included in section 38, clauses (2) to (5), earlier than ten years following the effective date of the conveyance or of the execution of the contract to convey.

(b) The additional taxes are imposed at the earlier of (1) the year following transfer of ownership to anyone other than the spouse or child of the current owner or a nonprofit foundation or corporation ~~created to own and operate~~ operating the

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property as an art park, or (2) for taxes payable in 2003 2008, or in the event the nonprofit foundation or corporation to which the property was conveyed ceases to provide the required services within ten years after the conveyance, for taxes payable in the year following the year when it ceased to do so. The additional taxes are equal to the difference between the taxes determined under sections 39 and 40 and the amount determined under subdivision 1 for all years that the property qualified under section 38. The additional taxes must be extended against the property on the tax list for the current year; provided, however, that no interest or penalties may be levied on the additional taxes if timely paid.

Subd. 3. **CURRENT OWNER.** For purposes of this section, "current owner" means the owner of property qualifying under section 38 on the date of final enactment of this act or that owner's spouse or child.

Subd. 4. **NONPROFIT FOUNDATION OR CORPORATION.** For purposes of this act, "nonprofit foundation or corporation" means a nonprofit entity created to own and operate as defined under section 501(c)(3) of the Internal Revenue Code that is operating the property as an art park providing the services included in section 38, clauses (2) to (5).

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

Sec. 25. COOK COUNTY; EXPENDITURE OF ROAD AND BRIDGE LEVY.

Notwithstanding Minnesota Statutes, section 163.06, subdivisions 4 and 5, the county board of Cook county, by resolution, may expend the proceeds of the levy under Minnesota Statutes, section 163.06, in any organized or unorganized township or portion thereof in the county.

EFFECTIVE DATE. This section is effective the day after the governing body of Cook county and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Sec. 26. REPEALER.

Laws 2001, First Special Session chapter 5, article 3, section 88, is repealed effective July 1, 2002.

ARTICLE 5

EDUCATION LEVIES AND REVENUES

Section 1. Minnesota Statutes 2001 Supplement, section 124D.86, subdivision 3, is amended to read:

Subd. 3. **INTEGRATION REVENUE.** Integration revenue equals the following amounts:

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(1) for independent school district No. 709, Duluth, \$207 times the adjusted pupil units for the school year;

(2) for independent school district No. 625, St. Paul, and for special school district No. 1, Minneapolis, \$446 times the adjusted pupil units for the school year;

(3) for special school district No. 1, Minneapolis, the sum of \$446 times the adjusted pupil units for the school year and an additional \$35 times the adjusted pupil units for the school year that is provided entirely through a local levy;

(4) for a district not listed in clause (1) ~~or~~ (2), or (3), that must implement a plan under Minnesota Rules, parts 3535.0100 to 3535.0180, where the district's enrollment of protected students, as defined under Minnesota Rules, part 3535.0110, exceeds 15 percent, the lesser of (i) the actual cost of implementing the plan during the fiscal year minus the aid received under subdivision 6, or (ii) \$130 times the adjusted pupil units for the school year;

(4) (5) for a district not listed in clause (1), (2), ~~or~~ (3), or (4), that is required to implement a plan according to the requirements of Minnesota Rules, parts 3535.0100 to 3535.0180, the lesser of

(i) the actual cost of implementing the plan during the fiscal year minus the aid received under subdivision 6, or

(ii) \$93 times the adjusted pupil units for the school year.

Any money received by districts in clauses (1) to ~~(3)~~ (4) which exceeds the amount received in fiscal year 2000 shall be subject to the budget requirements in subdivision 1a; and

~~(5)~~ (6) for a member district of a multidistrict integration collaborative that files a plan with the commissioner, but is not contiguous to a racially isolated district, integration revenue equals the amount defined in clause ~~(4)~~ (5).

EFFECTIVE DATE. This section is effective the day following final enactment for revenue for fiscal year 2003.

Sec. 2. Minnesota Statutes 2001 Supplement, section 126C.40, subdivision 1, is amended to read:

Subdivision 1. **TO LEASE BUILDING OR LAND.** (a) When a an independent or a special school district or a group of independent or special school districts finds it economically advantageous to rent or lease a building or land for any instructional purposes or for school storage or furniture repair, and it determines that the operating capital revenue authorized under section 126C.10, subdivision 13, is insufficient for this purpose, it may apply to the commissioner for permission to make an additional capital expenditure levy for this purpose. An application for permission to levy under this subdivision must contain financial justification for the proposed levy, the terms and conditions of the proposed lease, and a description of the space to be leased and its proposed use.

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(b) The criteria for approval of applications to levy under this subdivision must include: the reasonableness of the price, the appropriateness of the space to the proposed activity, the feasibility of transporting pupils to the leased building or land, conformity of the lease to the laws and rules of the state of Minnesota, and the appropriateness of the proposed lease to the space needs and the financial condition of the district. The commissioner must not authorize a levy under this subdivision in an amount greater than the cost to the district of renting or leasing a building or land for approved purposes. The proceeds of this levy must not be used for custodial or other maintenance services. A district may not levy under this subdivision for the purpose of leasing or renting a district-owned building or site to itself.

(c) For agreements finalized after July 1, 1997, a district may not levy under this subdivision for the purpose of leasing: (1) a newly constructed building used primarily for regular kindergarten, elementary, or secondary instruction; or (2) a newly constructed building addition or additions used primarily for regular kindergarten, elementary, or secondary instruction that contains more than 20 percent of the square footage of the previously existing building.

(d) Notwithstanding paragraph (b), a district may levy under this subdivision for the purpose of leasing or renting a district-owned building or site to itself only if the amount is needed by the district to make payments required by a lease purchase agreement, installment purchase agreement, or other deferred payments agreement authorized by law, and the levy meets the requirements of paragraph (c). A levy authorized for a district by the commissioner under this paragraph may be in the amount needed by the district to make payments required by a lease purchase agreement, installment purchase agreement, or other deferred payments agreement authorized by law, provided that any agreement include a provision giving the school districts the right to terminate the agreement annually without penalty.

(e) The total levy under this subdivision for a district for any year must not exceed \$100 times the resident pupil units for the fiscal year to which the levy is attributable.

(f) For agreements for which a review and comment have been submitted to the department of children, families, and learning after April 1, 1998, the term "instructional purpose" as used in this subdivision excludes expenditures on stadiums.

(g) The commissioner of children, families, and learning may authorize a school district to exceed the limit in paragraph (e) if the school district petitions the commissioner for approval. The commissioner shall grant approval to a school district to exceed the limit in paragraph (e) for not more than five years if the district meets the following criteria:

- (1) the school district has been experiencing pupil enrollment growth in the preceding five years;
 - (2) the purpose of the increased levy is in the long-term public interest;
 - (3) the purpose of the increased levy promotes colocation of government services;
- and

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(4) the purpose of the increased levy is in the long-term interest of the district by avoiding over construction of school facilities.

(h) A school district that is a member of an intermediate school district may include in its authority under this section the costs associated with leases of administrative and classroom space for intermediate school district programs. This authority must not exceed \$25 times the adjusted marginal cost pupil units of the member districts. This authority is in addition to any other authority authorized under this section.

(i) In addition to the allowable capital levies in paragraph (a), a district that is a member of the "Technology and Information Education Systems" data processing joint board, that finds it economically advantageous to enter into a lease purchase agreement for a building for a group of school districts or special school districts for staff development purposes, may levy for its portion of lease costs attributed to the district within the total levy limit in paragraph (e).

EFFECTIVE DATE. This section is effective for taxes payable in 2003.

Sec. 3. Minnesota Statutes 2001 Supplement, section 126C.43, subdivision 3, is amended to read:

Subd. 3. **TAX LEVY FOR JUDGMENT.** A district may levy the amounts necessary to pay judgments against the district under section 123B.25 that became final after the date the district certified its proposed levy in the previous year. With the approval of the commissioner, a district may spread this levy over a period not to exceed three years. Upon approval through the adoption of a resolution by each of an intermediate district's member school district boards, a member school district may include its proportionate share of the costs of a judgment against an intermediate school district that became final under section 123B.25 after the date that the earliest member school district certified its proposed levy in the previous year. With the approval of the commissioner, an intermediate school district member school district may spread this levy over a period not to exceed three years.

EFFECTIVE DATE. This section is effective for taxes payable in 2003.

Sec. 4. Minnesota Statutes 2000, section 126C.44, is amended to read:

126C.44 ~~CRIME-RELATED COSTS~~ SAFE SCHOOLS LEVY.

Each district may make a levy on all taxable property located within the district for the purposes specified in this section. The maximum amount which may be levied for all costs under this section shall be equal to \$14 ~~\$30~~ multiplied by the district's adjusted marginal cost pupil units for the school year. The proceeds of the levy must be used for directly funding the following purposes or for reimbursing the cities and counties who contract with the district for the following purposes: (1) to pay the costs incurred for the salaries, benefits, and transportation costs of peace officers and sheriffs for liaison in services in the district's schools; (2) to pay the costs for a drug abuse prevention program as defined in section 609.101, subdivision 3, paragraph (e), in the elementary schools; (3) to pay the costs for a gang resistance education training

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curriculum in the district's schools; (4) to pay the costs for security in the district's schools and on school property; or (5) to pay the costs for other crime prevention, drug abuse, student and staff safety, and violence prevention measures taken by the school district. The district must initially attempt to contract for services to be provided by peace officers or sheriffs with the police department of each city or the sheriff's department of the county within the district containing the school receiving the services. If a local police department or a county sheriff's department does not wish to provide the necessary services, the district may contract for these services with any other police or sheriff's department located entirely or partially within the school district's boundaries. The levy authorized under this section is not included in determining the school district's levy limitations.

EFFECTIVE DATE. This section is effective for taxes payable in 2003.

Sec. 5. Laws 2001, First Special Session chapter 6, article 1, section 53, is amended to read:

Sec. 53. REFERENDUM CONVERSION ADJUSTMENT FOR INTEREST EARNED.

(a) The commissioner of children, families, and learning shall calculate the change in estimated net interest earnings for each district attributable to the repeal of the general education levy as provided in this section.

(b) The interest calculations must assume an annual interest rate of five percent, and must be based on the amount by which the district's cumulative net general education levy receipts for taxes payable in 2000, based on the assumptions specified in Minnesota Statutes, section 127A.45, subdivision 8, exceeds the cumulative amount that would have been guaranteed for each payment in fiscal year 2001, as defined in Minnesota Statutes, section 127A.45, subdivisions 2 and 3, calculated using data as of the June 20, 2001, payment, and assuming that the repeal of the general education levy was effective for fiscal year 2001. The commissioner shall divide the interest revenue in fiscal year 2001 by the number of resident marginal cost pupil units in fiscal year 2001. The interest calculations must assume an annual interest rate of five percent, and must be based on the difference between (1) the district's estimated aid payments and levy receipts for fiscal year 2003, based upon the payment schedule specified in Minnesota Statutes, section 127A.45, and (2) the amount that the district's estimated aid payments and levy receipts for fiscal year 2003 would have been had the general education levy for fiscal year 2003 been set at the amount of the district's general education levy for taxes payable in 2001. For the purposes of this section, the general education levy must not include the education homestead credit or the education agricultural credit.

(c) The amount calculated in paragraph (a) may be converted to an additional referendum allowance according to Minnesota Statutes, section 126C.17, subdivision 11. The amount calculated in paragraph (b), less any interest conversion revenue calculated for the district under Laws 2001, First Special Session chapter 6, article 1, section 53, is added to the district's levy limitation for taxes payable in 2003 through 2006.

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(d) Any additional referendum allowance as a result of a conversion under paragraph (b) shall be included in the referendum conversion allowance used to determine the referendum allowance limit under Minnesota Statutes, section 126C.17, subdivision 2. If the state total levy under paragraph (c) exceeds \$3,000,000, the commissioner shall reduce the levy authority proportionately for each eligible district such that the state total levy equals \$3,000,000.

(e) The commissioner must calculate an adjustment for taxes payable in 2002 for each school district as though this section were in effect for that tax year.

EFFECTIVE DATE. This section is effective for revenue for taxes payable in 2003 and later.

Sec. 6. Laws 2001, First Special Session chapter 6, article 4, section 25, is amended to read:

Sec. 25. INTERACTIVE WEB-BASED AND INDEPENDENT STUDY PROGRAMS.

Subdivision 1. **PUPIL REVENUE.** (a) General education revenue for an eligible pupil in an approved interactive Web-based program offered by a school district or a charter school, or an approved alternative program that has an independent study component offered by a charter school, under the supervision of a teacher with a Minnesota license, must be paid for each hour of completed coursework needed for grade progression, credit, or alignment with state graduation standards. For purposes of this section, an eligible pupil is a public school pupil concurrently enrolled in the district or charter school or concurrently enrolled in another district or charter school and participating in the program by agreement with the district or charter school of enrollment. The course of study must be approved by the commissioner of children, families, and learning for alignment with the state graduation standards and compliance with Minnesota Statutes, chapter 125A. An alternative program that has an independent study component must also meet the requirements of Minnesota Statutes, section 126C.05, subdivision 15, paragraph (b), clauses (i) and (iv). Average daily membership for a pupil shall equal the number of hours of coursework completed divided by the number of hours required for a full-time student in the district or charter school. Pupils enrolled in the program must not be counted as more than 1.0 pupil in average daily membership. A school district or charter school is not required to provide a pupil enrolled in the program with access to a computer or to the Internet.

(b) Notwithstanding paragraph (a), pupils enrolled in a Web-based public alternative program approved by the commissioner before June 1, 2001, are not required to be concurrently enrolled in the district and may be counted as more than 1.0 pupil in average daily membership under Minnesota Statutes, section 126C.05, subdivision 15.

(c) Notwithstanding paragraph (a), pupils enrolled in a charter school with a Web-based program, approved by the commissioner before June 1, 2001, are not required to be concurrently enrolled in the charter school.

(d) Notwithstanding paragraph (a), pupils enrolled in a charter school with an alternative program that has an independent study component, approved by the

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commissioner for fiscal year 2001, may be counted as more than 1.0 pupil in average daily membership under Minnesota Statutes, section 126C.05, subdivision 15, paragraph (b), clause (iii).

Subd. 2. **REIMBURSEMENT.** Notwithstanding Minnesota Statutes, section 126C.19, subdivision 4, for fiscal year years 2002 and 2003 only, the commissioner shall establish a process for providing additional revenue to school districts or charter schools for:

(1) an eligible pupil in an approved interactive Web-based program under subdivision 1, paragraph (a), that may be counted as more than 1.0 pupil in average daily membership; or

(2) a nonpublic pupil in an approved interactive Web-based program in a public school under subdivision 1, paragraph (a).

The commissioner may award additional general education revenue to school districts and charter schools up to the amount appropriated for this section. The amount of additional revenue awarded to a school district under this section shall be based on additional pupils in average daily membership that are generated according to this subdivision with the prior approval from the commissioner. The commissioner shall establish a process to prioritize the awards under this subdivision based on the estimated number of students the school district or charter school expects to serve under this section.

EFFECTIVE DATE. This section is effective for revenue for fiscal year 2003 only.

Sec. 7. Laws 2001, First Special Session chapter 6, article 4, section 27, subdivision 9, is amended to read:

Subd. 9. **REIMBURSEMENT FOR WEB-BASED AND INDEPENDENT STUDY COURSES.** For grants to school districts and charter schools for additional pupils taking on-line courses according to section 25:

\$100,000 2002

This appropriation is available until June 30, 2003.

Sec. 8. **DISABLED ACCESS LEVY AUTHORITY; WESTBROOK-WALNUT GROVE.**

Notwithstanding the time limit in Minnesota Statutes, section 123B.58, subdivision 3, independent school district No. 2898, Westbrook-Walnut Grove, may levy its remaining disabled access levy authority over five or fewer years.

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

Sec. 9. **DISABLED ACCESS LEVY AUTHORITY; PINE CITY.**

Notwithstanding the time limits in Minnesota Statutes, section 123B.58, subdivision 3, independent school district No. 578, Pine City, may levy its remaining disabled access levy authority over five or fewer years.

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

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ARTICLE 6

AIDS AND LEVIES

Section 1. Minnesota Statutes 2000, section 69.77, is amended by adding a subdivision to read:

Subd. 11a. **APPLICATION OF OTHER LAWS TO CONTRIBUTION RATE.** In the absence of any specific provision to the contrary, no general or special law previously enacted may be construed as reducing the levy amount or rate of contribution to a police or firefighters relief association to which subdivision 1a applies, by a municipality or member of the association, which is required as a condition for the use of public funds or the levy of taxes for the support of the association. Each association, the municipality in which it is organized, and the officers of each, are authorized to do all things required by this section as a condition for the use of public funds or the levy of taxes for the support of the association.

Sec. 2. **[126C.445] TREE GROWTH REPLACEMENT REVENUE.**

For taxes payable in 2003 and later, a school district may levy an amount not to exceed its miscellaneous revenue for tree growth revenue for taxes payable in 2001.

EFFECTIVE DATE. This section is effective beginning with taxes levied in 2002, payable in 2003.

Sec. 3. Minnesota Statutes 2000, section 273.1398, subdivision 3, is amended to read:

Subd. 3. **DISPARITY REDUCTION AID.** (a) For taxes payable in 1995, 2003 and subsequent years, the amount of disparity aid certified for each taxing district within each unique taxing jurisdiction for taxes payable in the prior year shall be multiplied by the ratio of (1) the jurisdiction's tax capacity using the class rates for taxes payable in the year for which aid is being computed, to (2) its tax capacity using the class rates for taxes payable in the year prior to that for which aid is being computed, both based upon market values for taxes payable in the year prior to that for which aid is being computed. For the purposes of this aid determination, disparity reduction aid certified for taxes payable in the prior year for a taxing entity other than a town or school district is deemed to be county government disparity reduction aid. For taxes payable in 1992 and subsequent years, The amount of disparity aid certified to each taxing jurisdiction shall be reduced by any reductions required in the current year or permanent reductions required in previous years under section 477A.0132.

(b) For aid payable in 2003, in each unique taxing jurisdiction where the total tax rate for taxes payable in 2002 exceeds 135 percent of taxable net tax capacity, an amount shall be permanently added to the unique taxing jurisdiction's aid amount under paragraph (a) equal to the lesser of: (i) the amount, if any, by which 87 percent

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of the aid certified for 2001 exceeds the amount certified for 2002, or (ii) the amount that would be necessary to reduce the total payable 2002 tax rate for the unique taxing jurisdiction to 135 percent of taxable net tax capacity. The amount determined under this paragraph must be added before the class rate adjustment described in paragraph (a).

EFFECTIVE DATE. This section is effective for aids payable in 2003 and subsequent years.

Sec. 4. Minnesota Statutes 2001 Supplement, section 273.1398, subdivision 4d, is amended to read:

Subd. 4d. **AID OFFSET FOR OUT-OF-HOME PLACEMENT COSTS.** For aid payable in ~~2003~~ 2004, each county's aid under subdivision 2 shall be permanently reduced by an amount equal to the county's ~~2003~~ 2004 reimbursement for nonfederal expenditures for out-of-home placements, as provided in section 245.775, provided that payments will be made under section 477A.0123 in calendar year ~~2003~~ 2004. The counties shall provide all information requested by the commissioner of human services necessary to allow the commissioner to certify the previous three years' average nonfederal costs to the commissioner of revenue by July 15, ~~2003~~ 2004. The aid reduction under this subdivision must be made ~~prior to~~ not exceed the difference between (1) the amount of aid calculated for the county for calendar year 2004 under subdivision 2, including any addition under section 477A.07, and (2) the amount of any aid reductions for the state takeover of courts contained in Laws 2001, First Special Session chapter 5, article 5.

EFFECTIVE DATE. This section is effective for aids payable in 2004.

Sec. 5. Minnesota Statutes 2001 Supplement, section 275.70, subdivision 5, is amended to read:

Subd. 5. **SPECIAL LEVIES.** "Special levies" means those portions of ad valorem taxes levied by a local governmental unit for the following purposes or in the following manner:

(1) to pay the costs of the principal and interest on bonded indebtedness or to reimburse for the amount of liquor store revenues used to pay the principal and interest due on municipal liquor store bonds in the year preceding the year for which the levy limit is calculated;

(2) to pay the costs of principal and interest on certificates of indebtedness issued for any corporate purpose except for the following:

(i) tax anticipation or aid anticipation certificates of indebtedness;

(ii) certificates of indebtedness issued under sections 298.28 and 298.282;

(iii) certificates of indebtedness used to fund current expenses or to pay the costs of extraordinary expenditures that result from a public emergency; or

(iv) certificates of indebtedness used to fund an insufficiency in tax receipts or an insufficiency in other revenue sources;

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(3) to provide for the bonded indebtedness portion of payments made to another political subdivision of the state of Minnesota;

(4) to fund payments made to the Minnesota state armory building commission under section 193.145, subdivision 2, to retire the principal and interest on armory construction bonds;

(5) property taxes approved by voters which are levied against the referendum market value as provided under section 275.61;

(6) to fund matching requirements needed to qualify for federal or state grants or programs to the extent that either (i) the matching requirement exceeds the matching requirement in calendar year 2001, or (ii) it is a new matching requirement that didn't exist prior to 2002;

(7) to pay the expenses reasonably and necessarily incurred in preparing for or repairing the effects of natural disaster including the occurrence or threat of widespread or severe damage, injury, or loss of life or property resulting from natural causes, in accordance with standards formulated by the emergency services division of the state department of public safety, as allowed by the commissioner of revenue under section 275.74, paragraph (b);

(8) pay amounts required to correct an error in the levy certified to the county auditor by a city or county in a levy year, but only to the extent that when added to the preceding year's levy it is not in excess of an applicable statutory, special law or charter limitation, or the limitation imposed on the governmental subdivision by sections 275.70 to 275.74 in the preceding levy year;

(9) to pay an abatement under section 469.1815;

(10) to pay any costs attributable to increases in the employer contribution rates under chapter 353 that are effective after June 30, 2001;

(11) to pay the operating or maintenance costs of a county jail as authorized in section 641.01 or 641.262, or of a correctional facility as defined in section 241.021, subdivision 1, paragraph (5), to the extent that the county can demonstrate to the commissioner of revenue that the amount has been included in the county budget as a direct result of a rule, minimum requirement, minimum standard, or directive of the department of corrections, or to pay the operating or maintenance costs of a regional jail as authorized in section 641.262. For purposes of this clause, a district court order is not a rule, minimum requirement, minimum standard, or directive of the department of corrections. If the county utilizes this special levy, any amount levied by the county in the previous levy year for the purposes specified under this clause and included in the county's previous year's levy limitation computed under section 275.71, shall be deducted from the levy limit base under section 275.71, subdivision 2, when determining the county's current year levy limitation. The county shall provide the necessary information to the commissioner of revenue for making this determination;

(12) to pay for operation of a lake improvement district, as authorized under section 103B.555. If the county utilizes this special levy, any amount levied by the

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county in the previous levy year for the purposes specified under this clause and included in the county's previous year's levy limitation computed under section 275.71 shall be deducted from the levy limit base under section 275.71, subdivision 2, when determining the county's current year levy limitation. The county shall provide the necessary information to the commissioner of revenue for making this determination;

(13) to repay a state or federal loan used to fund the direct or indirect required spending by the local government due to a state or federal transportation project or other state or federal capital project. This authority may only be used if the project is not a local government initiative;

(14) for counties only, to pay the costs reasonably expected to be incurred in 2002 related to the redistricting of election districts and establishment of election precincts under sections 204B.135 and 204B.14, the notice required by section 204B.14, subdivision 4, and the reassignment of voters in the statewide registration system, not to exceed \$1 per capita, provided that the county shall distribute a portion of the amount levied under this clause equal to 25 cents times the population of the city to all cities in the county with a population of 30,000 or more; and

(15) to pay for court administration costs as required under section 273.1398, subdivision 4b, less the county's share of transferred fines and fees collected by the district courts in the county for calendar year 2001; however, for taxes levied to pay for these costs in the year in which the court financing is transferred to the state, the amount under this section is limited to one-third of the aid reduction under section 273.1398, subdivision 4a; and

(16) to fund a police or firefighters relief association as required under section 69.77 to the extent that the required amount exceeds the amount levied for this purpose in 2001.

EFFECTIVE DATE. This section is effective for taxes levied beginning in 2002.

Sec. 6. Minnesota Statutes 2001 Supplement, section 275.71, subdivision 2, is amended to read:

Subd. 2. **LEVY LIMIT BASE.** (a) The levy limit base for a local governmental unit for taxes levied in 2001 is equal to the greater of:

(1) the sum of its adjusted levy limit base for taxes levied in 1999 plus the amount it levied in 1999 under Minnesota Statutes 1999 Supplement, section 275.70, subdivision 5, clauses (8) and (13), multiplied by:

(i) one plus the percentage growth in the implicit price deflator for the 12-month period ending March 30, 2000;

(ii) one plus a percentage equal to the annual percentage increase in the estimated number of households, if any, for the most recent 12-month period that was available on July 1, 2000; and

(iii) one plus a percentage equal to 50 percent of the percentage increase in the taxable market value of the jurisdiction due to new construction of class 3 property, as

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defined in section 273.13, subdivision 24, except for state-assessed utility and railroad operating property, for the most recent year for which data was available as of July 1, 2000; or

(2) an amount equal to:

(i) the sum of the amount it levied in 2000 plus the amount of aids it was certified to receive in calendar year 2001 under sections 273.1398, 298.282, 477A.011 to 477A.03, prior to any aid reductions under section 273.1399, subdivision 5, 477A.06, and 477A.065; less

(ii) the amount it levied in 2000 that would qualify as special levies under section 275.70, subdivision 6, for taxes levied in 2001. The local governmental unit shall provide the commissioner of revenue with sufficient information to make this calculation.

(b) If the governmental unit was not subject to levy limits for taxes levied in 1999, its levy limit base for taxes levied in 2001 is equal to the amount calculated under paragraph (a), clause (2).

(c) The levy limit base for a local governmental unit for taxes levied in 2002 is equal to its adjusted levy limit base in the previous year, plus the amount of tree growth tax it received in calendar year 2001 under sections 270.31 to 270.39, and plus, in the case of a city, the amount it was certified to receive in calendar year 2001 under section 273.166, subject to any adjustments under section 275.72.

EFFECTIVE DATE. This section is effective for taxes levied in 2002, payable in 2003.

Sec. 7. Minnesota Statutes 2001 Supplement, section 275.71, subdivision 3, is amended to read:

Subd. 3. **ADJUSTMENTS FOR STATE TAKEOVERS.** (a) The levy limit base for each local unit of government shall be adjusted to reflect the assumption by the state of financing for certain government functions as indicated in this subdivision.

(b) For a county in a judicial district for which financing has not been transferred to the state by January 1, 2001, the levy limit base for 2001 is permanently reduced by the amount of the county's 2001 budget for court administration costs, as certified under section 273.1398, subdivision 4b, paragraph (b), net of the county's share of transferred fines and fees collected by the district courts in the county for the same budget period.

(c) For a governmental unit which levied a tax in 2000 under section 473.388, subdivision 7, the levy limit base for 2001 is permanently reduced by an amount equal to the sum of the governmental unit's taxes payable 2001 nondebt transit services levy plus the portion of its 2001 homestead and agricultural credit aid under section 273.1398, subdivision 2, attributable to nondebt transit services.

(d) For counties in a judicial district in which the state assumed financing of mandated services costs as defined in section 480.181, subdivision 4, on July 1, 2001,

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the levy limit base for taxes levied in 2001 is permanently reduced by an amount equal to one-half of the aid reduction under section 273.1398, subdivision 4a, paragraph (g).

EFFECTIVE DATE. This section is effective retroactively for taxes payable in 2002 and 2003.

Sec. 8. Minnesota Statutes 2001 Supplement, section 275.71, subdivision 6, is amended to read:

Subd. 6. **LEVIES IN EXCESS OF LEVY LIMITS.** (a) If the levy made by a city or county exceeds the levy limit provided in sections 275.70 to 275.74, except when the excess levy is due to the rounding of the rate in accordance with section 275.28, the county auditor shall only extend the amount of taxes permitted under sections 275.70 to 275.74, as provided for in section 275.16.

(b) For taxes levied in 2002, payable in 2003 only, if an error was made in calculating the levy limit adjustment related to a special levy for jails authorized under section 275.70, subdivision 5, clause (1), in the previous year, the following adjustments must be made:

(1) the county's levy limit base for taxes levied in 2002 must be based on the corrected adjusted levy limit base for taxes levied in 2001; and

(2) the county's final levy limit for taxes levied in 2002, payable in 2003, must also be temporarily reduced by an amount equal to the amount of county levy spread in the previous year in excess of the total recalculated levy limit plus authorized special levies for taxes levied in 2001, payable in 2002.

(c) The commissioner of revenue shall inform counties affected by paragraph (b) of the levy error and levy adjustments required under this provision by June 15, 2002. The county may provide additional information to the commissioner indicating why these adjustments may be in error by July 15, 2002. The commissioner shall certify the final levy adjustment to the affected counties by August 1, 2002. The levy reduction imposed under paragraph (b), clause (2), may be spread over a period not to exceed three years, upon agreement between the county and the commissioner.

EFFECTIVE DATE. This section is effective for taxes levied in 2002, payable in 2003 only.

Sec. 9. Minnesota Statutes 2001 Supplement, section 477A.011, subdivision 36, is amended to read:

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

(b) For aids payable in 1996 and thereafter, a city that in 1992 or 1993 transferred an amount from governmental funds to its sewer and water fund, which amount

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exceeded its net levy for taxes payable in the year in which the transfer occurred, has a "city aid base" equal to the sum of (i) its city aid base, as calculated under paragraph (a), and (ii) one-half of the difference between its city aid distribution under section 477A.013, subdivision 9, for aids payable in 1995 and its city aid base for aids payable in 1995.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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(g) Beginning in ~~2002~~ 2004, the city aid base for a city is equal to the sum of its city aid base in ~~2001~~ 2003 and the amount of additional aid it was certified to receive under section 477A.06 in ~~2001~~ 2003. For ~~2002~~ 2004 only, the maximum amount of total aid a city may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by the amount it was certified to receive under section 477A.06 in ~~2001~~ 2003.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(2) \$2,500,000.

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

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

(2) its population in 2000 is between 10,000 and 20,000; and

(3) its commercial industrial percentage, as calculated for city aid payable in 2001, was greater than 25 percent.

(q) The city aid base for a city is increased by \$150,000 in calendar years 2002 to 2011 and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$150,000 in calendar year 2002 only, provided that:

(1) the city had a population of at least 3,000 but no more than 4,000 in 1999;

(2) its home county is located within the seven-county metropolitan area;

(3) its pre-1940 housing percentage is less than 15 percent; and

(4) its city net tax capacity per capita for taxes payable in 2000 is less than \$900 per capita.

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(r) The city aid base for a city is increased by \$200,000 beginning in calendar year 2003 and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (c), is also increased by \$200,000 in calendar year 2003 only, provided that the city qualified for an increase in homestead and agricultural credit aid under Laws 1995, chapter 264, article 8, section 18.

EFFECTIVE DATE. This section is effective for aid payable in 2002 and thereafter, except that paragraph (r) is effective beginning with aid payable in 2003.

Sec. 10. Minnesota Statutes 2001 Supplement, section 477A.0123, is amended to read:

477A.0123 REIMBURSEMENT OF COUNTY FOR CERTAIN OUT-OF-HOME PLACEMENT.

Subdivision 1. **AID PAYMENTS.** (a) In calendar year ~~2003~~ 2004 and thereafter, the commissioner of revenue shall reimburse each county for a portion of the nonfederal share of the cost of out-of-home placement provided the commissioner of human services, in consultation with the commissioner of corrections, certifies to the commissioner of revenue that accurate data is available to make the aid determination under this section. The amount of reimbursement is a percent of the county's average nonfederal share of the cost for out-of-home placement for the most recent three calendar years for which data is available. The commissioner shall pay the aid under the schedule used for local government aid payments under section 477A.015.

(b) For aids payable in calendar year ~~2003~~ 2004, the percent of reimbursement in paragraph (a) shall be equal to the maximum percentage possible, up to 30 percent, that does not cause the payment to any county in the seven county metropolitan area to exceed the difference between (1) the amount of aid it is scheduled to receive calculated for the county in calendar year ~~2003~~ 2004 under section 273.1398, prior to the offset under section 273.1398, subdivision 4d, and any aid offset under section 273.1398, subdivision 4a, that is scheduled to occur after July 1, 2003 subdivision 2, including any addition determined under section 477A.07, and (2) the amount of any aid reductions for the state takeover of courts contained in Laws 2001, First Special Session chapter 5, article 5. For aids payable in ~~2004~~ 2005 and thereafter, the percent of reimbursement under paragraph (a) shall be equal to the percent of reimbursement determined for calendar year ~~2003~~ 2004, adjusted so that the total payments under this section do not exceed the appropriation under section 477A.03, subdivision 2, paragraph (e).

(c) For purposes of this section, "out-of-home placement" means the placement of a child in a child caring institution or shelter licensed under Minnesota Rules, parts 9545.0905 to 9545.1125, in a group home licensed under Minnesota Rules, parts 9545.1400 to 9545.1480, in family foster care or group family foster care licensed under Minnesota Rules, parts 9545.0010 to 9545.0260, or a correctional facility pursuant to a court order under which a county social services agency or a county correctional agency has been assigned responsibility for the placement.

Subd. 2. **DETERMINATION OF NONFEDERAL SHARE OF COSTS.** (a) By January 1, 2002, each county shall report the following information to the commis-

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sioners of human services and corrections, the separate amounts paid out of its social service agency budget and its corrections budget for out-of-home placement in calendar years 1998, 1999, and 2000, along with the number of case days associated with the expenditures from each budget. By March 15, 2002, the commissioner of human services, in consultation with the commissioner of corrections, shall certify to the commissioner of revenue and to the legislative committees responsible for local government aids and out-of-home placement funding, whether the data reported under this subdivision accurately reflects total expenditures by counties for out-of-home placement costs.

(b) By January 1 of calendar year ~~2004~~ 2003 and thereafter, each county shall report to the commissioners of human services and corrections the separate amounts paid out of its social service agency budget and its corrections budget for out-of-home placement in the calendar years ~~year~~ two years before the current calendar year along with the number of case days associated with the expenditures from each budget.

(c) Until either the commissioner of human services or corrections develops another mechanism for collecting and verifying data on out-of-home placements, and the legislature authorizes the use of that data, the data collected under this subdivision shall be used to calculate payments under subdivision 1. The commissioner of human services shall certify the information to the commissioner of revenue by July 1 of the year prior to the aid payment.

Sec. 11. Minnesota Statutes 2001 Supplement, section 477A.03, subdivision 2, is amended to read:

Subd. 2. **ANNUAL APPROPRIATION.** (a) A sum sufficient to discharge the duties imposed by sections 477A.011 to 477A.014 is annually appropriated from the general fund to the commissioner of revenue.

(b) Aid payments to counties under section 477A.0121 are limited to \$20,265,000 in 1996. Aid payments to counties under section 477A.0121 are limited to \$27,571,625 in 1997. For aid payable in 1998 and thereafter, the total aids paid under section 477A.0121 are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3.

(c)(i) For aids payable in 1998 and thereafter, the total aids paid to counties under section 477A.0122 are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3.

(ii) Aid payments to counties under section 477A.0122 in 2000 are further increased by an additional \$20,000,000 in 2000.

(d) Aid payments to cities in 2002 under section 477A.013, subdivision 9, are limited to the amounts certified to be paid in the previous year, adjusted for inflation as provided in subdivision 3, and increased by \$140,000,000. For aids payable in 2003, the total aids paid under section 477A.013, subdivision 9, are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3. For aids payable in 2004, the total aids paid under section 477A.013, subdivision 9, are the amounts certified to be paid in the previous year, adjusted for inflation as provided

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under subdivision 3, and increased by the amount certified to be paid in 2003 under section 477A.06. For aids payable in 2005 and thereafter, the total aids paid under section 477A.013, subdivision 9, are the amounts certified to be paid in the previous year, adjusted for inflation as provided under subdivision 3. The additional amount authorized under subdivision 4 is not included when calculating the appropriation limits under this paragraph.

(e) Reimbursements made to counties under section 477A.0123 in calendar year 2004 2005 and thereafter are limited to an amount equal to the maximum allowed appropriation under this section in the previous year, multiplied by a percent to be established by law. If no percent is established by law, the appropriation is limited to the total amount appropriated for this purpose in the previous year.

EFFECTIVE DATE. This section is effective beginning with aids payable in 2004.

Sec. 12. Minnesota Statutes 2001 Supplement, section 477A.07, subdivision 2, is amended to read:

Subd. 2. **COUNTY AID.** Each county's aid amount for 2003 determined under subdivision 1 must be ~~permanently~~ added to the county's 2003 homestead and agricultural credit aid base determined under section 273.1398 for aid payable, subdivision 2, and paid in 2003 as part of the county's homestead and agricultural credit aid. It then becomes a permanent part of the county's homestead and agricultural credit aid base for aid payable in 2004. Each county's aid amount for 2004 determined under subdivision 1 must be ~~permanently~~ added to the county's 2004 homestead and agricultural credit aid base for aid payable determined under section 273.1398, subdivision 2, and paid in 2004 as part of the county's homestead and agricultural credit aid. It then becomes a permanent part of the county's homestead and agricultural credit aid base for aid payable in 2005.

EFFECTIVE DATE. This section is effective beginning with aids payable in 2003.

ARTICLE 7

ECONOMIC DEVELOPMENT

Section 1. Minnesota Statutes 2000, section 272.0212, subdivision 4, is amended to read:

Subd. 4. **DEFINITIONS.** (a) For purposes of this section, the following terms have the meanings given.

(b) "Qualified property" means class 3 and class 1, 3, 4, and 5 property as defined in section 273.13 that is located in a zone and is newly constructed after the zone was designated, including the land that contains the improvements.

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(c) "Zone" means a border city development zone designated under the provisions of section 469.1731.

EFFECTIVE DATE. This section is effective beginning for assessment year 2003.

Sec. 2. Minnesota Statutes 2001 Supplement, section 469.1734, subdivision 6, is amended to read:

Subd. 6. **SALES TAX EXEMPTION; EQUIPMENT; CONSTRUCTION MATERIALS.** (a) The gross receipts from the sale of machinery and equipment and repair parts are exempt from taxation under chapter 297A, if the machinery and equipment:

(1) are used in connection with a trade or business;

(2) are placed in service in a city that is authorized to designate a zone under section 469.1731, regardless of whether the machinery and equipment are used in a zone; and

(3) have a useful life of 12 months or more.

(b) The gross receipts from the sale of construction materials are exempt, if they are used to construct:

(1) a facility for use in a trade or business located in a city that is authorized to designate a zone under section 469.1731, regardless of whether the facility is located in a zone; or

(2) housing that is located in a zone.

The exemptions under this paragraph apply regardless of whether the purchase is made by the owner, the user, or a contractor.

(c) A purchaser may claim an exemption under this subdivision for tax on the purchases up to, but not exceeding:

(1) the amount of the tax credit certificates received from the city, less

(2) any tax credit certificates used under the provisions of subdivisions 4 and 5, and section 469.1732, subdivision 2.

(d) The tax on sales of items exempted under this subdivision shall be imposed and collected as if the applicable rate under section 297A.62 applied. Upon application by the purchaser, on forms prescribed by the commissioner, a refund equal to the tax paid shall be paid to the purchaser. The application must include sufficient information to permit the commissioner to verify the sales tax paid and the eligibility of the claimant to receive the credit. No more than two applications for refunds may be filed under this subdivision in a calendar year. The provisions of section 289A.40 apply to the refunds payable under this subdivision. There is annually appropriated to the commissioner of revenue the amount required to make the refunds, which must be deducted from the amount of the city's allocation under section 469.169, subdivision

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12, that remains available and its limitation under section 469.1735. 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.

EFFECTIVE DATE. This section is effective for sales made after June 30, 2002.

Sec. 3. Minnesota Statutes 2001 Supplement, section 469.1763, subdivision 6, is amended to read:

Subd. 6. **POOLING PERMITTED FOR DEFICITS.** (a) This subdivision applies only to districts for which the request for certification was made before August 1, 2001, and without regard to whether the request for certification was made prior to August 1, 1979.

(b) The municipality for the district may transfer available increments from another tax increment financing district located in the municipality, if the transfer is necessary to eliminate a deficit in the district to which the increments are transferred. A deficit in the district for purposes of this subdivision means the lesser of the following two amounts:

(1)(i) the amount due during the calendar year to pay preexisting obligations of the district; minus

(ii) the total increments to be collected from properties located within the district that are available for the calendar year; plus

(iii) total increments from properties located in other districts in the municipality that are available to be used to meet the district's obligations under this section, excluding this subdivision, or other provisions of law (but excluding a special tax under section 469.1791 and the grant program under Laws 1997, chapter 231, article 1, section 19, or Laws 2001, First Special Session chapter 5); or

(2) the reduction in increments collected from properties located in the district for the calendar year as a result of the changes in class rates in Laws 1997, chapter 231, article 1; Laws 1998, chapter 389, article 2; and Laws 1999, chapter 243, and Laws 2001, First Special Session chapter 5, or the elimination of the general education tax levy under Laws 2001, First Special Session chapter 5.

(c) A preexisting obligation means:

(1) bonds issued and sold before August 1, 2001, or bonds issued pursuant to a binding contract requiring the issuance of bonds entered into before July 1, 2001, and bonds issued to refund such bonds or to reimburse expenditures made in conjunction with a signed contractual agreement entered into before August 1, 2001, to the extent that the bonds are secured by a pledge of increments from the tax increment financing district; and

(2) binding contracts entered into before August 1, 2001, to the extent that the contracts require payments secured by a pledge of increments from the tax increment financing district.

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(d) The municipality may require a development authority, other than a seaway port authority, to transfer available increments for any of its tax increment financing districts in the municipality to make up an insufficiency in another district in the municipality, regardless of whether the district was established by the development authority or another development authority. This authority applies notwithstanding any law to the contrary, but applies only to a development authority that:

(1) was established by the municipality; or

(2) the governing body of which is appointed, in whole or part, by the municipality or an officer of the municipality or which consists, in whole or part, of members of the governing body of the municipality. The municipality may use this authority only after it has first used all available increments of the receiving development authority to eliminate the insufficiency and exercised any permitted action under section 469.1792, subdivision 3, for preexisting districts of the receiving development authority to eliminate the insufficiency.

(e) The authority under this subdivision to spend tax increments outside of the area of the district from which the tax increments were collected:

(1) may only be exercised after obtaining approval of the use of the increments, in writing, by the commissioner of revenue;

(2) is an exception to the restrictions under section 469.176, subdivision 4i, and the other provisions of this section, and the percentage restrictions under subdivision 2 must be calculated after deducting increments spent under this subdivision from the total increments for the district; and

(3) applies notwithstanding the provisions of the Tax Increment Financing Act in effect for districts for which the request for certification was made before June 30, 1982, or any other law to the contrary.

(f) If a preexisting obligation requires the development authority to pay an amount that is limited to the increment from the district or a specific development within the district and if the obligation requires paying a higher amount to the extent that increments are available, the municipality may determine that the amount due under the preexisting obligation equals the higher amount and may authorize the transfer of increments under this subdivision to pay up to the higher amount. The existence of a guarantee of obligations by the individual or entity that would receive the payment under this paragraph is disregarded in the determination of eligibility to pool under this subdivision. The authority to transfer increments under this paragraph may only be used to the extent that the payment of all other preexisting obligations in the municipality due during the calendar year have been satisfied.

EFFECTIVE DATE. This section is effective for increments payable in 2002 and thereafter.

Sec. 4. Minnesota Statutes 2001 Supplement, section 469.1792, subdivision 1, is amended to read:

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Subdivision 1. **SCOPE.** This section applies only to an authority with a preexisting district for which:

(1)(~~4~~) the increments from the district were insufficient to pay preexisting obligations as a result of the class rate changes or the elimination of the state-determined general education property tax levy under this act, or both; or

(~~ii~~) (2)(i) the development authority has a binding contract with a person requiring the authority to pay to the person an amount that may not exceed the increment from the district or a specific development within the district ~~and as a result of the reduction in increment because of the class rate changes or the elimination of the state-determined general education property tax levy under this act, or both;~~ and

(ii) the authority is unable to pay the full amount under the contract from the pledged increments or other increments from the district that would have been due if the class rate changes or elimination of the state-determined general education property tax levy or both had not been made under Laws 2001, First Special Session chapter 5; and

(2) ~~the municipality exercised its full authority to pool under section 469.1763, subdivision 6, and the transfer of increments did not eliminate the insufficiency under clause (1), item (i), or the inability to pay the full amount under clause (1), item (ii).~~

EFFECTIVE DATE. This section is effective for actions taken and resolutions approved after June 30, 2002.

Sec. 5. Minnesota Statutes 2000, section 469.1813, is amended by adding a subdivision to read:

Subd. 6b. **EXTENDED DURATION LIMIT.** (a) Notwithstanding the provisions of subdivision 6, a political subdivision may grant an abatement for a period of up to 20 years, if the abatement is for a qualified business.

(b) To be a qualified business for purposes of this subdivision, at least 50 percent of the payroll of the operations of the business that qualify for the abatement must be for employees engaged in one of the following lines of business or any combination of them:

- (1) manufacturing;
- (2) agricultural processing;
- (3) mining;
- (4) research and development;
- (5) warehousing; or
- (6) qualified high technology.

(c)(1) "Manufacturing" means the material staging and production of tangible personal property by procedures commonly regarded as manufacturing, processing,

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fabrication, or assembling which changes some existing material into new shapes, new qualities, or new combinations.

(2) "Mining" has the meaning given in section 613(c) of the Internal Revenue Code of 1986.

(3) "Agricultural processing" means transforming, packaging, sorting, or grading livestock or livestock products, agricultural commodities, or plants or plant products into goods that are used for intermediate or final consumption including goods for nonfood use.

(4) "Research and development" means qualified research as defined in section 41(d) of the Internal Revenue Code of 1986.

(5) "Qualified high technology" means one or more of the following activities:

(i) advanced computing, which is any technology used in the design and development of any of the following:

(A) computer hardware and software;

(B) data communications; and

(C) information technologies;

(ii) advanced materials, which are materials with engineered properties created through the development of specialized process and synthesis technology;

(iii) biotechnology, which is any technology that uses living organisms, cells, macromolecules, microorganisms, or substances from living organisms to make or modify a product, improve plants or animals, or develop microorganisms for useful purposes;

(iv) electronic device technology, which is any technology that involves micro-electronics, semiconductors, electronic equipment, and instrumentation, radio frequency, microwave, and millimeter electronics, and optical and optic-electrical devices, or data and digital communications and imaging devices;

(v) engineering or laboratory testing related to the development of a product;

(vi) technology that assists in the assessment or prevention of threats or damage to human health or the environment, including, but not limited to, environmental cleanup technology, pollution prevention technology, or development of alternative energy sources;

(vii) medical device technology, which is any technology that involves medical equipment or products other than a pharmaceutical product that has therapeutic or diagnostic value and is regulated; or

(viii) advanced vehicles technology which is any technology that involves electric vehicles, hybrid vehicles, or alternative fuel vehicles, or components used in the construction of electric vehicles, hybrid vehicles, or alternative fuel vehicles. An electric vehicle is a road vehicle that draws propulsion energy only from an on-board

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source of electrical energy. A hybrid vehicle is a road vehicle that can draw propulsion energy from both a consumable fuel and a rechargeable energy storage system.

(d) The authority to grant new abatements under this subdivision expires on July 1, 2004.

Sec. 6. Laws 1995, chapter 264, article 5, section 45, subdivision 1, as amended by Laws 1996, chapter 471, article 7, section 22, and Laws 1997, chapter 231, article 10, section 13, is amended to read:

Subdivision 1. **CREATION OF PROJECTS.** (a) An authority may create a housing replacement project under sections 44 to 47, as provided in this section.

(b) For the cities of Crystal, Fridley, Richfield, and Columbia Heights, the authority may designate up to 50 parcels in the city to be included in a housing replacement district. No more than ten parcels may be included in year one of the district, with up to ten additional parcels added to the district in each of the following nine years. For the cities of Minneapolis, St. Paul, and Duluth, each authority may designate up to ~~100~~ not more than 200 parcels in the city to be included in a housing replacement district over the life of the district. The only parcels that may be included in a district are (1) vacant sites, (2) parcels containing vacant houses, or (3) parcels containing houses that are structurally substandard, as defined in Minnesota Statutes, section 469.174, subdivision 10.

(c) The city in which the authority is located must pay at least 25 percent of the housing replacement project costs from its general fund, a property tax levy, or other unrestricted money, not including tax increments.

(d) The housing replacement district plan must have as its sole object the acquisition of parcels for the purpose of preparing the site to be sold for market rate housing. As used in this section, "market rate housing" means housing that has a market value that does not exceed 150 percent of the average market value of single-family housing in that municipality.

Sec. 7. CITY OF ALBERT LEA; TAX INCREMENT FINANCING DISTRICT.

Subdivision 1. **AUTHORIZATION.** The governing body of the city of Albert Lea may create a redevelopment tax increment financing district as provided in this section. The city or its port authority may be the "authority" for the purposes of Minnesota Statutes, sections 469.174 to 469.179.

Subd. 2. **DEFINITIONS.** (a) For the purposes of this section, the terms defined in this subdivision have the meanings given them.

(b) "Redevelopment parcel" means the property in the city of Albert Lea bounded by Main Street, Garfield Avenue, Front Street, the Union Pacific railway line, and Albert Lea lake.

(c) "Reconstruction parcel" means the property in the city of Albert Lea described as lot 1, block 5, Habben First Addition.

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Subd. 3. **SPECIAL RULES.** (a) The district established under this section is subject to the provisions of Minnesota Statutes, sections 469.174 to 469.179, except as provided in this subdivision.

(b) The district may consist of the redevelopment parcel and the reconstruction parcel.

(c) Minnesota Statutes, section 469.174, subdivision 10, paragraph (f), does not apply to the district, and if the city finds that the redevelopment parcel meets the criteria described in Minnesota Statutes, section 469.174, subdivision 10, paragraph (a), clause (1), then both the redevelopment parcel and the reconstruction parcel and the district as a whole are considered to meet those criteria.

(d) Expenditures for activities, as defined in Minnesota Statutes, section 469.1763, subdivision 1, paragraph (b), anywhere within the district are considered costs of correcting conditions that allow designation of redevelopment districts within the meaning of Minnesota Statutes, section 469.176, subdivision 4j.

(e) For the purposes of Minnesota Statutes, section 469.1763, subdivision 3, expenditures on the redevelopment parcel are considered to have been expended on an activity within the district if a qualifying action occurs within ten years after certification of the district.

EFFECTIVE DATE. This section is effective upon local approval in compliance with the requirements of Minnesota Statutes, section 645.021.

Sec. 8. RUSHFORD TAX INCREMENT FINANCING EXTENSION.

The governing body of the city of Rushford may elect to extend the duration of its downtown redevelopment tax increment financing district by up to two additional years.

EFFECTIVE DATE. This section is effective upon compliance with the requirements of Minnesota Statutes, sections 469.1782, subdivision 2; and 645.021.

Sec. 9. CITY OF MINNEAPOLIS TAX INCREMENT DISTRICT; DURATION EXTENSION.

(a) Upon approval of the city council of the city of Minneapolis, the Minneapolis community development agency may, notwithstanding Minnesota Statutes, section 469.176, subdivision 1b, extend the duration of the east Hennepin and University tax increment district for a period of up to seven years, or until all amounts payable to the developers and to the agency to reimburse the agency's provision of \$1,100,000 of city of Minneapolis HOME funds to assist low-income housing are repaid, whichever is shorter.

(b) The amount of additional increment which may be paid to the district as a result of this section may not exceed:

(1) the increment that would have been collected if the class rate changes and elimination of the state-determined general education property tax levy had not been made under Laws 2001, First Special Session chapter 5, for the term of the district

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under general law and if the provisions of section 4 did not apply, less

(2) the actual increments collected for the term of the district under general law.

(c) Notwithstanding any law to the contrary, effective upon approval of this section, no increments may be spent on activities located outside of the area of the district, other than to pay administrative expenses.

(d) This section is effective upon compliance with the requirements of Minnesota Statutes, sections 469.1782, subdivision 2, and 645.021.

Sec. 10. CITY OF MINNEAPOLIS TAX INCREMENT DISTRICT; DURATION EXTENSION.

(a) Upon approval of the city council of the city of Minneapolis, the Minneapolis community development agency may, with respect to the southeast Minneapolis industrial area redevelopment area phase 4 tax increment financing district, notwithstanding Minnesota Statutes, section 469.176, subdivision 1b, extend the duration of the district for a period of up to six years.

(b) The amount of additional increment which may be paid to the district as a result of this section may not exceed:

(1) the increment that would have been collected if the class rate changes and elimination of the state-determined general education property tax levy had not been made under Laws 2001, First Special Session chapter 5, for the term of the district under general law and if the provisions of section 4 did not apply, less

(2) the actual increments collected for the term of the district under general law.

(c) Notwithstanding any law to the contrary, effective upon approval of this section, no increments may be spent on activities located outside of the area of the district, other than to pay administrative expenses.

(d) Upon payment in full of the Minneapolis community development agency amended and restated tax increment revenue note, in the original face amount of \$1,000,000, issued December 4, 1997, the district terminates and the authority granted under this section terminates.

(e) This section is effective upon compliance with the requirements of Minnesota Statutes, sections 469.1782, subdivision 2, and 645.021.

Sec. 11. GRANT TO WASHBURN-CROSBY PROJECT.

Notwithstanding the requirements of Minnesota Statutes, section 469.1794, the commissioner of revenue shall pay a one-time grant of \$2,600,000 to the Minneapolis community development agency for the Washburn-Crosby Mill City Museum project of the historical society as described in Laws 2001, First Special Session chapter 5, article 15, section 39. The grant must be disbursed on July 1, 2002. \$2,600,000 is appropriated from the general fund to the commissioner of revenue to make the grant under this section.

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Sec. 12. DAKOTA COUNTY TAX INCREMENT DISTRICT EXTENSION.

(a) The governing body of Dakota county may elect to extend the duration of its C.D.A. South Robert Street redevelopment tax increment financing district number 4 by up to five additional years.

(b) The amount of additional increment which may be paid to the district as a result of this section may not exceed:

(1) the increment that would have been collected if the class rate changes and elimination of the state-determined general education property tax levy had not been made under Laws 2001, First Special Session chapter 5, for the term of the district under general law and if the provisions of section 4 did not apply, less

(2) the actual increments collected for the term of the district under general law.

EFFECTIVE DATE. This section is effective upon compliance with Minnesota Statutes, sections 469.1782, subdivision 2, and 645.021.

Sec. 13. REPEALER.

Minnesota Statutes 2001 Supplement, section 469.176, subdivision 1h, is repealed.

EFFECTIVE DATE. This section is effective retroactive to July 1, 2001, and any early decertification of a tax increment financing district made after July 1, 2001, is ratified.

ARTICLE 8

MINERALS TAXES

Section 1. Minnesota Statutes 2001 Supplement, section 126C.21, subdivision 4, is amended to read:

Subd. 4. **TACONITE DEDUCTIONS.** (1) Notwithstanding any provisions of any other law to the contrary, the adjusted net tax capacity used in calculating general education aid may include only that property that is currently taxable in the district.

(2) For districts that received payments under sections 298.018; 298.225; 298.28; 298.34 to 298.39; 298.391 to 298.396; and 298.405, or any law imposing a tax upon severed mineral values; or recognized revenue under section 477A.15; the general education aid must be reduced in the final adjustment payment by the difference between the dollar amount of the payments received pursuant to those sections, or revenue recognized under section 477A.15 in the fiscal year to which the final adjustment is attributable and the amount that was calculated, pursuant to section 126C.48, subdivision 8, as a reduction of the levy attributable to the fiscal year to which the final adjustment is attributable. If the final adjustment of a district's general education aid for a fiscal year is a negative amount because of this clause, the next fiscal year's general education aid to that district must be reduced by this negative amount in the following manner: there must be withheld from each scheduled general

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education aid payment due the district in such fiscal year, 15 percent of the total negative amount, until the total negative amount has been withheld. The amount reduced from general education aid pursuant to this clause must be recognized as revenue in the fiscal year to which the final adjustment payment is attributable.

Sec. 2. Minnesota Statutes 2001 Supplement, section 126C.48, subdivision 8, is amended to read:

Subd. 8. **TACONITE PAYMENT AND OTHER REDUCTIONS.** (1) Reductions in levies pursuant to sections 126C.48, subdivision 1, and 273.138, must be made prior to the reductions in clause (2).

(2) Notwithstanding any other law to the contrary, districts which received payments pursuant to sections 298.018; 298.225; 298.28, except an amount distributed under section 298.28, subdivision 4, paragraph (c), clause (ii); 298.34 to 298.39; 298.391 to 298.396; 298.405; and any law imposing a tax upon severed mineral values; or recognized revenue under section 477A.15 must not include a portion of these aids in their permissible levies pursuant to those sections, but instead must reduce the permissible levies authorized by this chapter and chapters 120B, 122A, 123A, 123B, 124A, 124D, 125A, and 127A by the greater of the following:

(a) an amount equal to 50 percent of the total dollar amount of the payments received pursuant to those sections or revenue recognized under section 477A.15 in the previous fiscal year; or

(b) an amount equal to the total dollar amount of the payments received pursuant to those sections or revenue recognized under section 477A.15 in the previous fiscal year less the product of the same dollar amount of payments or revenue times five percent.

For levy year 2002 only, 77 percent of the amounts distributed under section 298.225 and 298.28, and 100 percent of the amounts distributed under sections 298.018; 298.34 to 298.39; 298.391 to 298.396; 298.405; and any law imposing a tax upon severed mineral values, or recognized revenue under section 477A.15, shall be used for purposes of the calculations under this paragraph. For levy year 2003 only, the levy reductions under this subdivision must be calculated as if section 298.28, subdivision 4, paragraph (f), did not apply for the 2003 distribution.

(3) The amount of any increased levy authorized by referendum pursuant to section 126C.17, subdivision 9, voter approved referendum, facilities down payment, and debt levies shall not be reduced pursuant to by more than 50 percent under this subdivision. The amount of any levy authorized by section 126C.43, to make payments for bonds issued and for interest thereon, shall not be reduced pursuant to this subdivision. In administering this paragraph, the commissioner shall first reduce the nonvoter approved levies of a district; then, if any payments, severed mineral value tax revenue or recognized revenue under paragraph (2) remains, the commissioner shall reduce any voter approved referendum levies authorized under section 126C.17; then, if any payments, severed mineral value tax revenue or recognized revenue under paragraph (2) remains, the commissioner shall reduce any voter approved facilities

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down payment levies authorized under section 123B.63 and then, if any payments, severed mineral value tax revenue or recognized revenue under paragraph (2) remains, the commissioner shall reduce any voter approved debt levies.

(4) Before computing the reduction pursuant to this subdivision of the health and safety levy authorized by sections 123B.57 and 126C.40, subdivision 5, the commissioner shall ascertain from each affected school district the amount it proposes to levy under each section or subdivision. The reduction shall be computed on the basis of the amount so ascertained.

(5) Notwithstanding any law to the contrary, any amounts received by districts in any fiscal year pursuant to sections 298.018; 298.34 to 298.39; 298.391 to 298.396; 298.405; or any law imposing a tax on severed mineral values; and not deducted from general education aid pursuant to section 126C.21, subdivision 4, clause (2), and not applied to reduce levies pursuant to this subdivision shall be paid by the district to the St. Louis county auditor in the following amount by March 15 of each year, the amount required to be subtracted from the previous fiscal year's general education aid pursuant to section 126C.21, subdivision 4, which is in excess of the general education aid earned for that fiscal year. The county auditor shall deposit any amounts received pursuant to this clause in the St. Louis county treasury for purposes of paying the taconite homestead credit as provided in section 273.135. To the extent the levy reduction calculated under paragraph (2) exceeds the limitation in paragraph (3), an amount equal to the excess must be distributed from the school district's distribution under sections 298.225, 298.28, and 477A.15 in the following year to the cities and townships within the school district in the proportion that their taxable net tax capacity within the school district bears to the taxable net tax capacity of the school district for property taxes payable in the year prior to distribution. No city or township shall receive a distribution greater than its levy for taxes payable in the year prior to distribution. The commissioner of revenue shall certify the distributions of cities and towns under this paragraph to the county auditor by September 30 of the year preceding distribution. The county auditor shall reduce the proposed and final levies of cities and towns receiving distributions by the amount of their distribution. Distributions to the cities and towns shall be made at the times provided under section 298.27.

Sec. 3. Minnesota Statutes 2001 Supplement, section 298.01, subdivision 3b, is amended to read:

Subd. 3b. **DEDUCTIONS.** (a) For purposes of determining taxable income under subdivision 3, the deductions from gross income include only those expenses necessary to convert raw ores to marketable quality. Such expenses include costs associated with refinement but do not include expenses such as transportation, stockpiling, marketing, or marine insurance that are incurred after marketable ores are produced, unless the expenses are included in gross income.

(b) The provisions of section 290.01, subdivisions 19c, clauses (6) and ~~(10)~~ (9), and 19d, clauses (7) and (11), are not used to determine taxable income.

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

New language is indicated by underline, deletions by strikeout.

Sec. 4. Minnesota Statutes 2001 Supplement, section 298.01, subdivision 4c, is amended to read:

Subd. 4c. **SPECIAL DEDUCTIONS; NET OPERATING LOSS.** (a) For purposes of determining taxable income under subdivision 4, ~~the following modifications are allowed:~~

(1) the provisions of section 290.01, subdivisions 19c, clauses (6) and ~~(10)~~ (9), and 19d, clauses (7) and (11), are not used to determine taxable income; and

(2) for assets placed in service before January 1, 1990, the deduction for depreciation will be the same amount allowed under chapter 290, ~~except that after an asset has been fully depreciated for federal income tax purposes any remaining depreciable basis is allowed as a deduction using the straight-line method over the following number of years:~~

- (i) ~~three-year property, one year;~~
- (ii) ~~five- and seven-year property, two years;~~
- (iii) ~~ten-year property, five years; and~~
- (iv) ~~all other property, seven years;~~

~~No deduction is allowed if an asset is fully depreciated for occupation tax purposes before January 1990.~~

(b) For purposes of determining the deduction allowed under paragraph (a), clause (2), the remaining depreciable basis of property placed in service before January 1, 1990, is calculated as follows:

(1) the adjusted basis of the property on December 31, 1989, which was used to calculate the hypothetical corporate franchise tax under Minnesota Statutes 1988, section 298.40, including salvage value; less

(2) deductions for depreciation allowed under section 290.01, subdivision 19c.

(c) The basis for determining gain or loss on sale or disposition of assets placed in service before January 1, 1990, is the basis determined under paragraph (b), less the deductions allowed under paragraph (a), clause (2).

(d) (b) The amount of net operating loss incurred in a taxable year beginning before January 1, 1990, that may be carried over to a taxable year beginning after December 31, 1989, is the amount of net operating loss carryover determined in the calculation of the hypothetical corporate franchise tax under Minnesota Statutes 1988, sections 298.40 and 298.402.

EFFECTIVE DATE. This section is effective for taxes payable May 1, 2002, and thereafter.

Sec. 5. Minnesota Statutes 2001 Supplement, section 298.225, subdivision 1, is amended to read:

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Subdivision 1. (a) The distribution of the taconite production tax as provided in section 298.28, subdivisions 3 to 5, 6, paragraph (b), 7, and 8, shall equal the lesser of the following amounts:

(1) the amount distributed pursuant to this section and section 298.28, with respect to 1983 production if the production for the year prior to the distribution year is no less than 42,000,000 taxable tons. If the production is less than 42,000,000 taxable tons, the amount of the distributions shall be reduced proportionately at the rate of two percent for each 1,000,000 tons, or part of 1,000,000 tons by which the production is less than 42,000,000 tons; or

(2)(i) for the distributions made pursuant to section 298.28, subdivisions 4, paragraphs (b) and (c), and 6, paragraph (c), ~~40.5~~ 31.2 percent of the amount distributed pursuant to this section and section 298.28, with respect to 1983 production;

(ii) for the distributions made pursuant to section 298.28, subdivision 5, paragraphs (b) and (d), 75 percent of the amount distributed pursuant to this section and section 298.28, with respect to 1983 production.

(b) The distribution of the taconite production tax as provided in section 298.28, subdivision 2, shall equal the following amount:

(1) if the production for the year prior to the distribution year is at least 42,000,000 taxable tons, the amount distributed pursuant to this section and section 298.28 with respect to 1999 production; or

(2) if the production for the year prior to the distribution year is less than 42,000,000 taxable tons, the amount distributed pursuant to this section and section 298.28 with respect to 1999 production, reduced proportionately at the rate of two percent for each 1,000,000 tons or part of 1,000,000 tons by which the production is less than 42,000,000 tons.

Sec. 6. Minnesota Statutes 2000, section 298.27, is amended to read:

298.27 COLLECTION AND PAYMENT OF TAX.

The taxes provided by section 298.24 shall be paid directly to each eligible county and the iron range resources and rehabilitation board. The commissioner of revenue shall notify each producer of the amount to be paid each recipient prior to February 15. Every person subject to taxes imposed by section 298.24 shall file a correct report covering the preceding year. The report must contain the information required by the commissioner. The report shall be filed by each producer on or before February 1. A remittance equal to 50 percent of the total tax required to be paid hereunder in 2003 and 100 percent of the total tax required to be paid hereunder in 2004 and thereafter shall be paid on or before February 24. A remittance equal to the remaining total tax required to be paid hereunder in 2003 shall be paid on or before August 24. On or before February 25, and in 2003, August 25, the county auditor shall make distribution of the payment payments previously received by the county in the manner provided by section 298.28. Reports shall be made and hearings held upon the determination of the

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tax in accordance with procedures established by the commissioner of revenue. The commissioner of revenue shall have authority to make reasonable rules as to the form and manner of filing reports necessary for the determination of the tax hereunder, and by such rules may require the production of such information as may be reasonably necessary or convenient for the determination and apportionment of the tax. All the provisions of the occupation tax law with reference to the assessment and determination of the occupation tax, including all provisions for appeals from or review of the orders of the commissioner of revenue relative thereto, but not including provisions for refunds, are applicable to the taxes imposed by section 298.24 except in so far as inconsistent herewith. If any person subject to section 298.24 shall fail to make the report provided for in this section at the time and in the manner herein provided, the commissioner of revenue shall in such case, upon information possessed or obtained, ascertain the kind and amount of ore mined or produced and thereon find and determine the amount of the tax due from such person. There shall be added to the amount of tax due a penalty for failure to report on or before February 1, which penalty shall equal ten percent of the tax imposed and be treated as a part thereof.

If any person responsible for making a tax payment at the time and in the manner herein provided fails to do so, there shall be imposed a penalty equal to ten percent of the amount so due, which penalty shall be treated as part of the tax due.

In the case of any underpayment of the tax payment required herein, there may be added and be treated as part of the tax due a penalty equal to ten percent of the amount so underpaid.

A person having a liability of \$120,000 or more during a calendar year must remit all liabilities by means of a funds transfer as defined in section 336.4A-104, paragraph (a). The funds transfer payment date, as defined in section 336.4A-401, must be on or before the date the tax is due. If the date the tax is due is not a funds transfer business day, as defined in section 336.4A-105, paragraph (a), clause (4), the payment date must be on or before the funds transfer business day next following the date the tax is due.

EFFECTIVE DATE. Except as otherwise provided, this section is effective for years beginning after December 31, 2001.

Sec. 7. Minnesota Statutes 2001 Supplement, section 298.28, subdivision 4, is amended to read:

Subd. 4. **SCHOOL DISTRICTS.** (a) ~~22.28~~ 17.15 cents per taxable ton plus the increase provided in paragraph (d) must be allocated to qualifying school districts to be distributed, based upon the certification of the commissioner of revenue, under paragraphs (b) and (c), except as otherwise provided in paragraph (f).

(b) ~~4.46~~ 3.43 cents per taxable ton must be distributed to the school districts in which the lands from which taconite was mined or quarried were located or within which the concentrate was produced. The distribution must be based on the apportionment formula prescribed in subdivision 2.

(c)(i) ~~17.82~~ 13.72 cents per taxable ton, less any amount distributed under paragraph (e), shall be distributed to a group of school districts comprised of those

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school districts in which the taconite was mined or quarried or the concentrate produced or in which there is a qualifying municipality as defined by section 273.134, paragraph (b), in direct proportion to school district indexes as follows: for each school district, its pupil units determined under section 126C.05 for the prior school year shall be multiplied by the ratio of the average adjusted net tax capacity per pupil unit for school districts receiving aid under this clause as calculated pursuant to chapters 122A, 126C, and 127A for the school year ending prior to distribution to the adjusted net tax capacity per pupil unit of the district. Each district shall receive that portion of the distribution which its index bears to the sum of the indices for all school districts that receive the distributions.

(ii) Notwithstanding clause (i), each school district that receives a distribution under sections 298.018; 298.23 to 298.28, exclusive of any amount received under this clause; 298.34 to 298.39; 298.391 to 298.396; 298.405; or any law imposing a tax on severed mineral values after reduction for any portion distributed to cities and towns under section 126C.48, subdivision 8, paragraph (5), that is less than the amount of its levy reduction under section 126C.48, subdivision 8, for the second year prior to the year of the distribution shall receive a distribution equal to the difference; the amount necessary to make this payment shall be derived from proportionate reductions in the initial distribution to other school districts under clause (i).

(d) Any school district described in paragraph (c) where a levy increase pursuant to section 126C.17, subdivision 9, was authorized by referendum for taxes payable in 2001, shall receive a distribution from a fund that receives a distribution in 1998 of 21.3 cents per ton. On July 15 of 1999, and each year thereafter, the increase over the amount established for the prior year shall be determined according to the increase in the implicit price deflator as provided in section 298.24, subdivision 1. Each district shall receive \$175 times the pupil units identified in section 126C.05, subdivision 1, enrolled in the second previous year or the 1983-1984 school year, whichever is greater, less the product of 1.8 percent times the district's taxable net tax capacity in the second previous year.

If the total amount provided by paragraph (d) is insufficient to make the payments herein required then the entitlement of \$175 per pupil unit shall be reduced uniformly so as not to exceed the funds available. Any amounts received by a qualifying school district in any fiscal year pursuant to paragraph (d) shall not be applied to reduce general education aid which the district receives pursuant to section 126C.13 or the permissible levies of the district. Any amount remaining after the payments provided in this paragraph shall be paid to the commissioner of iron range resources and rehabilitation who shall deposit the same in the taconite environmental protection fund and the northeast Minnesota economic protection trust fund as provided in subdivision 11.

Each district receiving money according to this paragraph shall reserve \$25 times the number of pupil units in the district. It may use the money for early childhood programs or for outcome-based learning programs that enhance the academic quality of the district's curriculum. The outcome-based learning programs must be approved by the commissioner of children, families, and learning.

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(e) There shall be distributed to any school district the amount which the school district was entitled to receive under section 298.32 in 1975.

(f) ~~Effective with for the distribution in 2003 and thereafter only, five percent of the distributions to school districts under paragraphs (b), (c), and (e); subdivision 6, paragraph (c); subdivision 11; and section 477A.15 298.225, shall be distributed to the general fund. The remainder less any portion distributed to cities and towns under section 126C.48, subdivision 8, paragraph (5), shall be distributed to the cities and townships within each school district in the proportion that their taxable net tax capacity within the school district bears to the taxable net tax capacity of the school district for property taxes payable in the year prior to distribution. No city or township shall receive a distribution greater than its levy for taxes payable in the year prior to distribution northeast Minnesota economic protection trust fund created in section 298.292. Fifty percent of the amount distributed to the northeast Minnesota economic protection trust fund shall be made available for expenditure under section 298.293 as governed by section 298.296. Effective in 2003 only, 100 percent of the distributions to school districts under section 477A.15 less any portion distributed to cities and towns under section 126C.48, subdivision 8, paragraph (5), shall be distributed to the general fund.~~

Sec. 8. Minnesota Statutes 2000, section 298.28, subdivision 5, is amended to read:

Subd. 5. **COUNTIES.** (a) ~~16.5~~ 26.05 cents per taxable ton is allocated to counties to be distributed, based upon certification by the commissioner of revenue, under paragraphs (b) to (d).

(b) ~~13~~ 20.525 cents per taxable ton shall be distributed to the county in which the taconite is mined or quarried or in which the concentrate is produced, less any amount which is to be distributed pursuant to paragraph (c). The apportionment formula prescribed in subdivision 2 is the basis for the distribution.

(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 county other than the county in which the mining and the concentrating processes are conducted, one cent per taxable ton of the tax distributed to the counties pursuant to paragraph (b) and imposed on and collected from such taxpayer shall be paid to the county in which the power plant is located.

(d) ~~3.5~~ 5.525 cents per taxable ton shall be paid to the county from which the taconite was mined, quarried or concentrated to be deposited in the county road and bridge fund. If the mining, quarrying and concentrating, or separate steps in any of those processes are carried on in more than one county, the commissioner shall follow the apportionment formula prescribed in subdivision 2.

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

Sec. 9. Minnesota Statutes 2001 Supplement, section 298.28, subdivision 6, is amended to read:

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Subd. 6. **PROPERTY TAX RELIEF.** (a) In 2002 and thereafter, ~~35.9~~ 33.9 cents per taxable ton, less any amount required to be distributed under paragraphs (b) and (c), ~~and less any amount required to be deducted under paragraph (d),~~ 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.

(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, ~~.7282~~ .4541 cent per taxable ton of the tax imposed and collected from the taxpayer shall be paid to the school district.

~~(d) Two cents per taxable ton must be deducted from the amount allocated to the St. Louis county auditor under paragraph (a).~~

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

Sec. 10. Minnesota Statutes 2001 Supplement, section 298.28, subdivision 9a, is amended to read:

Subd. 9a. **TACONITE ECONOMIC DEVELOPMENT FUND.** (a) 30.1 cents per ton for distributions in 2002 and thereafter must be paid to the taconite economic development fund. No distribution shall be made under this paragraph in 2004 or any subsequent year in which total industry production falls below 30 million tons. Distribution shall only be made to a taconite producer's fund under section 298.227 if the producer timely pays its tax under section 298.24 by the dates provided under section 298.27, or pursuant to the due dates provided by an administrative agreement with the commissioner.

(b) An amount equal to 50 percent of the tax under section 298.24 for concentrate sold in the form of pellet chips and fines not exceeding 5/16 inch in size and not including crushed pellets shall be paid to the taconite economic development fund. The amount paid shall not exceed \$700,000 annually for all companies. If the initial amount to be paid to the fund exceeds this amount, each company's payment shall be prorated so the total does not exceed \$700,000.

Sec. 11. Minnesota Statutes 2000, section 298.28, subdivision 9b, is amended to read:

Subd. 9b. **TACONITE ENVIRONMENTAL FUND.** Five cents per ton for distributions in 1999, 2000, 2001, and 2002, and 2003 must be paid to the taconite environmental fund for use under section ~~298.2961~~. ~~No distribution may be made under this paragraph in any year in which total industry production falls below 30,000,000 tons.~~

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

Sec. 12. Minnesota Statutes 2001 Supplement, section 298.28, subdivision 10, is amended to read:

Subd. 10. **INCREASE.** Beginning with distributions in 2000, the amount determined under subdivision 9 shall be increased in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1. Beginning with distributions in 2003, the amount determined under subdivision 6, paragraph (a), shall be increased in the same proportion as the increase in the implicit price deflator as provided in section 298.24, subdivision 1.

~~The distributions per ton determined under subdivisions 5, paragraphs (b) and (d), and 6, paragraph (b), for distribution in 1988 and subsequent years shall be the distribution per ton determined for distribution in 1987. The distribution per ton under subdivision 6, paragraph (c), for distribution in 2000 and subsequent years shall be 81 percent of the distribution per ton determined for distribution in 1987.~~

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

Sec. 13. Minnesota Statutes 2000, section 298.28, subdivision 11, is amended to read:

Subd. 11. **REMAINDER.** (a) The proceeds of the tax imposed by section 298.24 which remain after the distributions and payments in subdivisions 2 to 10a, as certified by the commissioner of revenue, and paragraphs (b), (c), ~~and (d), and (e)~~ have been made, together with interest earned on all money distributed under this section prior to distribution, shall be divided between the taconite environmental protection fund created in section 298.223 and the northeast Minnesota economic protection trust fund created in section 298.292 as follows: Two-thirds to the taconite environmental protection fund and one-third to the northeast Minnesota economic protection trust fund. The proceeds shall be placed in the respective special accounts.

(b) There shall be distributed to each city, town, and county the amount that it received under section 294.26 in calendar year 1977; provided, however, that the amount distributed in 1981 to the unorganized territory number 2 of Lake county and the town of Beaver Bay based on the between-terminal trackage of Erie Mining Company will be distributed in 1982 and subsequent years to the unorganized territory number 2 of Lake county and the towns of Beaver Bay and Stony River based on the miles of track of Erie Mining Company in each taxing district.

(c) There shall be distributed to the iron range resources and rehabilitation board the amounts it received in 1977 under section 298.22. The amount distributed under this paragraph shall be expended within or for the benefit of the tax relief area defined in section 273.134.

(d) There shall be distributed to each school district ~~81~~ 62 percent of the amount that it received under section 294.26 in calendar year 1977.

(e) In 2003 only, \$100,000 must be distributed to a township located in a taconite tax relief area as defined in section 273.134, paragraph (a), that received \$119,259 of homestead and agricultural credit aid and \$182,014 in local government aid in 2001.

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

Sec. 14. Minnesota Statutes 2000, section 298.291, is amended to read:

298.291 **CITATION.**

Sections 298.291 to 298.294 shall be known as the "Northeast Minnesota Douglas J. Johnson Economic Protection Trust Fund Act."

Sec. 15. Minnesota Statutes 2001 Supplement, section 298.296, subdivision 2, is amended to read:

Subd. 2. **EXPENDITURE OF FUNDS.** (a) Before January 1, 2003 ~~2028~~, funds may be expended on projects and for administration of the trust fund only from the net interest, earnings, and dividends arising from the investment of the trust at any time, including net interest, earnings, and dividends that have arisen prior to July 13, 1982, plus \$10,000,000 made available for use in fiscal year 1983, except that any amount required to be paid out of the trust fund to provide the property tax relief specified in Laws 1977, chapter 423, article X, section 4, and to make school bond payments and payments to recipients of taconite production tax proceeds pursuant to section 298.225, may be taken from the corpus of the trust.

(b) Additionally, upon recommendation by the board, up to \$13,000,000 from the corpus of the trust may be made available for use as provided in subdivision 4, and up to \$10,000,000 from the corpus of the trust may be made available for use as provided in section 298.2961.

~~(c) On and after January 1, 2003, Funds may be expended on projects and for administration from any assets of the trust. Additionally, an amount equal to 20 percent of the value of the corpus of the trust on the date of enactment of this act, not including the funds authorized in paragraph (b), plus the amounts made available under sections 7 and 17, may be expended on projects. Funds may be expended for projects under this paragraph only if the project:~~

~~(1) is for the purposes established under section 298.292, subdivision 1, clause (1) or (2); and~~

~~(2) is approved by the board upon an affirmative vote of at least ten of its members.~~

~~No money made available under this paragraph or paragraph (d) can be used for administrative or operating expenses of the iron range resources and rehabilitation board or expenses relating to any facilities owned or operated by the board on the effective date of this act.~~

~~(d) Upon recommendation by a unanimous vote of all members of the board, amounts in addition to those authorized under paragraphs (a), (b), and (c) may be expended on projects described in section 298.292, subdivision 1.~~

(e) Annual administrative costs, not including detailed engineering expenses for the projects, shall not exceed five percent of the net interest, dividends, and earnings arising from the trust in the preceding fiscal year.

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(f) Principal and interest received in repayment of loans made pursuant to this section, and earnings on other investments made under section 298.292, subdivision 2, clause (4), shall be deposited in the state treasury and credited to the trust. These receipts are appropriated to the board for the purposes of sections 298.291 to 298.298.

EFFECTIVE DATE. This section is effective January 1, 2003.

Sec. 16. Minnesota Statutes 2000, section 477A.15, is amended to read:

477A.15 TACONITE AID REIMBURSEMENT.

Any school district in which is located property which had been entitled to a reduction of tax pursuant to Minnesota Statutes 1978, section 273.135, subdivision 2, clause (c), shall receive in 1981 and subsequent years an amount equal to the amount it received in 1980 pursuant to Minnesota Statutes 1978, section 298.28, subdivision 1, clause (3)(b). Payments shall be made pursuant to this section and section 126C.48, subdivision 8, paragraph (5), by the commissioner of revenue to the taxing jurisdictions on the date in each calendar year when the first installment is paid under section 477A.015.

EFFECTIVE DATE. This section is effective for payments in 2003 and subsequent years.

Sec. 17. **ADDITIONAL DISTRIBUTION.**

The difference between the distribution to school districts under Minnesota Statutes, sections 298.225 and 298.28, as amended by this act, and the amount the districts would have received under Minnesota Statutes 2000, sections 298.225 and 298.28 for distributions in 2004 only, shall be added to the sums available for expenditure under Minnesota Statutes, section 298.293, as governed by Minnesota Statutes, section 298.296.

Sec. 18. **INSTRUCTION TO THE REVISOR.**

In the next edition of Minnesota Statutes, the revisor of statutes shall change the phrase "Northeast Minnesota Economic Protection Trust Fund Act" to "Douglas J. Johnson Economic Protection Trust Fund Act" wherever it appears in Minnesota Statutes.

ARTICLE 9

DEPARTMENT OF REVENUE POLICY PROVISIONS

Section 1. Minnesota Statutes 2000, section 270.063, subdivision 4, is amended to read:

Subd. 4. **FEDERAL TAX REFUND OFFSET FEES; TIME LIMIT FOR SUBMITTING CLAIMS FOR OFFSET.** For fees charged by the department of the treasury of the United States for the offset of federal tax refunds that are deducted from

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the refund amounts remitted to the commissioner, the unpaid debts of the taxpayers whose refunds are being offset to satisfy the debts are reduced only by the actual amount of the refund payments received by the commissioner. Notwithstanding any other provision of law to the contrary, a claim for the offset of a federal tax refund must be submitted to the department of the treasury of the United States within ten years after the date of the assessment of the tax owed by the taxpayer whose refund is to be offset to satisfy the debt.

EFFECTIVE DATE. This section is effective for claims for offset that were submitted before and are pending on the date of final enactment, and for claims submitted on or after the day following final enactment.

Sec. 2. Minnesota Statutes 2001 Supplement, section 270.691, subdivision 8, is amended to read:

Subd. 8. **EXPIRATION DATE.** The program authorized under this section terminates on June 30, ~~2002~~ 2003.

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

Sec. 3. Minnesota Statutes 2000, section 273.125, subdivision 4, is amended to read:

Subd. 4. **PETITIONS OF GRIEVANCE.** A person who claims that the person's manufactured home has been unfairly or unequally assessed, or that the property has been assessed at a valuation greater than its real or actual value, or that the tax levied against it is illegal, in whole or in part, or has been paid, or that the property is exempt from the tax so levied, may have the validity of the claim, defense, or objection determined in court. The determination must be made by the district court of the county in which the tax is levied or by the tax court. A person can request the determination by filing a petition for it in the office of the court administrator of the district court on or before ~~September~~ October 1 of the year in which the tax becomes payable. A petition for determination under this section may be transferred by the district court to the tax court.

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

Sec. 4. Minnesota Statutes 2000, section 278.01, subdivision 1, is amended to read:

Subdivision 1. **DETERMINATION OF VALIDITY.** (a) Any person having personal property, or any estate, right, title, or interest in or lien upon any parcel of land, who claims that such property has been partially, unfairly, or unequally assessed in comparison with other property in the (1) city, or (2) county, or (3) in the case of a county containing a city of the first class, the portion of the county excluding the first class city, or that the parcel has been assessed at a valuation greater than its real or actual value, or that the tax levied against the same is illegal, in whole or in part, or has been paid, or that the property is exempt from the tax so levied, may have the validity of the claim, defense, or objection determined by the district court of the

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county in which the tax is levied or by the tax court by serving one copy of a petition for such determination upon the county auditor, one copy on the county attorney, one copy on the county treasurer, and three copies on the county assessor. The county assessor shall immediately forward one copy of the petition to the appropriate governmental authority in a home rule charter or statutory city or town in which the property is located if that city or town employs its own certified assessor. A copy of the petition shall also be forwarded by the assessor to the school board of the school district in which the property is located.

(b) In counties where the office of county treasurer has been combined with the office of county auditor, the county may elect to require the petitioner to serve the number of copies as determined by the county. The county assessor shall immediately forward one copy of the petition to the appropriate governmental authority in a home rule charter or statutory city or town in which the property is located if that city or town employs its own certified assessor. A list of petitioned properties, including the name of the petitioner, the identification number of the property, and the estimated market value, shall be sent on or before the first day of July by the county auditor/treasurer to the school board of the school district in which the property is located.

(c) For all counties, the petitioner must file the copies with proof of service, in the office of the court administrator of the district court on or before ~~March 31~~ April 30 of the year in which the tax becomes payable. A petition for determination under this section may be transferred by the district court to the tax court. An appeal may also be taken to the tax court under chapter 271 at any time following receipt of the valuation notice required by section 273.121 but prior to ~~April~~ May 1 of the year in which the taxes are payable.

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

Sec. 5. Minnesota Statutes 2000, section 279.01, subdivision 3, is amended to read:

Subd. 3. **AGRICULTURAL PROPERTY.** In the case of class 1b agricultural homestead, class 2a agricultural homestead property, and class 2b(3) 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 1 following, an additional two percent shall be charged on all such unpaid taxes. Thereafter for class 2b(3) 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 1 following, an additional four percent shall be charged on all such unpaid taxes.

If the owner of class 1b agricultural homestead, class 2a, or class 2b(3) 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 2b(3)

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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 2b(3) agricultural.

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

Sec. 6. Minnesota Statutes 2000, section 289A.19, subdivision 1, is amended to read:

Subdivision 1. **FIDUCIARY INCOME, ENTERTAINMENT TAX, AND INFORMATION RETURNS.** When, in the commissioner's judgment, good cause exists, the commissioner may extend the time for filing entertainment tax returns for not more than six months. If an extension to file the federal fiduciary income tax return or information return has been granted under section 6081 of the Internal Revenue Code, the time for filing the state return is extended for that period. The commissioner may require the taxpayer to file a tentative return when the regularly required return is due, and to pay a tax on the basis of the tentative return at the times required for the payment of taxes on the basis of the regularly required return from the taxpayer. The commissioner shall grant an automatic extension of six months to file a partnership, "S" corporation, or fiduciary income tax return if all of the taxes imposed on the entity for the year by chapter 290 and section 289A.08, subdivision 7, have been paid by the date prescribed by section 289A.18, subdivision 1.

EFFECTIVE DATE. This section is effective for returns due after December 31, 2002.

Sec. 7. Minnesota Statutes 2000, section 295.53, subdivision 1, is amended to read:

Subdivision 1. **EXEMPTIONS.** (a) The following payments are excluded from the gross revenues subject to the hospital, surgical center, or health care provider taxes under sections 295.50 to 295.57:

(1) payments received for services provided under the Medicare program, including payments received from the government, and organizations governed by sections 1833 and 1876 of title XVIII of the federal Social Security Act, United States Code, title 42, section 1395, and enrollee deductibles, coinsurance, and copayments, whether paid by the Medicare enrollee or by a Medicare supplemental coverage as defined in section 62A.011, subdivision 3, clause (10). Payments for services not covered by Medicare are taxable;

(2) medical assistance payments including payments received directly from the government or from a prepaid plan;

(3) payments received for home health care services;

(4) payments received from hospitals or surgical centers for goods and services on which liability for tax is imposed under section 295.52 or the source of funds for the payment is exempt under clause (1), (2), (7), (8), (10), (13), or (20);

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(5) payments received from health care providers for goods and services on which liability for tax is imposed under this chapter or the source of funds for the payment is exempt under clause (1), (2), (7), (8), (10), (13), or (20);

(6) amounts paid for legend drugs, other than nutritional products, to a wholesale drug distributor who is subject to tax under section 295.52, subdivision 3, reduced by reimbursements received for legend drugs under clauses (1), (2), (7), and (8) otherwise exempt under chapter 295;

(7) payments received under the general assistance medical care program including payments received directly from the government or from a prepaid plan;

(8) payments received for providing services under the MinnesotaCare program including payments received directly from the government or from a prepaid plan and enrollee deductibles, coinsurance, and copayments. For purposes of this clause, coinsurance means the portion of payment that the enrollee is required to pay for the covered service;

(9) payments received by a health care provider or the wholly owned subsidiary of a health care provider for care provided outside Minnesota;

(10) payments received from the chemical dependency fund under chapter 254B;

(11) payments received in the nature of charitable donations that are not designated for providing patient services to a specific individual or group;

(12) payments received for providing patient services incurred through a formal program of health care research conducted in conformity with federal regulations governing research on human subjects. Payments received from patients or from other persons paying on behalf of the patients are subject to tax;

(13) payments received from any governmental agency for services benefiting the public, not including payments made by the government in its capacity as an employer or insurer;

(14) payments received for services provided by community residential mental health facilities licensed under Minnesota Rules, parts 9520.0500 to 9520.0690, community support programs and family community support programs approved under Minnesota Rules, parts 9535.1700 to 9535.1760, and community mental health centers as defined in section 245.62, subdivision 2;

(15) government payments received by a regional treatment center;

(16) payments received for hospice care services;

(17) payments received by a health care provider for hearing aids and related equipment or prescription eyewear delivered outside of Minnesota;

(18) payments received by an educational institution from student tuition, student activity fees, health care service fees, government appropriations, donations, or grants. Fee for service payments and payments for extended coverage are taxable;

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(19) payments received for services provided by: assisted living programs and congregate housing programs; and

(20) payments received under the federal Employees Health Benefits Act, United States Code, title 5, section 8909(f), as amended by the Omnibus Reconciliation Act of 1990.

(b) Payments received by wholesale drug distributors for legend drugs sold directly to veterinarians or veterinary bulk purchasing organizations are excluded from the gross revenues subject to the wholesale drug distributor tax under sections 295.50 to 295.59.

EFFECTIVE DATE. This section is effective for payments received after December 31, 2001.

Sec. 8. Minnesota Statutes 2000, section 295.57, is amended by adding a subdivision to read:

Subd. 5. EXEMPTION FOR AMOUNTS PAID FOR LEGEND DRUGS. If a hospital or health care provider cannot determine the actual cost or reimbursement of legend drugs under the exemption provided in section 295.53, subdivision 1, paragraph (a), clause (6), the following method must be used:

A hospital or health care provider must determine the amount paid for legend drugs used during the month or quarter and multiply that amount by a ratio, the numerator of which is the total amount received for taxable patient services, and the denominator of which is the total amount received for all patient services, including amounts exempt under section 295.53, subdivision 1. The result represents the allowable exemption for the monthly or quarterly cost of drugs.

EFFECTIVE DATE. This section is effective for payments received on or after July 1, 2002.

Sec. 9. Minnesota Statutes 2001 Supplement, section 295.60, subdivision 2, is amended to read:

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

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

(c) "Furrier" means a retailer that sells clothing made of fur.

(d) "Clothing made of fur" means articles of clothing made of fur on the hide or pelt, and articles of clothing of which such fur is the component material of chief value, but only if such value is more than three times the value of the next most valuable material.

(e) "Retail sale" has the meaning given in section 297A.61, subdivision 4.

(f) "Delivered outside of Minnesota" means fur clothing which the furrier 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

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outside Minnesota by means of the seller's own delivery vehicles, and which is not returned to a point within Minnesota, except in the course of interstate commerce.

EFFECTIVE DATE. This section is effective January 1, 2002.

Sec. 10. Minnesota Statutes 2001 Supplement, section 295.60, is amended by adding a subdivision to read:

Subd. 2a. **EXEMPTIONS.** Payments received by a furrier for clothing made of fur delivered outside of Minnesota are exempt from gross revenues subject to the fur clothing tax.

EFFECTIVE DATE. This section is effective for payments received on or after January 1, 2002.

Sec. 11. Minnesota Statutes 2001 Supplement, section 297A.61, subdivision 26, is amended to read:

Subd. 26. **PRIVATE COMMUNICATION SERVICE.** "Private communication service" means a ~~communication~~ telecommunication service furnished to a subscriber which entitles the subscriber customer to:

(1) exclusive or priority use of any a communication channel or group of channels;

(2) the use of an intercommunication system for the subscriber's stations, or regardless of whether the channel, group of channels, or intercommunication system may be connected through switching;

(3) the between or among termination points, regardless of the manner in which the channel or channels are connected, and includes switching capacity, extension lines and, stations, or and any other associated services that are provided in connection with, and are necessary or unique to the use of, the use of the channel or channels or systems described in clause (1); or

(4) any combination of tunneling, encryption, authentication, and access control technologies and services used to carry traffic over the Internet, a managed Internet provider network or provider's backbone.

EFFECTIVE DATE. This section is effective retroactively for sales and purchases occurring after July 31, 2001.

Sec. 12. Minnesota Statutes 2000, section 297A.68, is amended by adding a subdivision to read:

Subd. 36. **DELIVERY OR DISTRIBUTION CHARGES; PRINTED MATERIALS.** Charges for the delivery or distribution of printed materials, including individual account information, are exempt if (1) the charges are separately stated, (2) the delivery or distribution is to a mass audience or to a mailing list provided at the direction of the customer, and (3) the cost of the materials is not billed directly to the recipients.

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EFFECTIVE DATE. This section is effective retroactive to delivery charges on sales and purchases made after December 31, 2001, and before January 1, 2006.

Sec. 13. Minnesota Statutes 2000, section 297G.07, subdivision 1, is amended to read:

Subdivision 1. **EXEMPTIONS.** 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) Alcoholic beverages sold or transferred between Minnesota wholesalers.

(3) Sales to common carriers engaged in interstate transportation of passengers, except as provided in this chapter.

(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) Shipments of wine to Minnesota residents under section 340A.417.

(6) Fruit juices naturally fermented or beer naturally brewed in the home for family use.

(7) Sales of wine for sacramental purposes under section 340A.316.

(8) 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 clause, "manufacturer" means a person who manufactures food products intended for sale to wholesalers or retailers for ultimate sale to the consumer.

(9) Liqueur-filled candy.

(10) 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.

(11) Sales to Indian tribes as defined in section 297G.08.

(12) Shipments of intoxicating liquor from foreign countries to diplomatic personnel of foreign countries assigned to service in this state.

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

Sec. 14. Minnesota Statutes 2001 Supplement, section 469.1763, subdivision 6, is amended to read:

Subd. 6. **POOLING PERMITTED FOR DEFICITS.** (a) This subdivision applies only to districts for which the request for certification was made before August 1, 2001, and without regard to whether the request for certification was made prior to August 1, 1979.

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(b) The municipality for the district may transfer available increments from another tax increment financing district located in the municipality, if the transfer is necessary to eliminate a deficit in the district to which the increments are transferred. A deficit in the district for purposes of this subdivision means the lesser of the following two amounts:

(1)(i) the amount due during the calendar year to pay preexisting obligations of the district; minus

(ii) the total increments collected or to be collected from properties located within the district that are available for the calendar year including amounts collected in prior years that are currently available; plus

(iii) total increments from properties located in other districts in the municipality including amounts collected in prior years that are available to be used to meet the district's obligations under this section, excluding this subdivision, or other provisions of law (but excluding a special tax under section 469.1791 and the grant program under Laws 1997, chapter 231, article 1, section 19, or Laws 2001, First Special Session chapter 5); or

(2) the reduction in increments collected from properties located in the district for the calendar year as a result of the changes in class rates in Laws 1997, chapter 231, article 1; Laws 1998, chapter 389, article 2; and Laws 1999, chapter 243, and Laws 2001, First Special Session chapter 5, or the elimination of the general education tax levy under Laws 2001, First Special Session chapter 5.

(c) A preexisting obligation means:

(1) bonds issued and sold before August 1, 2001, or bonds issued pursuant to a binding contract requiring the issuance of bonds entered into before July 1, 2001, and bonds issued to refund such bonds or to reimburse expenditures made in conjunction with a signed contractual agreement entered into before August 1, 2001, to the extent that the bonds are secured by a pledge of increments from the tax increment financing district; and

(2) binding contracts entered into before August 1, 2001, to the extent that the contracts require payments secured by a pledge of increments from the tax increment financing district.

(d) The municipality may require a development authority, other than a seaway port authority, to transfer available increments including amounts collected in prior years that are currently available for any of its tax increment financing districts in the municipality to make up an insufficiency in another district in the municipality, regardless of whether the district was established by the development authority or another development authority. This authority applies notwithstanding any law to the contrary, but applies only to a development authority that:

(1) was established by the municipality; or

(2) the governing body of which is appointed, in whole or part, by the municipality or an officer of the municipality or which consists, in whole or part, of

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members of the governing body of the municipality. The municipality may use this authority only after it has first used all available increments of the receiving development authority to eliminate the insufficiency and exercised any permitted action under section 469.1792, subdivision 3, for preexisting districts of the receiving development authority to eliminate the insufficiency.

(e) The authority under this subdivision to spend tax increments outside of the area of the district from which the tax increments were collected:

(1) may only be exercised after obtaining approval of the use of the increments, in writing, by the commissioner of revenue;

(2) is an exception to the restrictions under section 469.176, subdivision 4i, and the other provisions of this section, and the percentage restrictions under subdivision 2 must be calculated after deducting increments spent under this subdivision from the total increments for the district; and

(3) applies notwithstanding the provisions of the Tax Increment Financing Act in effect for districts for which the request for certification was made before June 30, 1982, or any other law to the contrary.

(f) If a preexisting obligation requires the development authority to pay an amount that is limited to the increment from the district or a specific development within the district and if the obligation requires paying a higher amount to the extent that increments are available, the municipality may determine that the amount due under the preexisting obligation equals the higher amount and may authorize the transfer of increments under this subdivision to pay up to the higher amount. The authority to transfer increments under this paragraph may only be used to the extent that the payment of all other preexisting obligations in the municipality due during the calendar year have been satisfied.

EFFECTIVE DATE. This section is effective retroactively to January 2, 2002, and thereafter.

ARTICLE 10

DEPARTMENT OF REVENUE TECHNICAL PROVISIONS

Section 1. Minnesota Statutes 2001 Supplement, section 69.021, subdivision 5, is amended to read:

Subd. 5. **CALCULATION OF STATE AID.** (a) The amount of fire state aid available for apportionment, before the addition of the minimum fire state aid allocation amount under subdivision 7, is equal to 107 percent of the amount of premium taxes paid to the state upon the fire, lightning, sprinkler leakage, and extended coverage premiums reported to the commissioner by insurers on the Minnesota Firetown Premium Report. This amount shall be reduced by the amount required to pay

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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 fire state aid must not be less than two percent of the premiums reported to the commissioner by insurers on the Minnesota Firetown Premium Report after subtracting the following amounts:

(1) the amount required to pay the state auditor's costs and expenses of the audits or exams of the firefighters relief associations; and

(2) one percent of the premiums reported by town and farmers' mutual insurance companies and mutual property and casualty companies with total assets of \$5,000,000 or less.

(b) The total amount for apportionment as police state aid is equal to 104 percent of the amount of premium taxes paid to the state on the premiums reported to the commissioner by insurers on the Minnesota Aid to Police Premium Report, plus the payment amounts received under section 297L.05, subdivision 8, since the last aid apportionment, and reduced by the amount required to pay the costs and expenses of the state auditor for audits or exams of police relief associations. The total amount for apportionment in respect to the police state aid program must not be less than two percent of the amount of 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 cost and expenses of the audits or exams of the police relief associations.

(c) 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.

(d) The amount for apportionment in respect to peace officer state aid under paragraph (b) must be further reduced by \$1,779,000 in fiscal year 1999, \$2,077,000 in fiscal year 2000, and \$2,404,000 in fiscal year 2001. These reductions in this paragraph cancel to the general fund.

(e) In addition to the amount for apportionment of police state aid under paragraph (b) is annually increased by an amount equal to the revenues under the tax on automobile risk self-insurance under Minnesota Statutes 2000, section 297L.05, subdivision 8, that were collected in fiscal year 2001, each year \$100,000 shall be apportioned for police state aid. An amount sufficient to pay this increase is annually appropriated from the general fund.

EFFECTIVE DATE. This section is effective beginning with fiscal year 2003.

Sec. 2. Minnesota Statutes 2001 Supplement, section 126C.17, subdivision 7a, is amended to read:

Subd. 7a. **REFERENDUM TAX BASE REPLACEMENT AID.** For each school district that had a referendum allowance for fiscal year 2002 exceeding \$415, for each separately authorized referendum levy, the commissioner of revenue, in consultation with the commissioner of children, families, and learning, shall certify the

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amount of the referendum levy in taxes payable year 2001 attributable to the portion of the referendum allowance exceeding \$415 levied against property classified as class 2, noncommercial 4c(1), or 4c(4), under section 273.13, excluding the portion of the tax paid by the portion of class 2a property consisting of the house, garage, and surrounding one acre of land. The resulting amount must be used to reduce the district's referendum levy amount otherwise determined, and must be paid to the district each year that the referendum authority remains in effect. The aid payable under this subdivision must be subtracted from the district's referendum equalization aid under subdivision 7. The referendum equalization aid after the subtraction must not be less than zero.

For the purposes of this subdivision, the referendum levy with the latest year of expiration is assumed to be at the highest level of equalization, and the referendum levy with the earliest year of expiration is assumed to be at the lowest level of equalization.

EFFECTIVE DATE. This section is effective for taxes payable in 2002 and thereafter.

Sec. 3. Minnesota Statutes 2001 Supplement, section 270.69, subdivision 2, is amended to read:

Subd. 2. **FILING OF LIENS NECESSARY FOR ENFORCEABILITY AGAINST CERTAIN PERSONS; METHODS OF FILING; FEES.** (a) The lien imposed by subdivision 1 is not enforceable against any purchaser, mortgagee, pledgee, holder of a Uniform Commercial Code security interest, mechanic's lienor, or judgment lien creditor whose interest has been duly perfected or is a conveyance or interest entitled to protection against judgments and attachments under section 507.34 or under any other applicable provisions of state law, until a notice of lien has been filed by the commissioner of revenue in the office of the county recorder of the county in which real property is situated, or in the case of personal property belonging to an individual who is not a resident of this state or to a corporation, partnership, or other organization, in the office of the secretary of state, or in the case of personal property belonging to a resident individual, in the office of the county recorder of the county of residence of the individual.

(b)(1) Notices of liens, and lien releases, transcriptions, and renewals, in a form prescribed by the commissioner of revenue, may be filed with the county recorder or the secretary of state by mail, personal delivery, or by electronic transmission by the commissioner or a delegate into the computerized filing system of the secretary of state. The secretary of state shall transmit the notice electronically to the office of the county recorder, if that is the place of filing, in the county or counties shown on the computer entry. The filing officer, whether the county recorder or the secretary of state, shall endorse and index a printout of the notice in the same manner as if the notice had been mailed or delivered.

(2) County recorders and the secretary of state shall enter information relative to lien notices, transcriptions, renewals, and releases filed in their offices into the central database of the secretary of state. For notices filed electronically with the county

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recorders, the date and time of receipt of the notice and county recorder's file number, and for notices filed electronically with the secretary of state, the secretary of state's recording information, must be entered by the filing officer into the central database before the close of the working day following the day of the original data entry by the department of revenue.

The filing and indexing of all notices must be in accordance with the filing and indexing of notices of federal liens, certificates of release, and refiled notices under section 272.483.

(c) Notwithstanding any other law to the contrary, the department of revenue is exempt from payment of fees when a lien, lien renewal, or lien transcription is offered for recording. The recording fees must be paid along with the release fee at the end of the month in which the release of lien is recorded, after receipt of a monthly statement from a county recorder or the secretary of state. The department of revenue shall add the recording fees to the delinquent tax liability of the taxpayer. Notwithstanding any other law to the contrary, the fee for filing or recording a notice of lien, or lien release, transcription, or renewal is \$15.

(d) There is appropriated to the commissioner of revenue an amount representing the cost of payment of recording fees to the county recorders and the secretary of state. The commissioner shall keep a separate accounting of the costs and of payments for recording fees remitted by taxpayers, and make the records available to the legislature upon request.

EFFECTIVE DATE. As to the protection of interests in property of third parties, this section is effective for liens of record and enforceable as of the day following final enactment, and for liens filed thereafter. As to the place of filing of liens against personal property, this section is effective for liens filed on or after the day following final enactment.

Sec. 4. Minnesota Statutes 2000, section 272.02, subdivision 15, is amended to read:

Subd. 15. **PROPERTY USED TO GENERATE HYDROELECTRIC OR HYDROMECHANICAL POWER.** To the extent provided by section 295.44 Notwithstanding the provisions of subdivision 39, and sections 272.01, subdivision 2, and 273.19, subdivision 1, real and personal property used or to be used primarily for the production of hydroelectric or hydromechanical power on a site owned by the federal government, the state, or a local governmental unit which is and developed and operated pursuant to the provisions of section 103G.535 is exempt from property tax for all years during which the site is developed and operated under the terms of a lease or agreement authorized by section 103G.535.

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

Sec. 5. Minnesota Statutes 2001 Supplement, section 273.121, is amended to read:

273.121 VALUATION OF REAL PROPERTY, NOTICE.

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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 included on the assessment roll that year if the person's address is known to the assessor, otherwise the occupant of the property. 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 appeal and equalization under section 274.01 or the review process established under section 274.13, subdivision 1c. It shall contain: (1) the market value for the current and prior assessment, (2) the limited market value under section 273.11, subdivision 1a, for the current and prior assessment, (3) the qualifying amount of any improvements under section 273.11, subdivision 16, for the current assessment, (4) the market value subject to taxation after subtracting the amount of any qualifying improvements for the current assessment, (5) the classification of the property for the current and prior assessment, (6) a note that if the property is homestead and at least ~~35~~ 45 years old, improvements made to the property may be eligible for a valuation exclusion under section 273.11, subdivision 16, (7) the assessor's office address, and (8) the dates, places, and times set for the meetings of the local board of appeal and equalization, the review process established under section 274.13, subdivision 1c, and the county board of appeal and equalization. The commissioner of revenue shall specify the form of the notice. 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.

EFFECTIVE DATE. This section is effective for notices required to be mailed in 2002 and thereafter.

Sec. 6. Minnesota Statutes 2001 Supplement, section 273.13, subdivision 24, is amended to read:

Subd. 24. **CLASS 3.** (a) Commercial and industrial property and utility real and personal property is class 3a.

(1) Except as otherwise provided, each parcel of commercial, industrial, or utility real property has a class rate of 1.5 percent of the first tier of market value, and 2.0 percent of the remaining market value. In the case of contiguous parcels of property owned by the same person or entity, only the value equal to the first-tier value of the contiguous parcels qualifies for the reduced class rate, except that contiguous parcels owned by the same person or entity shall be eligible for the first-tier value class rate on each separate business operated by the owner of the property, provided the business is housed in a separate structure. For the purposes of this subdivision, the first tier

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means the first \$150,000 of market value. Real property owned in fee by a utility for transmission line right-of-way shall be classified at the class rate for the higher tier.

For purposes of this subdivision, parcels are considered to be contiguous even if they are separated from each other by a road, street, waterway, or other similar intervening type of property. Connections between parcels that consist of power lines or pipelines do not cause the parcels to be contiguous. Property owners who have contiguous parcels of property that constitute separate businesses that may qualify for the first-tier class rate shall notify the assessor by July 1, for treatment beginning in the following taxes payable year.

(2) ~~All railroad operating property and~~ All personal property that is: (i) part of an electric generation, transmission, or distribution system; or (ii) part of a pipeline system transporting or distributing water, gas, crude oil, or petroleum products; and (iii) not described in clause (3), and all railroad operating property has a class rate as provided under clause (1) for the first tier of market value and the remaining market value. In the case of multiple parcels in one county that are owned by one person or entity, only one first tier amount is eligible for the reduced rate.

(3) The entire market value of personal property that is: (i) tools, implements, and machinery of an electric generation, transmission, or distribution system; (ii) tools, implements, and machinery of a pipeline system transporting or distributing water, gas, crude oil, or petroleum products; or (iii) the mains and pipes used in the distribution of steam or hot or chilled water for heating or cooling buildings, has a class rate as provided under clause (1) for the remaining market value in excess of the first tier.

(b) Employment property defined in section 469.166, during the period provided in section 469.170, shall constitute class 3b. The class rates for class 3b property are determined under paragraph (a).

EFFECTIVE DATE. This section is effective for taxes payable in 2002 and thereafter.

Sec. 7. Minnesota Statutes 2001 Supplement, section 273.1392, is amended to read:

273.1392 PAYMENT; SCHOOL DISTRICTS.

The amounts of conservation tax credits under section 273.119; disaster or emergency reimbursement under section 273.123; attached machinery aid under section 273.138; homestead and agricultural credits under section 273.1384; aids and credits under section 273.1398; wetlands reimbursement under section 275.295; enterprise zone property credit payments under section 469.171; and metropolitan agricultural preserve reduction under section 473H.10 for school districts, shall be certified to the department of children, families, and learning by the department of revenue. The amounts so certified shall be paid according to section 127A.45, subdivisions 9 and 13.

EFFECTIVE DATE. This section is effective for aids and credits payable in 2002 and thereafter.

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

Sec. 8. Minnesota Statutes 2001 Supplement, section 273.1398, subdivision 4c, is amended to read:

Subd. 4c. **TEMPORARY AID; COURT ADMINISTRATION COSTS.** For calendar years 2004 and 2005, each county in a judicial district that has not been transferred to the state by January 1 of that year shall receive additional homestead and agricultural credit aid. This amount is in addition to the amount calculated under subdivision 2 and must not be included in the definition of homestead and agricultural credit base under subdivision 1, paragraph (j). The amount of additional aid is equal to the difference between (1) the amount budgeted for court administration costs in 2001 as determined under subdivision 4b, paragraph (e) ~~(b)~~, multiplied by the maintenance of effort percent for the calendar year as determined under subdivision 4b, paragraph ~~(d)~~ (a), and (2) the amount calculated under subdivision 4b, paragraph (a), for calendar year 2003. This additional aid must be used only to fund court administration expenditures as defined in section 480.183, subdivision 3. This amount must be added to the state court's base budget in the year when the court in that judicial district in which the county is located is transferred to the state.

EFFECTIVE DATE. This section is effective retroactively to July 1, 2001, and thereafter.

Sec. 9. Minnesota Statutes 2001 Supplement, section 275.74, subdivision 2, is amended to read:

Subd. 2. **AUTHORIZATION FOR SPECIAL LEVIES.** A local governmental unit may request authorization to levy for unreimbursed costs for other natural disasters under section 275.70, subdivision 5, clause ~~(6)~~ (7). The local governmental unit shall submit a request to levy under section 275.70, subdivision 5, clause ~~(6)~~ (7), to the commissioner of revenue by September 30 of the levy year and the request must include information documenting the estimated unreimbursed costs. The commissioner of revenue may grant levy authority, up to the amount requested based on the documentation submitted. All decisions of the commissioner are final.

EFFECTIVE DATE. This section is effective for taxes payable in 2002 and 2003.

Sec. 10. Minnesota Statutes 2001 Supplement, section 289A.60, subdivision 2, is amended to read:

Subd. 2. **PENALTY FOR FAILURE TO MAKE AND FILE RETURN.** If a taxpayer fails to make and file a tax return within the time prescribed, including an extension, or fails to file an individual income tax return within six months after the due date, a penalty of five percent of the amount of tax not paid by the end of that period is added to the tax.

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

Sec. 11. Minnesota Statutes 2000, section 290.067, subdivision 2a, is amended to read:

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Subd. 2a. **INCOME.** (a) For purposes of this section, "income" means the sum of the following:

(1) federal adjusted gross income as defined in section 62 of the Internal Revenue Code; and

(2) the sum of the following amounts to the extent not included in clause (1):

(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 (m) 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;

(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) a lump sum distribution under section 402(e)(3) of the Internal Revenue Code;

(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" means federal adjusted gross income reflected in the fiscal year ending in the next calendar year. Federal adjusted gross income may not be reduced by the amount of a net operating loss carryback or carryforward or a capital loss carryback or carryforward allowed for the year.

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(b) "Income" does not include:

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

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

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

(4) relief granted under chapter 290A; and

(5) child support payments received under a temporary or final decree of dissolution or legal separation; and

(6) restitution payments received by eligible individuals and excludable interest as defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law Number 107-16.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2000.

Sec. 12. Minnesota Statutes 2001 Supplement, section 290.0675, subdivision 1, is amended to read:

Subdivision 1. **DEFINITIONS.** (a) For purposes of this section the following terms have the meanings given.

(b) "Earned income" means the sum of the following, to the extent included in Minnesota taxable income:

(1) earned income as defined in section 32(c)(2) of the Internal Revenue Code;

(2) income received from a retirement pension, profit-sharing, stock bonus, or annuity plan; and

(3) social security benefits as defined in section 86(d)(1) of the Internal Revenue Code.

(c) "Taxable income" means net income as defined in section 290.01, subdivision 19.

(d) "Earned income of lesser-earning spouse" means the earned income of the spouse with the lesser amount of earned income as defined in paragraph (b) for the taxable year minus the sum of (i) the amount for one exemption under section 151(d) of the Internal Revenue Code and (ii) one-half the amount of the standard deduction under section 63(c)(2)(A) and (4) of the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2000.

Sec. 13. Minnesota Statutes 2001 Supplement, section 290.0675, subdivision 3, is amended to read:

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Subd. 3. **CREDIT AMOUNT.** The credit amount is the difference between the tax on the couple's joint Minnesota taxable income under the rates in section 290.06, subdivision 2c, paragraph (a), and the sum of the tax under the rates of section 290.06, subdivision 2c, paragraph (b), on the earned income of the lesser-earning spouse, and the tax under the rates of section 290.06, subdivision 2c, paragraph (b), on the couple's joint Minnesota taxable income, minus the earned income of the lesser-earning spouse.

For taxable years beginning after December 31, 2001, The commissioner of revenue shall prepare and make available to taxpayers a comprehensive table showing the credit under this section at brackets of earnings of the lesser-earning spouse and joint taxable income. The brackets of earnings shall not be more than \$2,000.

For taxable years beginning after December 31, 2002, the commissioner shall update the table as necessary to provide a credit that reflects the relationship between the marginal tax rates imposed under section 290.06, subdivision 2c.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2000.

Sec. 14. Minnesota Statutes 2001 Supplement, section 290.0921, subdivision 2, is amended to read:

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

(b) "Alternative minimum taxable net income" is alternative minimum taxable income,

(1) less the exemption amount, and

(2) apportioned or allocated to Minnesota under section 290.17, 290.191, or 290.20.

(c) The "exemption amount" is \$40,000, reduced, but not below zero, by 25 percent of the excess of alternative minimum taxable income over \$150,000.

(d) "Minnesota alternative minimum taxable income" is alternative minimum taxable net income, less the deductions for alternative tax net operating loss under subdivision 4; ~~charitable contributions under subdivision 5;~~ and dividends received under subdivision 6. The sum of the deductions under this paragraph may not exceed 90 percent of alternative minimum taxable net income. This limitation does not apply to a deduction for dividends paid to or received from a corporation which is subject to tax under section 290.36 and which is a member of an affiliated group of corporations as defined by the Internal Revenue Code.

EFFECTIVE DATE. This section is effective for taxable years beginning after December 31, 2001.

Sec. 15. Minnesota Statutes 2000, 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

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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), (a)(3), and (a)(4), income from wages as defined in section 3401(a) and (f) of the Internal Revenue Code is assigned to this state if, and to the extent that, the work of the employee is performed within it; all other income from such sources is treated as income from sources without this state.

Severance pay shall be considered income from labor or personal or professional services.

(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. For purposes of this paragraph, off-season training activities, unless conducted at the team's facilities as part of a team imposed program, are not included in the total number of duty days. Bonuses earned as a result of play during the regular season or for participation in championship, play-off, or all-star games must be allocated under the formula. Signing bonuses are not subject to allocation under the formula if they are not conditional on playing any games for the team, are payable separately from any other compensation, and are nonrefundable; 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 as "retirement income" as defined in section (b)(1) of the State Income Taxation of Pension Income Act, Public Law Number 104-95, are not considered income derived from carrying on a trade or business or from wages or other compensation for work an employee performed in Minnesota, and are not taxable under this chapter.

(4) Wages, otherwise assigned to this state under clause (1) and not qualifying under clause (3), are not taxable under this chapter if the following conditions are met:

(i) the recipient was not a resident of this state for any part of the taxable year in which the wages were received; and

(ii) the wages are for work performed while the recipient was a resident of this state.

(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.

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(c) 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 goodwill or income from a covenant not to compete that is connected with a business operating all or partially in Minnesota is allocated to this state to the extent that the income from the business in the year preceding the year of sale was assignable to Minnesota under subdivision 3.

When an employer pays an employee for a covenant not to compete, the income allocated to this state is in the ratio of the employee's service in Minnesota in the calendar year preceding leaving the employment of the employer over the total services performed by the employee for the employer in that year.

(d) Income from winnings on Minnesota pari-mutuel betting tickets, the Minnesota state lottery, and lawful gambling as defined in section 349.12, subdivision 24, conducted within the boundaries of the state of Minnesota shall be assigned to this state a bet made by an individual while in Minnesota is assigned to this state. In this paragraph, "bet" has the meaning given in section 609.75, subdivision 2, as limited by section 609.75, subdivision 3, clauses (1), (2), and (3).

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

(f) For the purposes of this section, working as an employee shall not be considered to be conducting a trade or business.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2001.

Sec. 16. Minnesota Statutes 2000, section 290.17, subdivision 3, is amended to read:

Subd. 3. **TRADE OR BUSINESS INCOME; GENERAL RULE.** All income of a trade or business is subject to apportionment except nonbusiness income. Income derived from carrying on a trade or business must be assigned to this state if the trade or business is conducted wholly within this state, assigned outside this state if conducted wholly without this state and apportioned between this state and other states and countries under this subdivision if conducted partly within and partly without this state. For purposes of determining whether a trade or business is carried on exclusively within or without this state:

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(a) A trade or business physically located exclusively within this state is nevertheless carried on partly within and partly without this state if any of the principles set forth in section 290.191 for the allocation of sales or receipts within or without this state when applied to the taxpayer's situation result in the allocation of any sales or receipts without this state.

(b) A trade or business physically located exclusively without this state is nevertheless carried on partly within and partly without this state if any of the principles set forth in section 290.191 for the allocation of sales or receipts within or without this state when applied to the taxpayer's situation result in the allocation of any sales or receipts ~~without~~ within this state. The jurisdiction to tax such a business under this chapter must be determined in accordance with sections 290.014 and 290.015.

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2001.

Sec. 17. Minnesota Statutes 2000, section 290A.03, subdivision 3, is amended to read:

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

(a) federal adjusted gross income as defined in the Internal Revenue Code; 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 (m) 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;

(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;

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

(x) a lump sum distribution under section 402(e)(3) of the Internal Revenue Code;

(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 carryback or carryforward or a capital loss carryback or carryforward allowed for the year.

(2) "Income" does not include:

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

(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;

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

(f) holocaust settlement payments as defined in section 290.01, subdivision 32 restitution payments received by eligible individuals and excludable interest as defined in section 803 of the Economic Growth and Tax Relief Reconciliation Act of 2001, Public Law Number 107-16.

(3) The sum of the following amounts may 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;

(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 on or before December 31 of the year for which the taxes were levied or rent paid, the exemption amount.

New language is indicated by underline, deletions by strikeout.

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

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

Sec. 18. Minnesota Statutes 2001 Supplement, section 290A.04, subdivision 2h, is amended to read:

Subd. 2h. **ADDITIONAL REFUND.** (a) Beginning with gross property taxes payable in 2003, If the gross property taxes payable on a homestead increase more than 12 percent over the property taxes payable in the prior year on the same property that is owned and occupied by the same owner on January 2 of both years, and the amount of that increase is \$100 or more, a claimant who is a homeowner shall be allowed an additional refund equal to 60 percent of the amount of the increase over the greater of 12 percent of the prior year's property taxes payable or \$100. This subdivision shall not apply to any increase in the gross property taxes payable attributable to improvements made to the homestead after the assessment date for the prior year's taxes. This subdivision shall not apply to any increase in the gross property taxes payable attributable to the termination of valuation exclusions under section 273.11, subdivision 16.

The maximum refund allowed under this subdivision is \$1,000.

(b) For purposes of this subdivision "gross property taxes payable" means property taxes payable determined without regard to the refund allowed under this subdivision.

(c) 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.

(d) Upon request, the appropriate county official shall make available the names and addresses of the property taxpayers who may be eligible for the additional property tax refund under this section. The information shall be provided on a magnetic computer disk. The county may recover its costs by charging the person requesting the information the reasonable cost for preparing the data. The information may not be used for any purpose other than for notifying the homeowner of potential eligibility and assisting the homeowner, without charge, in preparing a refund claim.

EFFECTIVE DATE. This section is effective beginning with refunds based on gross property taxes payable in 2002.

Sec. 19. Minnesota Statutes 2001 Supplement, section 295.60, is amended by adding a subdivision to read:

Subd. 1a. **USE TAX; CREDIT FOR TAXES PAID.** (a) A person that receives fur clothing for use or storage in Minnesota, other than from a furrier that paid the tax under subdivision 1, is subject to tax at the rate imposed under subdivision 1. Liability for the tax is incurred when the person has possession of the fur clothing in Minnesota.

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

The tax must be remitted to the commissioner in the manner prescribed by subdivision 3.

(b) A person that has paid taxes to another jurisdiction on the same transaction and is subject to tax under this section is entitled to a credit for the tax legally due and paid to another jurisdiction to the extent of the lesser of (1) the tax actually paid to the other jurisdiction, or (2) the amount of tax imposed by Minnesota on the transaction subject to tax in the other jurisdiction.

EFFECTIVE DATE. This section is effective for fur clothing purchased and brought into Minnesota on or after January 1, 2002.

Sec. 20. Minnesota Statutes 2001 Supplement, section 295.60, is amended by adding a subdivision to read:

Subd. 1b. TAX COLLECTION REQUIRED. A furrier with nexus in Minnesota, who is not subject to tax under subdivision 1, is required to collect the tax imposed under subdivision 1a from the purchaser of the clothing made from fur and give the purchaser a receipt for the tax paid. The tax collected must be remitted to the commissioner in the manner prescribed by subdivision 3.

EFFECTIVE DATE. This section is effective for fur clothing purchased and brought into Minnesota on or after January 1, 2002.

Sec. 21. Minnesota Statutes 2001 Supplement, section 295.60, is amended by adding a subdivision to read:

Subd. 1c. TAXES PAID TO ANOTHER JURISDICTION; CREDIT. A furrier that has paid taxes to another jurisdiction measured by gross revenue and is subject to tax under this section on the same gross revenues is entitled to a credit for the tax legally due and paid to another jurisdiction to the extent of the lesser of (1) the tax actually paid to the other jurisdiction, or (2) the amount of tax imposed by Minnesota on the gross revenues subject to tax in the other taxing jurisdictions.

EFFECTIVE DATE. This section is effective for gross revenues received on or after January 1, 2002.

Sec. 22. Minnesota Statutes 2001 Supplement, section 295.60, subdivision 7, is amended to read:

Subd. 7. APPLICATION OF OTHER CHAPTERS. Unless specifically provided otherwise by this section, the enforcement, interest, and penalty provisions under chapter 294, appeal provisions in sections 289A.43 and 289A.65, criminal penalties in section 289A.63, and refunds provisions in section 289A.50 chapter 289A, civil penalty provisions applicable to withholding and sales taxes under section 289A.60, and collection and rulemaking provisions under chapter 270, apply to a liability for the taxes imposed under this section.

EFFECTIVE DATE. This section is effective January 1, 2002.

Sec. 23. Minnesota Statutes 2000, section 296A.18, subdivision 8, is amended to read:

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

Subd. 8. ~~AVIATION FUEL TAX STATE AIRPORTS FUND.~~ The revenues derived from the excise taxes on aviation gasoline and on special fuel received, sold, stored, or withdrawn from storage as substitutes for aviation gasoline, shall be paid into the state treasury and credited to the aviation fuel tax state airports fund. There is hereby appropriated such sums as are needed to carry out the provisions of this subdivision.

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

Sec. 24. Minnesota Statutes 2001 Supplement, section 297A.70, subdivision 3, is amended to read:

Subd. 3. **SALES OF CERTAIN GOODS AND SERVICES TO GOVERNMENT.** (a) The following sales to or use by the specified governments and political subdivisions of the state are exempt:

(1) repair and replacement parts for emergency rescue vehicles, fire trucks, and fire apparatus to a political subdivision;

(2) machinery and equipment, except for motor vehicles, used directly for mixed municipal solid waste management services at a solid waste disposal facility as defined in section 115A.03, subdivision 10;

(3) chore and homemaking services to a political subdivision of the state to be provided to elderly or disabled individuals;

(4) telephone services to the department of administration that are used to provide telecommunications services through the intertechnologies revolving fund;

(5) firefighter personal protective equipment as defined in paragraph (b), if purchased or authorized by and for the use of an organized fire department, fire protection district, or fire company regularly charged with the responsibility of providing fire protection to the state or a political subdivision;

(6) bullet-resistant body armor that provides the wearer with ballistic and trauma protection, if purchased by a law enforcement agency of the state or a political subdivision of the state, or a licensed peace officer, as defined in section 626.84, subdivision 1;

(7) motor vehicles purchased or leased by political subdivisions of the state if the vehicles are exempt from registration under section 168.012, subdivision 1, paragraph (b), exempt from taxation under section 473.448, or exempt from the motor vehicle sales tax under section 297B.03, clause (12);

(8) equipment designed to process, dewater, and recycle biosolids for wastewater treatment facilities of political subdivisions, and materials incidental to installation of that equipment; and materials used to ~~construct buildings to house the equipment, if the materials are purchased after June 30, 1998, and before July 1, 2001;~~ and

(9) sales to a town of gravel and of machinery, equipment, and accessories, except motor vehicles, used exclusively for road and bridge maintenance, and leases by a town of motor vehicles exempt from tax under section 297B.03, clause (10).

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

(b) For purposes of this subdivision, "firefighters personal protective equipment" means helmets, including face shields, chin straps, and neck liners; bunker coats and pants, including pant suspenders; boots; gloves; head covers or hoods; wildfire jackets; protective coveralls; goggles; self-contained breathing apparatus; canister filter masks; personal alert safety systems; spanner belts; optical or thermal imaging search devices; and all safety equipment required by the Occupational Safety and Health Administration.

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

Sec. 25. Minnesota Statutes 2000, section 297I.05, subdivision 11, is amended to read:

Subd. 11. **RETALIATORY PROVISIONS.** (a) If any other state or country imposes any taxes, fines, deposits, penalties, licenses, or fees upon any insurance companies of this state and their agents doing business in another state or country that are in addition to or in excess of those imposed by the laws of this state upon foreign insurance companies and their agents doing business in this state, the same taxes, fines, deposits, penalties, licenses, and fees are imposed upon every similar insurance company of that state or country and their agents doing or applying to do business in this state.

(b) If any conditions precedent to the right to do business in any other state or country are imposed by the laws of that state or country, beyond those imposed upon foreign companies by the laws of this state, the same conditions precedent are imposed upon every similar insurance company of that state or country and their agents doing or applying to do business in that state.

(c) For purposes of this subdivision, "taxes, fines, deposits, penalties, licenses, or fees" means an amount of money that is deposited in the general revenue fund of the state or other similar fund in another state or country and is not dedicated to a special purpose or use or money deposited in the general revenue fund of the state or other similar fund in another state or country and appropriated to the commissioner of commerce or insurance for the operation of the department of commerce or other similar agency with jurisdiction over insurance. Taxes, fines, deposits, penalties, licenses, or fees do not include:

(1) special purpose obligations or assessments imposed in connection with particular kinds of insurance, including but not limited to assessments imposed in connection with residual market mechanisms; or

(2) assessments made by the insurance guaranty association, life and health guarantee association, or similar association.

(d) This subdivision applies to taxes imposed under subdivisions 1, 3, 4, 6, and 12, paragraph (a), clauses (1) and ~~(3)~~ (2).

(e) This subdivision does not apply to insurance companies organized or domiciled in a state or country, the laws of which do not impose retaliatory taxes, fines, deposits, penalties, licenses, or fees or which grant, on a reciprocal basis, exemptions

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from retaliatory taxes, fines, deposits, penalties, licenses, or fees to insurance companies domiciled in this state.

EFFECTIVE DATE. This section is effective retroactively to tax years beginning on or after January 1, 2001.

Sec. 26. Minnesota Statutes 2000, section 477A.011, subdivision 20, is amended to read:

Subd. 20. **CITY NET TAX CAPACITY.** "City net tax capacity" means (1) the net tax capacity computed using the net tax capacity rates in section 273.13 for taxes payable in the year of the aid distribution, and the market values for taxes payable in the year prior to the aid distribution plus (2) a city's fiscal disparities distribution tax capacity under section 276A.06, subdivision 2, paragraph (b), or 473F.08, subdivision 2, paragraph (b), for taxes payable in the year prior to that for which aids are being calculated. The market value utilized in computing city net tax capacity shall be reduced by the sum of (1) a city's market value of commercial industrial property as defined in section 276A.01, subdivision 3, or 473F.02, subdivision 3, multiplied by the ratio determined pursuant to section 276A.06, subdivision 2, paragraph (a), or 473F.08, subdivision 2, paragraph (a), (2) the market value of the captured value of tax increment financing districts as defined in section 469.177, subdivision 2, and (3) the market value of transmission lines deducted from a city's total net tax capacity under section 273.425. The city net tax capacity will be computed using equalized market values.

EFFECTIVE DATE. This section is effective for aid payable in 2002 and thereafter.

Sec. 27. Minnesota Statutes 2001 Supplement, section 477A.013, subdivision 9, is amended to read:

Subd. 9. **CITY AID DISTRIBUTION.** (a) In calendar year 2002 and thereafter, each city shall receive an aid distribution equal to the sum of (1) the city formula aid under subdivision 8, and (2) its city aid base.

(b) The percentage increase for a first class city in calendar year 1995 and thereafter, except for 2002, shall not exceed the percentage increase in the sum of the aid to all cities under this section in the current calendar year compared to the sum of the aid to all cities in the previous year. For aids payable in 2002 only, the amount of the aid paid to a first class city shall not exceed the sum of its aid amount for calendar year 2001 under this section and its aid payment in calendar year 2001 under section 273.1398, subdivision 2, by more than 2.5 percent.

(c) For aids payable in all years except 2002, the total aid for any city, except a first class city, shall not exceed the sum of (1) ten percent of the city's net levy for the year prior to the aid distribution plus (2) its total aid in the previous year ~~before any increases or decreases under sections 16A.711, subdivision 5, and 477A.0132~~. For aids payable in 2002 only, the total aid for any city, except a first class city, shall not exceed 40 percent of the sum of (1) 40 percent of the city's net levy for taxes payable in the year prior to the aid distribution plus (2) 40 percent of its total aid in the previous year

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under section 273.1398, subdivision 2, before any increases or decreases under sections ~~16A.711~~, subdivision 5, and ~~477A.0132~~ plus (3) its total aid in the previous year under this section.

EFFECTIVE DATE. This section is effective for aid payable in 2002 and thereafter.

Sec. 28. Minnesota Statutes 2001 Supplement, section 477A.07, subdivision 1, is amended to read:

Subdivision 1. **AID AMOUNT.** (a) For aid payable in 2003, each county and city is eligible for aid equal to the amount by which (i) 0.3 percent of the assessment year 2001 taxable market value of class 4a property, plus 0.25 percent of the assessment year 2001 market value of class 4b property, as defined in section 273.13, subdivision 25, multiplied by the jurisdiction's average tax rate for taxes payable in 2002, exceeds (ii) 0.4 percent of the jurisdiction's total taxable net tax capacity for taxes payable in 2002, multiplied by the jurisdiction's average tax rate for taxes payable in 2002.

(b) For aid payable in 2004, each county and city is eligible for aid equal to the amount by which (i) 0.25 percent of the assessment year 2002 taxable market value of class 4a property, as defined in section 273.13, subdivision 25, multiplied by the jurisdiction's average tax rate for taxes payable in 2003, exceeds (ii) 0.4 percent of the jurisdiction's total taxable net tax capacity for taxes payable in 2003, multiplied by the jurisdiction's average tax rate for taxes payable in 2003.

EFFECTIVE DATE. This section is effective for aid payable in 2003 and thereafter.

Sec. 29. Minnesota Statutes 2001 Supplement, section 477A.07, subdivision 3, is amended to read:

Subd. 3. **CITY AID.** Each city's 2003 aid amount determined under subdivision 1 must be permanently added to its city aid base under section 477A.011, subdivision 36, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (b) or (c), is increased by the same amount for aid payable in 2003. Each city's 2004 aid amount determined under subdivision 1 must be permanently added to its city aid base under section 477A.011, subdivision 36, and the maximum amount of total aid it may receive under section 477A.013, subdivision 9, paragraph (b) or (c), is increased by the same amount for aid payable in 2004.

EFFECTIVE DATE. This section is effective for aids payable in calendar years 2003 and 2004.

Sec. 30. Laws 1993, chapter 375, article 5, section 42, is amended to read:

Sec. 42. REPORT TO LEGISLATURE.

By ~~February~~ March 1 of each year, the commissioner of revenue shall make a report to the legislature on the use of limited market value under section 273.13, subdivision 1a, and the valuation exclusion under section 273.13, subdivision 16. For the limited market value provision, the report shall include the total value excluded

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from taxation by type of property for each city and town. For the valuation exclusion provision, the report shall include the total market value excluded from taxation for each city and town, as well as a breakdown of the excluded improvement amounts by age and value of the property being improved and the amount of the qualifying improvement. The county assessors shall provide the information necessary for the commissioner to compile the report in a manner prescribed by the commissioner.

Sec. 31. Laws 2001, First Special Session chapter 5, article 9, section 3, the effective date, is amended to read:

EFFECTIVE DATE. This section is effective for tax years beginning after December 31, 2001, except that the amendment to clause clauses (3) is and (12) are effective for tax years beginning after December 31, 2000.

Sec. 32. REPEALER.

(a) Minnesota Statutes 2000, sections 272.02, subdivision 40; 290.01, subdivisions 19g and 32; and 295.44, are repealed effective the day following final enactment.

(b) Minnesota Statutes 2000, section 290.0921, subdivision 5, is repealed effective for taxable years beginning after December 31, 2001.

(c) Minnesota Rules, parts 8130.1400; 8130.2100; 8130.2350; 8130.2600; 8130.3000; 8130.3850; and 8130.5000, are repealed effective the day following final enactment.

ARTICLE 11

LOCAL LAWS

Section 1. CITY OF MOORHEAD; TAX LEVY AUTHORIZED.

(a) Each year the city of Moorhead may impose a tax on all class 3a and class 3b property located in the city in an amount which the city determines is equal to the reduction in revenues from increment from all tax increment financing districts in the city resulting from the class rate changes and the elimination of the state-determined general education property levy under Laws 2001, First Special Session chapter 5. The proceeds of this tax may only be used to pay preexisting obligations as defined in Minnesota Statutes, section 469.1763, subdivision 6, whether general obligations or payable wholly from tax increments. The tax must be levied and collected in the same manner and as part of the property tax levied by the city and is subject to the same administrative, penalty, and enforcement provisions. A tax imposed under this section is a special levy and is not subject to levy limitations under Minnesota Statutes, section 275.71.

(b) This section expires December 31, 2005.

EFFECTIVE DATE. This section is effective upon approval by and compliance with Minnesota Statutes, section 645.021, subdivision 3, by the governing body of the city of Moorhead.

New language is indicated by underline, deletions by strikeout.

Sec. 2. ST. CLOUD AREA CITIES; TAXES AUTHORIZED.

Subdivision 1. SALES AND USE TAX. (a) Notwithstanding Minnesota Statutes, section 477A.016, or any other provision of law, ordinance, or city charter, the following cities may, by ordinance, impose a sales and use tax of one-half of one percent for the purposes specified in subdivision 2:

(1) the city of St. Cloud, pursuant to the approval of the city voters at the general election held on November 7, 2000;

(2) the city of Sartell, pursuant to the approval of the city voters at an election held in November 1999; and

(3) each of the cities of Sauk Rapids, Waite Park, St. Joseph, and St. Augusta, pursuant to the approval of the voters of that city at the next general election following the date of final enactment of this act, as provided for in subdivision 3.

(b) The provisions of Minnesota Statutes, section 297A.99, govern the imposition, administration, collection, and enforcement of the taxes authorized under this subdivision.

(c) The tax in Sartell must be used for the purposes listed in subdivision 2, notwithstanding other purposes listed in the referendum, and are not subject to the requirements of Minnesota Statutes, section 297A.99, subdivision 3.

Subd. 2. USE OF REVENUES. (a) Revenues received from the taxes authorized under subdivision 1 must be used for the cost of collecting and administering the taxes and to pay all or part of the capital or administrative costs of the acquisition, construction, and improvement of the main runway improvements to the St. Cloud Regional Airport, as provided for in the city of St. Cloud capital improvement program 2000 to 2005, adopted by the St. Cloud planning commission on July 14, 1999. Authorized expenses include, but are not limited to, acquiring property, paying construction expenses related to the development of these facilities, and securing and paying debt service on bonds or other obligations issued to finance construction or improvement of the authorized facility.

(b) If revenues collected from the taxes imposed under subdivision 1 are greater than the amount needed to meet obligations under paragraph (a) in any year, the surplus may be returned to the cities in a manner agreed upon by the participating cities under this section, to be used by the cities for projects of regional significance, limited to: the acquisition and improvement of park land and open space; the purchase, renovation, and construction of public buildings and land primarily used for the arts, libraries, and community centers; major roadway improvements; and for debt service on bonds issued for these purposes. Authorized expenses include, but are not limited to, acquiring property, paying construction expenses related to the development of these facilities, and securing and paying debt service on bonds or other obligations issued to finance construction or improvement of the authorized facility. The distribution of surplus revenues raised by the tax must be determined by an applicable joint powers agreement. The revenues returned to each city may only be used to fund projects that have been approved by voters at the referendum authorizing the tax.

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(c) Pursuant to the approval of the St. Cloud voters at the general election held on November 7, 2000, the surplus returned to St. Cloud under paragraph (b) must be used for the following projects:

(1) intersection improvements to the 25th Avenue and trunk highway No. 23, I-94 interchange at county road 75, 10th Street South improvements, the West Metro corridor improvements, and other regionally significant road projects; and

(2) park and nature land purchase, trail development, and improvements and expansions of existing regional park facilities, as provided for in the city of St. Cloud capital improvement program 2000 to 2005, adopted by the St. Cloud planning commission on July 14, 1999.

(d) Pursuant to approval of the Sartell voters at the election held in November 1999, the surplus returned to the city of Sartell under paragraph (b) must be used to fund construction, expansion, and improvements to a community center and for park land acquisition and improvement.

Subd. 3. SEPARATE REFERENDA REQUIRED. Notwithstanding Minnesota Statutes, section 297A.99, subdivision 3, each city listed in subdivision 1, clause (3), shall have a separate vote on each project that it proposes to fund with the surplus tax revenues it receives under subdivision 2, paragraph (b). For these cities, the cost of each project to be funded by the taxes authorized in subdivision 1 must be listed. Revenue may be used to repay debt for a project that the city has already funded if the project meets one of the authorized uses listed in subdivision 2, paragraph (b), and the referenda states the maximum amount of debt that will be repaid from the revenue. The referendum must state that approval of using the tax authorized in subdivision 1 for any project shall also indicate approval to share the revenues collected from the tax with the other cities in the area which have also passed a sales tax. The sharing must be done in a manner agreed upon by all affected cities under a joint powers agreement.

Subd. 4. IMPOSITION AND TERMINATION OF TAX. The tax authorized by each city under subdivision 1 shall be imposed beginning January 1, 2003, and shall expire December 31, 2005.

EFFECTIVE DATE. This section is effective July 1, 2002, with respect to any city listed in subdivision 1, upon compliance of the governing body of that city with Minnesota Statutes, section 645.021, subdivision 3.

ARTICLE 12

MISCELLANEOUS

Section 1. Minnesota Statutes 2000, section 16A.152, is amended by adding a subdivision to read:

Subd. 1b. BUDGET RESERVE INCREASE. On June 30, 2003, the commissioner of finance shall transfer \$3,900,000 to the budget reserve account in the general

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fund. On June 30, 2004, the commissioner of finance shall transfer \$12,300,000 to the budget reserve account in the general fund. On June 30, 2005, the commissioner of finance shall transfer \$12,000,000 to the budget reserve account in the general fund. The amounts necessary for this purpose are appropriated from the general fund.

Sec. 2. Minnesota Statutes 2000, section 40A.151, subdivision 1, is amended to read:

Subdivision 1. **ESTABLISHMENT.** The Minnesota conservation fund is established as an account in the state treasury. Money from counties under section 40A.152 must be deposited in the state treasury and credited one-half to the Minnesota conservation fund account and one-half to the general fund.

EFFECTIVE DATE. This section is effective for money from counties deposited in the state treasury after June 30, 2002.

Sec. 3. Minnesota Statutes 2000, section 40A.152, subdivision 1, is amended to read:

Subdivision 1. **FEE.** A county that is a metropolitan county under section 473.121, subdivision 4, has allowed exclusive agricultural zones to be created under this chapter, or has elected to become an agricultural land preservation pilot county, shall impose an additional fee of \$5 per transaction on the recording or registration of a mortgage subject to the tax under section 287.05 and an additional \$5 on the recording or registration of a deed subject to the tax under section 287.21. One-half of the fee must be deposited in a special conservation account to be created in the county general revenue fund and one-half must be transferred to the commissioner of revenue for deposit in the state treasury and credited to the Minnesota conservation fund pursuant to section 40A.151, subdivision 1.

EFFECTIVE DATE. This section is effective July 1, 2002, and thereafter.

Sec. 4. Minnesota Statutes 2000, section 40A.152, subdivision 3, is amended to read:

Subd. 3. **TRANSFER TO STATE FUND.** Money in the county conservation account that is not encumbered by the county within one year of deposit in the account must be transferred to the commissioner of revenue for deposit in the Minnesota conservation fund state treasury pursuant to section 40A.151, subdivision 1.

Sec. 5. Minnesota Statutes 2000, section 270B.01, subdivision 8, is amended to read:

Subd. 8. **MINNESOTA TAX LAWS.** For purposes of this chapter only, unless expressly stated otherwise, "Minnesota tax laws" means the taxes, refunds, and fees administered by or paid to the commissioner under chapters 115B (except taxes imposed under sections 115B.21 to 115B.24), 289A (except taxes imposed under sections 298.01, 298.015, and 298.24), 290, 290A, 291, 295, 297A, and 297H and sections 295.50 to 295.59, or any similar Indian tribal tax administered by the commissioner pursuant to any tax agreement between the state and the Indian tribal

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government, and includes any laws for the assessment, collection, and enforcement of those taxes, refunds, and fees.

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

Sec. 6. Minnesota Statutes 2001 Supplement, section 270B.02, subdivision 3, is amended to read:

Subd. 3. **CONFIDENTIAL DATA ON INDIVIDUALS; PROTECTED NON-PUBLIC DATA.** (a) Except as provided in paragraph (b), the name or existence of an informer, informer letters, and other data, in whatever form, given to the department of revenue by a person, other than the data subject, who informs that a specific taxpayer person is not or may not be in compliance with tax laws, or nontax laws administered by the department of revenue, including laws other than those relating to property taxes not listed in section 270B.01, subdivision 8, are confidential data on individuals or protected nonpublic data as defined in section 13.02, subdivisions 3 and 13.

(b) Data under paragraph (a) may be disclosed with the consent of the informer or upon a written finding by a court that the information provided by the informer was false and that there is evidence that the information was provided in bad faith. This subdivision does not alter disclosure responsibilities or obligations under the rules of criminal procedure.

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

Sec. 7. Minnesota Statutes 2000, section 270B.02, subdivision 4, is amended to read:

Subd. 4. **PUBLIC DATA.** Information required to be filed by exempt individuals, corporations, organizations, estates, and trusts under section 290.05, subdivisions 1 and 4, or that relates to exempt status under section 290.05, subdivision 2, is public data on individuals or public data not on individuals, as defined in section 13.02, subdivisions 14 and 15. The commissioner may publish a list of organizations exempt from taxation under section 290.05, except that the name or address of any contributor to any organization that is or was exempt, or that has applied for tax exempt status, or any other information that could not be disclosed under section 6104 of the Internal Revenue Code of 1986, as amended through December 31, 1988, is classified as private data on individuals or nonpublic data as defined in section 13.02, subdivisions 9 and 12.

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

Sec. 8. Minnesota Statutes 2001 Supplement, section 270B.08, subdivision 2, is amended to read:

Subd. 2. **REVOCATION.** When a taxpayer's sales tax permit has been revoked under section 297A.86, the commissioner may disclose data identifying the holder of the revoked permit and, stating the basis for the revocation, and stating whether the permit has been reinstated.

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

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

Sec. 9. Minnesota Statutes 2000, section 270B.14, subdivision 8, is amended to read:

Subd. 8. **EXCHANGE BETWEEN DEPARTMENTS OF LABOR AND INDUSTRY AND REVENUE.** The departments of labor and industry and revenue may exchange information as follows:

(1) data used in determining whether a business is an employer or a contracting agent;

(2) taxpayer identity information relating to employers and employees for purposes of supporting tax administration and ~~chapter~~ chapters 176, 177, and 181; and

(3) data to the extent provided in and for the purpose set out in section 176.181, subdivision 8.

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

Sec. 10. Minnesota Statutes 2000, section 289A.10, subdivision 1, is amended to read:

Subdivision 1. **RETURN REQUIRED.** In the case of a decedent who has an interest in property with a situs in Minnesota, the personal representative must submit a Minnesota estate tax return to the commissioner, on a form prescribed by the commissioner, in instances in which a federal estate tax return is required to be filed if the federal gross estate exceeds \$700,000 for estates of decedents dying after December 31, 2001, and before January 1, 2004; \$850,000 for estates of decedents dying after December 31, 2003, and before January 1, 2005; \$950,000 for estates of decedents dying after December 31, 2004, and before January 1, 2006; and \$1,000,000 for estates of decedents dying after December 31, 2005.

The return must contain a computation of the Minnesota estate tax due. The return must be signed by the personal representative.

EFFECTIVE DATE. This section is effective for estates of decedents dying after December 31, 2001.

Sec. 11. Minnesota Statutes 2001 Supplement, section 291.005, subdivision 1, is amended to read:

Subdivision 1. Unless the context otherwise clearly requires, the following terms used in this chapter shall have the following meanings:

(1) "Federal gross estate" means the gross estate of a decedent as valued and otherwise determined for federal estate tax purposes by federal taxing authorities pursuant to the provisions of the Internal Revenue Code.

(2) "Minnesota gross estate" means the federal gross estate of a decedent after (a) excluding therefrom any property included therein which has its situs outside Minnesota and pensions exempt from tax under this chapter pursuant to section 352.15, subdivision 1; 353.15, subdivision 1; 354.10, subdivision 1; 354B.30; or 354C.165, and (b) including therein any property omitted from the federal gross estate which is

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includable therein, has its situs in Minnesota, and was not disclosed to federal taxing authorities.

(3) "Personal representative" means the executor, administrator or other person appointed by the court to administer and dispose of the property of the decedent. If there is no executor, administrator or other person appointed, qualified, and acting within this state, then any person in actual or constructive possession of any property having a situs in this state which is included in the federal gross estate of the decedent shall be deemed to be a personal representative to the extent of the property and the Minnesota estate tax due with respect to the property.

(4) "Resident decedent" means an individual whose domicile at the time of death was in Minnesota.

(5) "Nonresident decedent" means an individual whose domicile at the time of death was not in Minnesota.

(6) "Situs of property" means, with respect to real property, the state or country in which it is located; with respect to tangible personal property, the state or country in which it was normally kept or located at the time of the decedent's death; and with respect to intangible personal property, the state or country in which the decedent was domiciled at death.

(7) "Commissioner" means the commissioner of revenue or any person to whom the commissioner has delegated functions under this chapter.

(8) "Internal Revenue Code" means the United States Internal Revenue Code of 1986, as amended through December 31, 2000.

EFFECTIVE DATE. This section is effective for estates of decedents dying after December 31, 2001.

Sec. 12. Minnesota Statutes 2000, section 291.03, subdivision 1, is amended to read:

Subdivision 1. **TAX AMOUNT.** The tax imposed shall be an amount equal to the proportion of the maximum credit allowable computed under section 2011 of the Internal Revenue Code for state death taxes as the Minnesota gross estate bears to the value of the federal gross estate. For a resident decedent, the tax shall be the maximum credit allowable computed under section 2011 of the Internal Revenue Code reduced by the amount of the death tax paid the other state and credited against the federal estate tax if this results in a larger amount of tax than the proportionate amount of the credit. The tax determined under this paragraph shall not be greater than the ~~maximum credit allowable under section 2011 of the Internal Revenue Code~~ federal estate tax computed under section 2001 of the Internal Revenue Code after the allowance of the federal credits allowed under sections 2010, 2012, 2013, and 2015 of the Internal Revenue Code of 1986, as amended through December 31, 2000.

EFFECTIVE DATE. This section is effective for estates of decedents dying after December 31, 2001.

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

Sec. 13. Minnesota Statutes 2000, section 297H.06, subdivision 2, is amended to read:

Subd. 2. **MATERIALS.** The tax is not imposed upon charges to generators of mixed municipal solid waste or upon the volume of non-mixed-municipal solid waste for waste management services to manage the following materials:

(1) mixed municipal solid waste and non-mixed-municipal solid waste generated outside of Minnesota;

(2) recyclable materials that are separated for recycling by the generator, collected separately from other waste, and recycled, to the extent the price of the service for handling recyclable material is separately itemized;

(3) recyclable non-mixed-municipal solid waste that is separated for recycling by the generator, collected separately from other waste, delivered to a waste facility for the purpose of recycling, and recycled;

(4) industrial waste, when it is transported to a facility owned and operated by the same person that generated it;

(5) mixed municipal solid waste from a recycling facility that separates or processes recyclable materials and reduces the volume of the waste by at least 85 percent, provided that the exempted waste is managed separately from other waste;

(6) recyclable materials that are separated from mixed municipal solid waste by the generator, collected and delivered to a waste facility that recycles at least 85 percent of its waste, and are collected with mixed municipal solid waste that is segregated in leakproof bags, provided that the mixed municipal solid waste does not exceed five percent of the total weight of the materials delivered to the facility and is ultimately delivered to a waste facility identified as a preferred waste management facility in county solid waste plans under section 115A.46;

(7) ~~through December 31, 2002,~~ source-separated compostable waste, if the waste is delivered to a facility exempted as described in this clause. To initially qualify for an exemption, a facility must apply for an exemption in its application for a new or amended solid waste permit to the pollution control agency. The first time a facility applies to the agency it must certify in its application that it will comply with the criteria in items (i) to (v) and the commissioner of the agency shall so certify to the commissioner of revenue who must grant the exemption. For each subsequent calendar year, by October 1 of the preceding year, the facility must apply to the agency for certification to renew its exemption for the following year. The application must be filed according to the procedures of, and contain the information required by, the agency. The commissioner of revenue shall grant the exemption if the commissioner of the pollution control agency finds and certifies to the commissioner of revenue that based on an evaluation of the composition of incoming waste and residuals and the quality and use of the product:

(i) generators separate materials at the source;

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(ii) the separation is performed in a manner appropriate to the technology specific to the facility that:

(A) maximizes the quality of the product;

(B) minimizes the toxicity and quantity of residuals; and

(C) provides an opportunity for significant improvement in the environmental efficiency of the operation;

(iii) the operator of the facility educates generators, in coordination with each county using the facility, about separating the waste to maximize the quality of the waste stream for technology specific to the facility;

(iv) process residuals do not exceed 15 percent of the weight of the total material delivered to the facility; and

(v) the final product is accepted for use;

(8) waste and waste by-products for which the tax has been paid; and

(9) daily cover for landfills that has been approved in writing by the Minnesota pollution control agency.

Sec. 14. Minnesota Statutes 2001 Supplement, section 349.12, subdivision 25, is amended to read:

Subd. 25. **LAWFUL PURPOSE.** (a) "Lawful purpose" means one or more of the following:

(1) any expenditure by or contribution to a 501(c)(3) or festival organization, as defined in subdivision 15a, provided that the organization and expenditure or contribution are in conformity with standards prescribed by the board under section 349.154, which standards must apply to both types of organizations in the same manner and to the same extent;

(2) a contribution to an individual or family suffering from poverty, homelessness, or physical or mental disability, which is used to relieve the effects of that poverty, homelessness, or disability;

(3) a contribution to an individual for treatment for delayed posttraumatic stress syndrome or a contribution to a program recognized by the Minnesota department of human services for the education, prevention, or treatment of compulsive gambling;

(4) a contribution to or expenditure on a public or private nonprofit educational institution registered with or accredited by this state or any other state;

(5) a contribution to a scholarship fund for defraying the cost of education to individuals where the funds are awarded through an open and fair selection process;

(6) activities by an organization or a government entity which recognize humanitarian or military service to the United States, the state of Minnesota, or a community, subject to rules of the board, provided that the rules must not include mileage reimbursements in the computation of the per occasion reimbursement limit

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and must impose no aggregate annual limit on the amount of reasonable and necessary expenditures made to support:

(i) members of a military marching or color guard unit for activities conducted within the state;

(ii) members of an organization solely for services performed by the members at funeral services; or

(iii) members of military marching, color guard, or honor guard units may be reimbursed for participating in color guard, honor guard, or marching unit events within the state or states contiguous to Minnesota at a per participant rate of up to \$35 per occasion;

(7) recreational, community, and athletic facilities and activities intended primarily for persons under age 21, provided that such facilities and activities do not discriminate on the basis of gender and the organization complies with section 349.154;

(8) payment of local taxes authorized under this chapter, taxes imposed by the United States on receipts from lawful gambling, the taxes imposed by section 297E.02, subdivisions 1, 4, 5, and 6, and the tax imposed on unrelated business income by section 290.05, subdivision 3;

(9) payment of real estate taxes and assessments on permitted gambling premises wholly owned by the licensed organization paying the taxes, or wholly leased by a licensed veterans organization under a national charter organized under section 501(c)(19) of the Internal Revenue Code, not to exceed:

(i) for premises used for bingo, the amount that an organization may expend under board rules on rent for bingo; and

(ii) \$35,000 per year for premises used for other forms of lawful gambling;

(10) a contribution to the United States, this state or any of its political subdivisions, or any agency or instrumentality thereof other than a direct contribution to a law enforcement or prosecutorial agency;

(11) a contribution to or expenditure by a nonprofit organization which is a church or body of communicants gathered in common membership for mutual support and edification in piety, worship, or religious observances;

(12) payment of the reasonable costs of an audit required in section 297E.06, subdivision 4, provided the annual audit is filed in a timely manner with the department of revenue;

(13) a contribution to or expenditure on a wildlife management project that benefits the public at-large, provided that the state agency with authority over that wildlife management project approves the project before the contribution or expenditure is made;

(14) expenditures, approved by the commissioner of natural resources, by an organization for grooming and maintaining snowmobile trails and all-terrain vehicle

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trails that are (1) grant-in-aid trails established under section 85.019, or (2) other trails open to public use, including purchase or lease of equipment for this purpose; or

(15) conducting nutritional programs, food shelves, and congregate dining programs primarily for persons who are age 62 or older or disabled; or

(16) a contribution to a community arts organization, or an expenditure to sponsor arts programs in the community, including but not limited to visual, literary, performing, or musical arts.

(b) Notwithstanding paragraph (a), "lawful purpose" does not include:

(1) any expenditure made or incurred for the purpose of influencing the nomination or election of a candidate for public office or for the purpose of promoting or defeating a ballot question;

(2) any activity intended to influence an election or a governmental decision-making process;

(3) the erection, acquisition, improvement, expansion, repair, or maintenance of real property or capital assets owned or leased by an organization, unless the board has first specifically authorized the expenditures after finding that (i) the real property or capital assets will be used exclusively for one or more of the purposes in paragraph (a); (ii) with respect to expenditures for repair or maintenance only, that the property is or will be used extensively as a meeting place or event location by other nonprofit organizations or community or service groups and that no rental fee is charged for the use; (iii) with respect to expenditures, including a mortgage payment or other debt service payment, for erection or acquisition only, that the erection or acquisition is necessary to replace with a comparable building, a building owned by the organization and destroyed or made uninhabitable by fire or natural disaster, provided that the expenditure may be only for that part of the replacement cost not reimbursed by insurance; (iv) with respect to expenditures, including a mortgage payment or other debt service payment, for erection or acquisition only, that the erection or acquisition is necessary to replace with a comparable building a building owned by the organization that was acquired from the organization by eminent domain or sold by the organization to a purchaser that the organization reasonably believed would otherwise have acquired the building by eminent domain, provided that the expenditure may be only for that part of the replacement cost that exceeds the compensation received by the organization for the building being replaced; or (v) with respect to an expenditure to bring an existing building into compliance with the Americans with Disabilities Act under item (ii), an organization has the option to apply the amount of the board-approved expenditure to the erection or acquisition of a replacement building that is in compliance with the Americans with Disabilities Act;

(4) an expenditure by an organization which is a contribution to a parent organization, foundation, or affiliate of the contributing organization, if the parent organization, foundation, or affiliate has provided to the contributing organization within one year of the contribution any money, grants, property, or other thing of value;

(5) a contribution by a licensed organization to another licensed organization unless the board has specifically authorized the contribution. The board must authorize

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such a contribution when requested to do so by the contributing organization unless it makes an affirmative finding that the contribution will not be used by the recipient organization for one or more of the purposes in paragraph (a); or

(6) a contribution to a statutory or home rule charter city, county, or town by a licensed organization with the knowledge that the governmental unit intends to use the contribution for a pension or retirement fund.

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

Sec. 15. Laws 2001, First Special Session chapter 6, article 5, section 12, is amended to read:

Sec. 12. SCHOOL DISTRICT FORMULA ADJUSTMENTS.

Subdivision 1. TAX RATE ADJUSTMENT. The commissioner of children, families, and learning must adjust each tax rate established under Minnesota Statutes, chapters 120A to 127A, by multiplying the rate by the ratio of the statewide net tax capacity as calculated using the class rates in effect for assessment year 2000 to the statewide total net tax capacity as calculated using the class rates in effect for assessment year 2001, in both cases using taxable market values for assessment year 2000.

Subd. 2. EQUALIZING FACTORS. The commissioner of children, families, and learning must adjust each equalizing factor based upon adjusted net tax capacity per actual pupil unit established under Minnesota Statutes, chapters 120A to 127A, by multiplying the equalizing factor by the ratio of the statewide net tax capacity as calculated using the class rates in effect for assessment year 2001 to the statewide total net tax capacity as calculated using the class rates in effect for assessment year 2000, in both cases using taxable market values for assessment year 2000.

Subd. 3. DEBT SERVICE TAX RATES AND EQUALIZING FACTORS. The provisions in subdivisions 1 and 2 do not apply to the equalizing factors and tax rates of the debt service equalization aid program under Minnesota Statutes, section 123B.53.

Subd. 4. SCHOOL DISTRICT BONDS. The commissioner of children, families, and learning must adjust the net debt limit percentage for special school district No. 1, Minneapolis, based upon net tax capacity established under Minnesota Statutes, section 128D.11, subdivision 8, by multiplying the net debt limit percentage by the ratio of the district's net tax capacity as calculated using the class rates in effect for assessment year 2000 to the district's total net tax capacity as calculated using the class rates in effect for assessment year 2001, in both cases using taxable market values for assessment year 2000.

EFFECTIVE DATE. This section is effective retroactively for bonds issued after July 1, 2001.

Sec. 16. CITY OF THIEF RIVER FALLS; NONPROFIT CORPORATION.

Subdivision 1. NONPROFIT CORPORATION MAY BE ESTABLISHED. The city of Thief River Falls may incorporate or authorize the incorporation of a

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nonprofit corporation to operate a community or regional center in the city.

Subd. 2. BOARD OF DIRECTORS. The corporation must be governed by a board of five directors. The directors must be named by the Thief River Falls city council. No more than three of the directors may be persons currently serving on the Thief River Falls city council. Board members must not be compensated for their services but may be reimbursed for reasonable expenses incurred in connection with their duties as board members.

Subd. 3. ARTICLES AND BYLAWS. The entity must be incorporated under Minnesota Statutes, chapter 317A, and otherwise must comply with Minnesota Statutes, chapter 317A, except to the extent Minnesota Statutes, chapter 317A, is inconsistent with this section.

Subd. 4. EMPLOYEES. Persons employed by the nonprofit corporation are not public employees and must not participate in retirement, deferred compensation, insurance, or other plans that apply to public employees generally.

Subd. 5. STATUTORY COMPLIANCE. The nonprofit corporation must comply with Minnesota Statutes, section 465.719, subdivisions 9, 10, 11, 12, 13, and 14.

Sec. 17. APPROPRIATION.

(a) \$585,000 in fiscal year 2002 and \$7,015,000 in fiscal year 2003 are appropriated to the commissioner of revenue from the general fund for tax compliance activities, including identification and collection of tax liabilities from individuals and businesses that currently do not pay all taxes owed, and audit and collection activity in the income tax, sales tax, lawful gambling, insurance, and corporate areas. The base funding for these activities in fiscal years 2004 and 2005 is increased by \$4,750,000 each year.

(b) The commissioner must include these tax compliance activities in the report required by Laws 2001, First Special Session chapter 10, article 1, section 16, subdivision 2, paragraph (c).

(c) Laws 2002, chapter 220, article 10, section 38, does not apply to the positions necessary to carry out the compliance activities identified in this section.

(d) If the legislative auditor determines that:

(1) actual revenue collections generated from tax compliance activities funded by Laws 2001, First Special Session chapter 10, article 1, section 16, subdivision 2, paragraphs (a) and (b), will not generate at least \$52,000,000 in additional general fund revenue for the biennium ending June 30, 2003; or

(2) actual revenue collections generated from new tax compliance activities funded by the appropriation in this section will not generate at least \$7,600,000 in additional general fund revenue for the biennium ending June 30, 2003;

then the commissioner of finance must cancel from the budget reserve account to the general fund the difference between the \$52,000,000 or the \$7,600,000 and the actual

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additional general fund revenue. The legislative auditor's determination under this paragraph must be made in the February 1, 2003, report to the legislature required by Laws 2001, First Special Session chapter 10, article 1, section 16.

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

Sec. 18. REPEALER.

Minnesota Statutes 2000, section 291.03, subdivision 2, is repealed effective for estates of decedents dying after December 31, 2001.

Presented to the governor May 15, 2002

Became law without the governor's signature May 18, 2002

CHAPTER 378—S.F.No. 1755

An act relating to education; establishing a committee to gather information and make recommendations for the design of a school employee health insurance plan; authorizing raffles to support school district programs; appropriating money; amending Minnesota Statutes 2000, section 609.761, by adding a subdivision; proposing coding for new law in Minnesota Statutes, chapter 62A.

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

Section 1. [62A.661] SCHOOL EMPLOYEE INSURANCE PLAN.

Subdivision 1. DEFINITIONS. For purposes of this section:

(1) "eligible employee" means a person who is insurance eligible and is employed by an eligible employer or is insurance eligible through an eligible employer on some other basis; and

(2) "eligible employer" means a school district as defined in section 120A.05; a service cooperative as defined in section 123A.21; an intermediate district as defined in section 136D.01; a cooperative center for vocational education as defined in section 123A.22; a regional management information center as defined in section 123A.23; an education unit organized under section 471.59; a charter school organized under section 124D.10; or an exclusive representative of employees of an eligible employer or statewide affiliate.

Subd. 2. STUDY AND DESIGN COMMITTEE. (a) The school employee insurance plan study and design committee consists of:

(1) seven members representing exclusive representatives of eligible employees, appointed by exclusive representatives, as provided in paragraph (b); and

(2) seven members representing eligible employers, appointed by the Minnesota school boards association.

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