

Mr. President:

I have the honor to announce that the House has adopted the recommendation and report of the Conference Committee on Senate File No. 254, and repassed said bill in accordance with the report of the Committee, so adopted.

**S.F. No. 254:** A bill for an act relating to natural resources; modifying certain fish habitat and propagation provisions; authorizing the commissioner to establish special hunts for youth; permitting youth residents to hunt deer without a license tag; authorizing rules to restrict airboats; modifying provisions relating to taking minnows; authorizing the commissioner to sell merchandise; providing purposes for the game and fish fund; modifying stamp provisions; modifying the procedure for vacating or modifying a state game refuge; defining terms; prohibiting airboats on certain lakes; permitting persons 65 years of age or older to take certain game with a crossbow; establishing shooting hours for migratory game birds; modifying license provisions; modifying personal watercraft provisions; requiring personal watercraft safety certificate; requiring snowmobile state trail permit; requiring snowmobile safety certificate; modifying recreational motor vehicle provisions; modifying special license plate provisions; establishing firearms safety pilot program; requiring reports; providing criminal penalties; appropriating money; amending Minnesota Statutes 1996, sections 17.4982, by adding subdivisions; 17.4983, by adding a subdivision; 17.4998; 84.0855; 84.82, subdivisions 2 and 3; 84.87, subdivision 2; 84.872, by adding a subdivision; 84.873; 86B.313, subdivisions 1, 3, 4, and by adding a subdivision; 97A.015, subdivisions 49, 53, and by adding a subdivision; 97A.045, subdivision 7; 97A.055, subdivision 1; 97A.075, subdivision 3; 97A.085, subdivision 8; 97A.101, by adding a subdivision; 97A.411, subdivisions 1 and 3; 97A.421, subdivision 1; 97A.465, subdivision 4; 97A.485, subdivision 9, and by adding a subdivision; 97B.035, subdivision 1; 97B.075; 97B.106; 97B.301, subdivision 6; 97B.655, subdivision 1; 97B.805, subdivision 2; 97C.035, subdivision 1; 97C.211, subdivision 1, and by adding a subdivision; 97C.505, by adding a subdivision; 168.1291; 168.1296, subdivision 1; 296.16, subdivision 1; and 609.487, by adding a subdivision; proposing coding for new law in Minnesota Statutes, chapters 84; and 97B; repealing Minnesota Statutes 1996, section 97A.111.

Senate File No. 254 is herewith returned to the Senate.

Edward A. Burdick, Chief Clerk, House of Representatives

Returned May 19, 1997

Mr. President:

I have the honor to announce that the House has adopted the recommendation and report of the Conference Committee on House File No. 2163, and repassed said bill in accordance with the report of the Committee, so adopted.

House File No. 2163 is herewith transmitted to the Senate.

Edward A. Burdick, Chief Clerk, House of Representatives

Transmitted May 19, 1997

### CONFERENCE COMMITTEE REPORT ON H.F. NO. 2163

A bill for an act relating to the financing and operation of state and local government; providing for property tax reform; providing for education financing; limiting education revenue referenda for 1997; changing property tax refunds for homeowners and renters; changing truth-in-taxation requirements; providing for joint truth-in-taxation hearings; imposing levy limits on cities and counties; changing fiscal note requirements for state mandates; providing for reimbursement for costs of state mandates; providing for certain property tax exemptions; establishing a property tax reform account; providing a refundable credit for 1997 property taxes; making miscellaneous property tax changes; providing a senior citizens property tax deferral program; changing aids to local governments; changing tax increment financing provisions; authorizing certain tax increment

districts; exempting certain tax increment districts from certain requirements; authorizing local taxes, levies, and abatements; conforming certain income tax laws with changes in federal law; providing income tax credits; modifying the application of sales and excise taxes; exempting certain purchases from the sales tax; modifying waste management tax and taconite tax provisions; increasing the budget reserve; revising the law governing regional development commissions; providing for certain payments to counties; making miscellaneous technical changes and corrections; requiring studies; appropriating money; amending Minnesota Statutes 1996, sections 6.76; 16A.152, subdivision 2; 69.021, subdivision 7; 93.41; 103D.905, subdivisions 4, 5, and by adding a subdivision; 115A.554; 116.07, subdivision 10; 117.155; 121.15, by adding a subdivision; 122.247, subdivision 3; 122.45, subdivision 3a; 122.531, subdivisions 4a and 9; 122.533; 122.535, subdivision 6; 124.2131, subdivision 1; 124.239, subdivision 5, and by adding subdivisions; 124.2601, subdivisions 2 and 3; 124.2711, subdivisions 1 and 5; 124.2713, subdivision 1; 124.2714; 124.2715, subdivision 1; 124.2716, subdivision 2; 124.2725, subdivisions 2, 6, 13, and 14; 124.2726, subdivisions 1 and 3; 124.2727, subdivision 6a; 124.312, subdivision 5; 124.313; 124.4945; 124.83, subdivision 3; 124.91, subdivisions 1, 2, 5, and 7; 124.912, subdivisions 1, 3, 6, and 7; 124.914, subdivisions 1, 2, 3, and 4; 124.916, subdivisions 1, 3, and 4; 124.918, subdivision 8; 124.95, subdivision 1; 124A.03, subdivision 1g; 124A.23, subdivision 1; 124A.292, subdivision 2; 161.45, by adding a subdivision; 216B.16, by adding subdivisions; 270.60, by adding a subdivision; 270B.02, by adding a subdivision; 270B.12, by adding a subdivision; 271.01, subdivision 5; 271.19; 272.02, subdivision 1, and by adding a subdivision; 272.115; 273.11, subdivisions 1a, 16, and by adding a subdivision; 273.111, subdivisions 3 and 6; 273.112, by adding a subdivision; 273.121; 273.124, subdivisions 1, 14, and by adding a subdivision; 273.13, subdivisions 1, 22, 23, 24, 25, 31, and by adding subdivisions; 273.135, subdivision 2; 273.1391, subdivision 2; 273.1398, subdivisions 1, 1a, 6, 8, and by adding subdivisions; 273.18; 274.01; 274.13, by adding subdivisions; 275.065, subdivisions 1, 3, 5a, 6, 8, and by adding subdivisions; 275.07, subdivision 4; 275.08, subdivision 1b; 276.04, subdivision 2; 276A.04; 276A.05, subdivisions 1 and 5; 276A.06, subdivisions 2, 3, 5, and 9; 278.07; 281.13; 281.23, subdivision 6; 281.273; 281.276; 282.01, subdivision 8; 282.04, subdivision 1; 287.22; 289A.02, subdivision 7; 289A.26, subdivisions 2, 3, 6, and 7; 289A.56, subdivision 4; 290.01, subdivisions 19, 19a, 19b, 19c, 19d, 19g, and 31; 290.014, subdivisions 2 and 3; 290.015, subdivision 5; 290.06, subdivision 22, and by adding subdivisions; 290.067, subdivision 1; 290.068, subdivision 1; 290.0922, subdivision 1; 290.17, subdivision 1; 290.371, subdivision 2; 290.92, by adding a subdivision; 290.9725; 290.9727, subdivision 1; 290.9728, subdivision 1; 290A.03, subdivisions 6, 7, 11, and 13; 290A.04, subdivisions 1, 2, 6, and by adding a subdivision; 290A.19; 291.005, subdivision 1; 295.50, subdivision 6; 295.58; 296.141, subdivision 4; 296.18, subdivision 1; 297A.01, subdivisions 3, 4, 7, 11, 15, and 16; 297A.02, subdivision 2; 297A.14, subdivision 4; 297A.211, subdivision 1; 297A.25, subdivisions 2, 3, 7, 11, 56, 59, and by adding subdivisions; 297A.45; 297B.01, subdivisions 7 and 8; 297E.02, subdivision 6; 297E.04, subdivision 3; 298.24, subdivision 1; 298.28, subdivisions 2, 3, 4, 5, 9a, and by adding subdivisions; 298.2961, subdivision 1; 298.75, subdivisions 1, 4, and by adding a subdivision; 325D.33, subdivision 3; 349.12, subdivision 26a; 349.154, subdivision 2; 349.163, subdivision 8; 349.19, subdivision 2a; 349.191, subdivision 1b; 373.40, subdivision 7; 398A.04, subdivision 1; 462.381; 462.383; 462.384, subdivision 5; 462.385; 462.386, subdivision 1; 462.387; 462.388; 462.389, subdivisions 1, 3, and 4; 462.39, subdivisions 2 and 3; 462.391, subdivision 5, and by adding subdivisions; 462.393; 462.394; 462.396; 462.398; 469.012, subdivision 1; 469.033, subdivision 6; 469.040, subdivision 3, and by adding a subdivision; 469.174, subdivisions 10, 19, and by adding subdivisions; 469.175, subdivision 3, and by adding subdivisions; 469.176, subdivisions 1b, 2, 4c, 4g, 4j, and 6; 469.177, subdivisions 1, 3, and 4; 473F.06; 473F.07, subdivisions 1 and 5; 473F.08, subdivisions 2, 3, 5, and 8a; 477A.011, subdivisions 20, 34, 35, 36, 37, and by adding subdivisions; 477A.013, subdivisions 1 and 9; 477A.03, subdivision 2; and 477A.05; Laws 1992, chapter 511, article 2, section 52; Laws 1993, chapter 375, article 9, section 45, subdivisions 2, 3, 4, and by adding a subdivision; Laws 1995, chapter 264, article 5, sections 44, subdivision 4, as amended; and 45, subdivision 1, as amended; Laws 1997, chapter 34, section 2; proposing coding for new law in Minnesota Statutes, chapters 3; 14; 16A; 124; 124A; 270; 273; 275; 290; 297A; 383A; 383B; 458D; 462A; 469; 477A; proposing coding for new law as Minnesota Statutes, chapter 290B; repealing Minnesota Statutes 1996, sections 3.982; 124.2131, subdivision 3a; 124.2134; 124.225, subdivisions 1, 3a, 7a, 7b, 7d, 7e, 7f, 8a, 8k, 8l, 8m, 9, 10, 13, 14, 15, 16, and 17; 124.226; 124.2442; 124.2601, subdivisions 4, 5, and 6; 124.2711, subdivisions

2a and 3; 124.2713, subdivisions 6, 6a, 6b, and 7; 124.2715, subdivisions 2 and 3; 124.2716, subdivisions 3 and 4; 124.2725, subdivisions 3, 4, 5, and 7; 124.2727, subdivisions 6b, 6c, and 9; 124.314, subdivision 2; 124.321; 124.91, subdivisions 2, 4, and 7; 124.912, subdivision 2; 124A.029; 124A.03, subdivisions 2a and 3b; 124A.0311; 124A.22, subdivisions 4a, 4b, 8a, 8b, 13d, and 13e; 124A.23, subdivisions 1, 2, 3, and 4; 124A.26, subdivisions 2 and 3; 124A.292, subdivisions 3 and 4; 270B.12, subdivision 11; 273.13, subdivisions 21a and 32; 273.1315; 273.1317; 273.1318; 273.1398, subdivisions 2, 2c, 2d, 3, and 3a; 273.1399; 273.166; 275.08, subdivisions 1c and 1d; 275.61; 276.012; 276A.06, subdivision 9; 290A.03, subdivisions 12a and 14; 290A.055; 290A.26; 297A.01, subdivisions 20 and 21; 297A.02, subdivision 5; 297A.25, subdivision 29; 462.384, subdivision 7; 462.385, subdivision 2; 462.389, subdivision 5; 462.391, subdivisions 1, 2, 3, 4, 6, 7, 8, and 9; 462.392; 469.176, subdivisions 1a and 5; 469.1782, subdivision 1; 469.181; 473F.08, subdivision 8a; and 645.34; Laws 1995, chapter 264, article 4, as amended.

May 17, 1997

The Honorable Phil Carruthers  
Speaker of the House of Representatives

The Honorable Allan H. Spear  
President of the Senate

We, the undersigned conferees for H.F. No. 2163, report that we have agreed upon the items in dispute and recommend as follows:

That the Senate recede from its amendment and that H.F. No. 2163 be further amended as follows:

Delete everything after the enacting clause and insert:

"ARTICLE 1

PROPERTY TAX REFORM

Section 1. Minnesota Statutes 1996, section 124.239, is amended by adding a subdivision to read:

Subd. 3a. [DEBT SERVICE COSTS QUALIFYING FOR AID.] Annual debt service costs up to an amount equal to the 1997 debt service costs for bonds outstanding on the effective date of this act qualify for alternative facilities aid under subdivision 5.

Sec. 2. Minnesota Statutes 1996, section 124.239, subdivision 5, is amended to read:

Subd. 5. [LEVY AUTHORIZED.] A district, after local board approval, may levy for costs related to an approved facility plan as follows:

(a) if the district has indicated to the commissioner that bonds will be issued, the district may levy for the principal and interest payments on outstanding bonds issued according to subdivision 3 after reduction for any alternative facilities aid received under subdivision 5; or

(b) if the district has indicated to the commissioner that the plan will be funded through levy, the district may levy according to the schedule approved in the plan.

Sec. 3. Minnesota Statutes 1996, section 124.239, is amended by adding a subdivision to read:

Subd. 5a. [ALTERNATIVE FACILITIES AID.] A district's alternative facilities aid is the amount equal to the district's annual debt service costs qualifying for aid under subdivision 3a.

Sec. 4. [273.126] [QUALIFYING LOW-INCOME RENTAL HOUSING.]

Subdivision 1. [QUALIFYING RULES.] The market value of a rental housing unit qualifies for assessment under class 4d if:

- (1) it is occupied by individuals meeting the income limits under subdivision 2;
- (2) a rent restriction agreement under subdivision 3 applies;
- (3) the unit meets the minimum housing quality standards under subdivision 4; and
- (4) the Minnesota housing finance agency certifies to the local assessor that the unit qualifies.

Subd. 2. [INCOME LIMITS.] (a) In order to qualify under class 4d, a unit must be occupied by an individual or individuals whose income is at or below 60 percent of the median area gross income. If the resident's income met the requirement when the resident first occupied the unit, the income of the resident continues to qualify. If an individual first occupied a unit before January 1, 1998, the individual's income for purposes of the preceding sentence is the income for calendar year 1996.

(b) For purposes of this section, "median area gross income" means the greater of (1) the median gross income for the area determined under section 42 of the Internal Revenue Code of 1986, as amended through December 31, 1996, or (2) the median gross income for the state.

(c) The median gross income must be adjusted for family size.

(d) Vacant units qualify as meeting the requirements of this subdivision in the same proportion that total units in the building are subject to rent restriction agreements under subdivision 3 and meet minimum housing standards under subdivision 4. This paragraph applies only to the extent that units subject to a rent restriction agreement and meeting the minimum housing quality standards are vacant.

(e) The owner or manager of the property may comply with this subdivision by obtaining written statements from the residents that their incomes are at or below the limit.

Subd. 3. [RENT RESTRICTIONS.] (a) In order to qualify under class 4d, a unit must be subject to a rent restriction agreement with the housing finance agency for a period of at least five years. The agreement must be in effect and apply to the rents to be charged for the year in which the property taxes are payable. The agreement must provide that the restrictions apply to each year of the period, regardless of whether the unit is occupied by an individual with qualifying income or whether class 4d applies. The rent restriction agreement must provide for rents for the unit to be no higher than 30 percent of 60 percent of the median gross income. The definition of median gross income specified in this section applies. "Rent" means "gross rent" as defined in section 42(g)(2)(B) of the Internal Revenue Code of 1986, as amended through December 31, 1996.

(b) Notwithstanding the maximum rent levels permitted, 20 percent of the units in the metropolitan area and ten percent of the units in greater Minnesota qualifying under class 4d must be made available to a family with a section 8 certificate.

(c) The rent restriction agreement runs with the land and binds any successor to title to the property, without regard to whether the successor had actual notice or knowledge of the agreement. The owner must promptly record the agreement in the office of the county recorder or must file it in the office of the registrar of titles, in the county where the property is located. If the agreement is not recorded, class 4d does not apply to the property.

Subd. 4. [MINIMUM HOUSING STANDARDS.] In order to qualify under class 4d, a unit must be certified by the housing finance agency to meet the minimum housing standards established under section 462A.071.

Subd. 5. [MONITORING RENT LEVELS.] The housing finance agency is directed to monitor changes in rent levels and the use of section 8 certificates in units qualifying under class 4d.

Subd. 6. [PENALTIES.] Notwithstanding the provisions of section 273.01, 274.01, or any other law, if the Minnesota housing finance agency notifies the assessor that the provisions of this section have not been met for any period during which a unit was classified under class 4d, a penalty is imposed as provided in section 462A.071, subdivision 8.

Sec. 5. [273.127] [TRANSITION CLASS RATES; LOW-INCOME HOUSING.]

Subdivision 1. [TAXES PAYABLE IN 1998.] For taxes payable in 1998, low-income housing property classified as class 4c shall have a class rate of two percent, and property classified as class 4d shall have a class rate of 1.9 percent.

Subd. 2. [APPLICATION.] (a) The class rates under subdivisions 3 and 4 apply to the market value of properties:

(1)(i) which were classified as class 4c or class 4d for taxes payable in 1998; or

(ii) which are constructed or substantially rehabilitated during calendar year 1997 and would have qualified as class 4c or class 4d for taxes payable in 1999 absent the amendments to those classes in section 8; and

(2) which do not qualify as class 4d property as a result of the eligibility criteria specified in section 273.126.

(b) To qualify for the class rates under this section, the building's owner must annually certify to the assessor in writing that the property, building, or unit continues to qualify under the laws in effect and applicable to its classification for taxes payable in 1998.

(c) A property no longer qualifies under this section:

(1) if it is transferred or sold; or

(2) if loans, that have a principal amount equal to more than 25 percent of the property's market value and that are secured by the property, are refinanced.

Subd. 3. [CLASS 4C PROPERTIES.] For the market value of properties that meet the criteria of subdivision 2, paragraph (a), and which no longer qualify as a result of the eligibility criteria specified in section 273.126, a class rate of 2.4 percent applies for taxes payable in 1999 and a class rate of 2.6 percent applies for taxes payable in 2000.

Subd. 4. [CLASS 4D PROPERTIES.] For the market value of properties that meet the criteria of subdivision 2, paragraph (a), and which no longer qualify as a result of the eligibility criteria specified in section 273.126, a class rate of 2.2 percent applies for taxes payable in 1999 and a class rate of 2.5 applies for taxes payable in 2000.

Sec. 6. Minnesota Statutes 1996, section 273.13, subdivision 22, is amended to read:

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

~~For taxes payable in 1998 and thereafter, the first \$72,000 \$75,000 of market value of class 1a property has a net class rate of one percent of its market value and a gross class rate of 2.17 percent of its market value. For taxes payable in 1992,; and the market value of class 1a property that exceeds \$72,000 but does not exceed \$115,000 \$75,000 has a class rate of two 1.85 percent of its market value; and the market value of class 1a property that exceeds \$115,000 has a class rate of 2.5 percent of its market value. For taxes payable in 1993 and thereafter, the market value of class 1a property that exceeds \$72,000 has a class rate of two percent.~~

(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

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

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

(B) supplemental security income for the disabled; or

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

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

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

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

(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 ~~150~~ 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 and a gross class rate of .87 percent of its market value. The remaining market value of class 1b property has a gross or net class rate using the rates for class 1 or class 2a property, whichever is appropriate, of similar market value.

(c) Class 1c property is commercial use real property that abuts a lakeshore line and is devoted to temporary and seasonal residential occupancy for recreational purposes but not devoted to commercial purposes for more than 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 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. In order for a property to be

classified as class 1c, at least 40 percent of the annual gross lodging receipts related to the property must be from business conducted between Memorial Day weekend and Labor Day weekend, and at least 60 percent of all bookings by lodging guests during the year must be for periods of at least two consecutive nights. Class 1c property has a class rate of one percent of total market value for taxes payable in 1993 and thereafter with the following limitation: the area of the property must not exceed 100 feet of lakeshore footage for each cabin or campsite located on the property up to a total of 800 feet and 500 feet in depth, measured away from the lakeshore.

(d) 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 saleable 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).

Sec. 7. Minnesota Statutes 1996, section 273.13, subdivision 24, is amended to read:

Subd. 24. [CLASS 3.] (a) Commercial and industrial property and utility real and personal property, except class 5 property as identified in subdivision 31, clause (1), is class 3a. Each parcel has a class rate of three 2.7 percent of the first \$100,000 tier of market value for taxes payable in 1993 and thereafter, and 5.06 4.0 percent of the remaining market value over \$100,000, except that in the case of contiguous parcels of commercial and industrial 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. For the purposes of this subdivision, the first tier means the first \$150,000 of market value. In the case of state-assessed commercial, industrial, and utility property owned by one person or entity, only one parcel has a reduced class rate on the first \$100,000 of market value. In the case of other commercial, industrial, and utility property owned by one person or entity, only one parcel in each county has a reduced class rate on the first \$100,000 tier of market value, except that:

(1) if the market value of the parcel is less than \$100,000, and additional parcels are owned by the same person or entity in the same city or town within that county, the reduced class rate shall be applied up to a combined total market value of \$100,000 for all parcels owned by the same person or entity in the same city or town within the county;

(2) in the case of grain, fertilizer, and feed elevator facilities, as defined in section 18C.305, subdivision 1, or 232.21, subdivision 8, the limitation to one parcel per owner per county for the reduced class rate shall not apply, but there shall be a limit of \$100,000 of preferential value per site of contiguous parcels owned by the same person or entity. Only the value of the elevator portion of each parcel shall qualify for treatment under this clause. For purposes of this subdivision, contiguous parcels include parcels separated only by a railroad or public road right-of-way; and

(3) in the case of property owned by a nonprofit charitable organization that qualifies for tax exemption under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1993, if the property is used as a business incubator, the limitation to one parcel per owner per county for the reduced class rate shall not apply, provided that the reduced rate applies only to the first \$100,000 of value per parcel owned by the organization. As used in this clause, a "business incubator" is a facility used for the development of nonretail businesses, offering access

to equipment, space, services, and advice to the tenant businesses, for the purpose of encouraging economic development, diversification, and job creation in the area served by the organization.

To receive the reduced class rate on additional parcels under clause (1), (2), or (3), the taxpayer must notify the county assessor that the taxpayer owns more than one parcel that qualifies under clause (1), (2), or (3).

For purposes of this paragraph, parcels are considered to be contiguous even if they are separated from each other by a road, street, vacant lot, waterway, or other similar intervening type of property.

(b) Employment property defined in section 469.166, during the period provided in section 469.170, shall constitute class 3b and has a class rate of 2.3 percent of the first \$50,000 of market value and 3.6 percent of the remainder, except that for employment property located in a border city enterprise zone designated pursuant to section 469.168, subdivision 4, paragraph (c), the class rate of the first \$100,000 tier of market value and the class rate of the remainder is determined under paragraph (a), unless the governing body of the city designated as an enterprise zone determines that a specific parcel shall be assessed pursuant to the first clause of this sentence. The governing body may provide for assessment under the first clause of the preceding sentence only for property which is located in an area which has been designated by the governing body for the receipt of tax reductions authorized by section 469.171, subdivision 1.

(c) Structures which are (i) located on property classified as class 3a, (ii) constructed under an initial building permit issued after January 2, 1996, (iii) located in a transit zone as defined under section 473.3915, subdivision 3, (iv) located within the boundaries of a school district, and (v) not primarily used for retail or transient lodging purposes, shall have a class rate of four percent equal to 85 percent of the class rate of the second tier of the commercial property rate under paragraph (a) on that any portion of the market value in excess of \$100,000 and any market value under \$100,000 that does not qualify for the three percent first tier class rate under paragraph (a). As used in item (v), a structure is primarily used for retail or transient lodging purposes if over 50 percent of its square footage is used for those purposes. The four percent rate shall also apply to improvements to existing structures that meet the requirements of items (i) to (v) if the improvements are constructed under an initial building permit issued after January 2, 1996, even if the remainder of the structure was constructed prior to January 2, 1996. For the purposes of this paragraph, a structure shall be considered to be located in a transit zone if any portion of the structure lies within the zone. If any property once eligible for treatment under this paragraph ceases to remain eligible due to revisions in transit zone boundaries, the property shall continue to receive treatment under this paragraph for a period of three years.

Sec. 8. Minnesota Statutes 1996, section 273.13, subdivision 25, is amended to read:

Subd. 25. [CLASS 4.] (a) Class 4a is residential real estate containing four or more units and used or held for use by the owner or by the tenants or lessees of the owner as a residence for rental periods of 30 days or more. Class 4a also includes hospitals licensed under sections 144.50 to 144.56, other than hospitals exempt under section 272.02, and contiguous property used for hospital purposes, without regard to whether the property has been platted or subdivided. Class 4a property in a city with a population of 5,000 or less, that is (1) located outside of the metropolitan area, as defined in section 473.121, subdivision 2, or outside any county contiguous to the metropolitan area, and (2) whose city boundary is at least 15 miles from the boundary of any city with a population greater than 5,000 has a class rate of 2.3 percent of market value for taxes payable in 1996 and thereafter. All other class 4a property has a class rate of 3.4 2.9 percent of market value for taxes payable in 1996 and thereafter. For purposes of this paragraph, population has the same meaning given in section 477A.011, subdivision 3.

(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 section 273.13, subdivision 33.

Class 4b property has a class rate of ~~2.8~~ percent of market value for taxes payable in 1992, ~~2.5~~ percent of market value for taxes payable in 1993, and ~~2.3~~ 2.1 percent of market value for taxes payable in 1994 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 has a class rate of 1.9 percent on the first \$75,000 of market value and a class rate of 2.1 percent of its market value that exceeds \$75,000.

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.

(e) (d) Class 4c property includes:

(1) a structure that is:

(i) situated on real property that is used for housing for the elderly or for low- and moderate-income families as defined in Title II, as amended through December 31, 1990, of the National Housing Act or the Minnesota housing finance agency law of 1971, as amended, or rules promulgated by the agency and financed by a direct federal loan or federally insured loan made pursuant to Title II of the Act; or

(ii) situated on real property that is used for housing the elderly or for low- and moderate-income families as defined by the Minnesota housing finance agency law of 1971, as amended, or rules adopted by the agency pursuant thereto and financed by a loan made by the Minnesota housing finance agency pursuant to the provisions of the act.

This clause applies only to property of a nonprofit or limited dividend entity. Property is classified as class 4c under this clause for 15 years from the date of the completion of the original construction or substantial rehabilitation, or for the original term of the loan.

(2) a structure that is:

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

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

(3) a qualified low-income building as defined in section 42(c)(2) of the Internal Revenue Code of 1986, as amended through December 31, 1990, that (i) receives a low-income housing credit under section 42 of the Internal Revenue Code of 1986, as amended through December 31, 1990; or (ii) meets the requirements of that section and receives public financing, except financing provided under sections 469.174 to 469.179, which contains terms restricting the rents; or (iii) meets the requirements of section 273.1317. Classification pursuant to this clause is limited to a

term of 15 years. The public financing received must be from at least one of the following sources: government issued bonds exempt from taxes under section 103 of the Internal Revenue Code of 1986, as amended through December 31, 1993, the proceeds of which are used for the acquisition or rehabilitation of the building; programs under section 221(d)(3), 202, or 236, of Title II of the National Housing Act; rental housing program funds under Section 8 of the United States Housing Act of 1937 or the market rate family graduated payment mortgage program funds administered by the Minnesota housing finance agency that are used for the acquisition or rehabilitation of the building; public financing provided by a local government used for the acquisition or rehabilitation of the building, including grants or loans from federal community development block grants, HOME block grants, or residential rental bonds issued under chapter 474A; or other rental housing program funds provided by the Minnesota housing finance agency for the acquisition or rehabilitation of the building.

For all properties described in clauses (1), (2), and (3) and in paragraph (d), the market value determined by the assessor must be based on the normal approach to value using normal unrestricted rents unless the owner of the property elects to have the property assessed under Laws 1991, chapter 291, article 1, section 55. If the owner of the property elects to have the market value determined on the basis of the actual restricted rents, as provided in Laws 1991, chapter 291, article 1, section 55, the property will be assessed at the rate provided for class 4a or class 4b property, as appropriate. Properties described in clauses (1)(ii), (3), and (4) may apply to the assessor for valuation under Laws 1991, chapter 291, article 1, section 55. The land on which these structures are situated has the class rate given in paragraph (b) if the structure contains fewer than four units, and the class rate given in paragraph (a) if the structure contains four or more units. This clause applies only to the property of a nonprofit or limited dividend entity.

(4) a parcel of land, not to exceed one acre, and its improvements or a parcel of unimproved land, not to exceed one acre, if it is owned by a neighborhood real estate trust and at least 60 percent of the dwelling units, if any, on all land owned by the trust are leased to or occupied by lower income families or individuals. This clause does not apply to any portion of the land or improvements used for nonresidential purposes. For purposes of this clause, a lower income family is a family with an income that does not exceed 65 percent of the median family income for the area, and a lower income individual is an individual whose income does not exceed 65 percent of the median individual income for the area, as determined by the United States Secretary of Housing and Urban Development. For purposes of this clause, "neighborhood real estate trust" means an entity which is certified by the governing body of the municipality in which it is located to have the following characteristics:

- (a) it is a nonprofit corporation organized under chapter 317A;
- (b) it has as its principal purpose providing housing for lower income families in a specific geographic community designated in its articles or bylaws;
- (c) it limits membership with voting rights to residents of the designated community; and
- (d) it has a board of directors consisting of at least seven directors, 60 percent of whom are members with voting rights and, to the extent feasible, 25 percent of whom are elected by resident members of buildings owned by the trust; and

(5) 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 between Memorial Day weekend and Labor Day weekend and at least 60 percent of all bookings by lodging guests during the year must be for periods of at least two consecutive nights. Class 4c also includes commercial use real property used exclusively for recreational purposes in conjunction with class 4c property devoted to

temporary and seasonal residential occupancy for recreational purposes, up to a total of two acres, provided the property is not devoted to commercial recreational use for more than 250 days in the year preceding the year of assessment and is located within two miles of the class 4c property with which it is used. Class 4c property classified in this clause also includes the remainder of class 1c resorts. 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 first \$100,000 of the market value of the remainder of the cabins or units and a proportionate share of the land on which they are located shall have a class rate of three percent.~~ 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) any portion of the property is located within a county that has a population of less than 50,000, or within a county containing a golf course owned by a municipality or the county;

(ii) 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

(iii) 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.

~~(6)~~ (3) real property up to a maximum of one acre of land owned by a nonprofit community service oriented organization; provided that the property is not used for a revenue-producing activity for more than six days in the calendar year preceding the year of assessment and the property is not used for residential purposes on either a temporary or permanent basis. For purposes of this clause, a "nonprofit community service oriented organization" means any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, fraternal, civic, or educational purposes, and which is exempt from federal income taxation pursuant to section 501(c)(3), (10), or (19) of the Internal Revenue Code of 1986, as amended through December 31, 1990. For purposes of this clause, "revenue-producing activities" shall include but not be limited to property or that portion of the property that is used as an on-sale intoxicating liquor or 3.2 percent malt liquor establishment licensed under chapter 340A, a restaurant open to the public, bowling alley, a retail store, gambling conducted by organizations licensed under chapter 349, an insurance business, or office or other space leased or rented to a lessee who conducts a for-profit enterprise on the premises. Any portion of the property which is used for revenue-producing activities for more than six days in the calendar year preceding the year of assessment shall be assessed as class 3a. The use of the property for social events open exclusively to members and their guests for periods of less than 24 hours, when an admission is not charged nor any revenues are received by the organization shall not be considered a revenue-producing activity;

~~(7)~~ (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; and

(8) ~~(5)~~ manufactured home parks as defined in section 327.14, subdivision 3.

Class 4c property has a class rate of ~~2.3~~ 2.1 percent of market value, except that (i) for each parcel of seasonal residential recreational property not used for commercial purposes ~~under clause (5) the first \$72,000 \$75,000 of market value on each parcel has a class rate of 1.75 percent for taxes payable in 1997 and 1.5~~ 1.4 percent for taxes payable in 1998 and thereafter, and the market value of each parcel that exceeds \$72,000 \$75,000 has a class rate of 2.5 percent, and (ii) manufactured home parks assessed under clause ~~(8)~~ (5) have a class rate of two percent for taxes payable in 1996, and thereafter.

~~(d)~~ (e) Class 4d property includes:

~~(1)~~ a structure that is:

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

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

~~(iii) financed by a direct loan or insured loan from the Farmers Home Administration. Property is classified under this clause for 15 years from the date of the completion of the original construction or for the original term of the loan.~~

The class rates in paragraph (c), clauses (1), (2), and (3) and this clause apply to the properties described in them, only in proportion to occupancy of the structure by elderly or handicapped persons or low and moderate income families as defined in the applicable laws unless construction of the structure had been commenced prior to January 1, 1984; or the project had been approved by the governing body of the municipality in which it is located prior to June 30, 1983; or financing of the project had been approved by a federal or state agency prior to June 30, 1983. For those properties, 4c or 4d classification is available only for those units meeting the requirements of section 273.1318.

Classification under this clause is only available to property of a nonprofit or limited dividend entity.

In the case of a structure financed or refinanced under any federal or state mortgage insurance or direct loan program exclusively for housing for the elderly or for housing for the handicapped, a unit shall be considered occupied so long as it is actually occupied by an elderly or handicapped person or, if vacant, is held for rental to an elderly or handicapped person.

~~(2) For taxes payable in 1992, 1993, and 1994, only, buildings and appurtenances, together with the land upon which they are located, leased by the occupant under the community lending model lease purchase mortgage loan program administered by the Federal National Mortgage Association, provided the occupant's income is no greater than 60 percent of the county or area median income, adjusted for family size and the building consists of existing single family or duplex housing. The lease agreement must provide for a portion of the lease payment to be escrowed as a nonrefundable down payment on the housing. To qualify under this clause, the taxpayer must apply to the county assessor by May 30 of each year. The application must be accompanied by an affidavit or other proof required by the assessor to determine qualification under this clause.~~

~~(3) Qualifying buildings and appurtenances, together with the land upon which they are located, leased for a period of up to five years by the occupant under a lease purchase program administered by the Minnesota housing finance agency or a housing and redevelopment authority authorized under sections 469.001 to 469.047, provided the occupant's income is no greater than 80 percent of the county or area median income, adjusted for family size, and the building consists of two or less dwelling units. The lease agreement must provide for a portion of the lease payment to be escrowed as a nonrefundable down payment on the housing. The administering agency shall verify the occupants income eligibility and certify to the county assessor that the occupant meets the income criteria under this paragraph. To qualify under this clause, the taxpayer must apply to the county assessor by May 30 of each year. For purposes of this section, "qualifying buildings~~

and appurtenances" shall be defined as one or two unit residential buildings which are unoccupied and have been abandoned and boarded for at least six months 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 ~~two~~ one percent of market value ~~except that property classified under clause (3), shall have the same class rate as class 1a property.~~

~~(e) Residential rental property that would otherwise be assessed as class 4 property under paragraph (a); paragraph (b), clauses (1) and (3); paragraph (c), clause (1), (2), (3), or (4), is assessed at the class rate applicable to it under Minnesota Statutes 1988, section 273.13, if it is found to be a substandard building under section 273.1316. Residential rental property that would otherwise be assessed as class 4 property under paragraph (d) is assessed at 2.3 percent of market value if it is found to be a substandard building under section 273.1316.~~

(f) Class 4e property consists of the residential portion of any structure located within a city that was converted from nonresidential use to residential use, provided that:

- (1) the structure had formerly been used as a warehouse;
- (2) the structure was originally constructed prior to 1940;
- (3) the conversion was done after December 31, 1995, but before January 1, 2003; and
- (4) the conversion involved an investment of at least \$25,000 per residential unit.

Class 4e property has a class rate of 2.3 percent, provided that a structure is eligible for class 4e classification only in the 12 assessment years immediately following the conversion.

Sec. 9. Minnesota Statutes 1996, section 273.13, subdivision 31, is amended to read:

Subd. 31. [CLASS 5.] Class 5 property includes:

(1) tools, implements, and machinery of an electric generating, transmission, or distribution system or a pipeline system transporting or distributing water, gas, crude oil, or petroleum products or mains and pipes used in the distribution of steam or hot or chilled water for heating or cooling buildings, which are fixtures;

(2) unmined iron ore and low-grade iron-bearing formations as defined in section 273.14; and

(3) all other property not otherwise classified.

Class 5 property has a class rate of ~~5.06~~ 4.0 percent of market value for taxes payable in 1998 and thereafter.

Sec. 10. Minnesota Statutes 1996, section 273.13, subdivision 32, is amended to read:

Subd. 32. [TARGET CLASS RATE RATES.] (a) All classes of property with a class rate of ~~5.06~~ 4 percent have a target class rate of ~~four~~ 3.5 percent. Class 4a shall have a target class rate of 2.5 percent. Class 4bb has a target class rate of 1.25 percent of the first \$75,000 of market value and a target class rate of 1.85 percent of the market value in excess of \$75,000.

(b) By the fourth Tuesday in January of 1998 and at the time of submission of the biennial budget under section 16A.11 in each biennium thereafter, the governor shall must recommend the effective class rate schedule for all properties for taxes payable in 1999 for the schedule submitted in 1998 and for the following two calendar years by designating a "phase-in percentage," equal to the proportion of the effective class rate that will be based on the target class rate of four percent, with the remaining proportion based on the class rate of 5.06 percent in each biennium thereafter. The class rate schedule must include reductions in the class rates of the classes designated in

paragraph (a) until such time as the target class rates are reached unless the governor recommends no change in the class rate schedule for all properties. As part of the recommendation, the governor shall identify recommend appropriation of monies from the property tax reform account under section 16A.1521 and include within the budget additional funding for the increased expenditures for the education homestead and agricultural credit aid over the amount of expenditures for homestead and agricultural credit aid provided in Laws 1989, First Special Session chapter 1, that are estimated to result from the recommendation. At that time, the property tax refund under chapter 290A and education aids under chapters 124 and 124A to the extent those aids will be used to reduce property tax levies. The governor may propose alternative programs other than homestead and agricultural credit aid to prevent other taxpayers' the taxes of classes other than those designated in paragraph (a) from increasing as a result of the governor's recommended increase in the phase-in percentage. The effective net class rate is the sum of the products of:

- (1) the phase-in percentage adopted by the legislature multiplied by four percent; and
- (2) 100 percent minus the phase-in percentage multiplied by 5.06 percent.

The phase-in percentage in any year cannot be less than it was in the prior year. The phase-in percentage is ten percent for taxes payable in 1991, 29.2 percent for taxes payable in 1992, 34.0 percent for taxes payable in 1993, and 43.4 percent for taxes payable in 1994 and thereafter.

Beginning in 1991, the commissioner of revenue shall annually set the effective class rate to use for taxes payable in the following year as provided in this subdivision and announce it by June 1. For purposes of any aid, levy limitation, debt limit, or salary limitation, and property tax administration, net tax capacity must be computed with reference to the effective class rate for the properties affected by this subdivision class rate schedule.

Sec. 11. [273.1319] [SINGLE FAMILY HOUSING; NONCOMPLIANCE; MINNEAPOLIS AND ST. PAUL.]

(a) If the city determines that a residential rental property classified as class 4bb under section 273.13, subdivision 25, is not in compliance with the city's applicable rental licensing requirements and housing codes, the city shall notify the property owner of the specific items that are not in compliance. The owner has 60 days to correct the noncompliance items identified by the city. If they have not been corrected within the 60-day time period to the satisfaction of the city, the city shall notify the assessor that the property is out of compliance and is no longer eligible for the class 4bb property classification. Notwithstanding any other provision of law, the assessor shall reclassify the property for the current assessment year, for taxes payable in the following year as class 4b property. The assessor shall notify the property owner of the action.

(b) This section applies only to property located in the cities of Minneapolis and St. Paul.

(c) This section is effective for each of the cities of Minneapolis and St. Paul upon compliance with Minnesota Statutes, section 645.021, subdivision 3, by the governing body of the city.

Sec. 12. [273.1382] [EDUCATION HOMESTEAD CREDIT.]

Subdivision 1. [EDUCATION HOMESTEAD CREDIT.] Each year, beginning with property taxes payable in 1998, the respective county auditors shall determine the local tax rate for each school district for the general education levy certified under section 124A.23, subdivision 2 or 3. That rate shall be the general education homestead credit local tax rate for the district. The auditor shall then determine a general education homestead credit for each homestead within the county equal to 32 percent of the general education homestead credit local tax rate times the net tax capacity of the homestead for the taxes payable year. The amount of general education homestead credit for a homestead may not exceed \$225. In the case of an agricultural homestead, only the net tax capacity of the house, garage, and surrounding one acre of land shall be used in determining the property's education homestead credit.

Subd. 2. [CREDIT REIMBURSEMENTS.] (a) The commissioner of revenue shall determine the tax reductions allowed under this section for each taxes payable year, and for each school

district based upon a review of the abstracts of tax lists submitted by the county auditors under section 275.29, and from any other information which the commissioner deems relevant. The commissioner of revenue shall generally compute the tax reductions at the unique taxing jurisdiction level, however the commissioner may compute the tax reductions at a higher geographic level if that would have a negligible impact, or if changes in the composition of unique taxing jurisdictions do not permit computation at the unique taxing jurisdiction level. The commissioner's determinations under this paragraph are not rules.

(b) The commissioner of revenue shall certify the total of the tax reductions granted under this section for each taxes payable year within each school district to the commissioner of children, families, and learning after July 1 and on or before August 1 of the taxes payable year. The commissioner of children, families, and learning shall reimburse each affected school district for the amount of the property tax reductions allowed under this section as provided in section 273.1392. The commissioner of children, families, and learning shall treat the reimbursement payments as entitlements for the same state fiscal year as certified, including with each district's initial payment all amounts that would have been paid up to that date, computed as if 90 percent of the annual reimbursement amount for the district were being paid one-twelfth in each month of the fiscal year.

Subd. 3. [APPROPRIATION.] An amount sufficient to make the payments required by this section is annually appropriated from the general fund to the commissioner of children, families, and learning.

Sec. 13. Minnesota Statutes 1996, section 273.1393, is amended to read:

273.1393 [COMPUTATION OF NET PROPERTY TAXES.]

Notwithstanding any other provisions to the contrary, "net" property taxes are determined by subtracting the credits in the order listed from the gross tax:

- (1) disaster credit as provided in section 273.123;
- (2) powerline credit as provided in section 273.42;
- (3) agricultural preserves credit as provided in section 473H.10;
- (4) enterprise zone credit as provided in section 469.171;
- (5) disparity reduction credit;
- (6) conservation tax credit as provided in section 273.119;
- (7) education homestead credit as provided in section 273.1382;
- (8) taconite homestead credit as provided in section 273.135; and
- ~~(8)~~ (9) supplemental homestead credit as provided in section 273.1391.

The combination of all property tax credits must not exceed the gross tax amount.

Sec. 14. Minnesota Statutes 1996, section 290A.03, subdivision 13, is amended to read:

Subd. 13. [PROPERTY TAXES PAYABLE.] "Property taxes payable" means the property tax exclusive of special assessments, penalties, and interest payable on a claimant's homestead ~~before reductions made under section 273.13 but~~ after deductions made under sections 273.135, 273.1391, 273.1382, 273.42, subdivision 2, and any other state paid property tax credits in any calendar year. In the case of a claimant who makes ground lease payments, "property taxes payable" includes the amount of the payments directly attributable to the property taxes assessed against the parcel on which the house is located. No apportionment or reduction of the "property taxes payable" shall be required for the use of a portion of the claimant's homestead for a business purpose if the claimant does not deduct any business depreciation expenses for the use of a portion of the homestead in the determination of federal adjusted gross income. For homesteads which are

manufactured homes as defined in section 273.125, subdivision 8, and for homesteads which are park trailers taxed as manufactured homes under section 168.012, subdivision 9, "property taxes payable" shall also include the amount of the gross rent paid in the preceding year for the site on which the homestead is located, which is attributable to the net tax paid on the site. The amount attributable to property taxes shall be determined by multiplying the net tax on the parcel by a fraction, the numerator of which is the gross rent paid for the calendar year for the site and the denominator of which is the gross rent paid for the calendar year for the parcel. When a homestead is owned by two or more persons as joint tenants or tenants in common, such tenants shall determine between them which tenant may claim the property taxes payable on the homestead. If they are unable to agree, the matter shall be referred to the commissioner of revenue whose decision shall be final. Property taxes are considered payable in the year prescribed by law for payment of the taxes.

In the case of a claim relating to "property taxes payable," the claimant must have owned and occupied the homestead on January 2 of the year in which the tax is payable and (i) the property must have been classified as homestead property pursuant to section 273.13, subdivision 22 or 23, on or before December 15 of the assessment year to which the "property taxes payable" relate; or (ii) the claimant must provide documentation from the local assessor that application for homestead classification has been made on or before December 15 of the year in which the "property taxes payable" were payable and that the assessor has approved the application.

Sec. 15. [462A.071] [CERTIFICATION OF HOUSING QUALIFYING FOR REDUCED PROPERTY TAX RATE.]

Subdivision 1. [CERTIFICATION.] By June 30 of each year, the agency must certify to local assessors the units of low-income rental properties that qualify for class 4d under sections 273.126 and 273.13. In making these certifications, the agency may rely on the application and supporting information supplied by the property owner as to compliance with the income limits under section 273.126, subdivision 2, and satisfaction of the minimum housing quality standards under subdivision 4.

Subd. 2. [APPLICATION.] (a) In order to qualify for certification under subdivision 1, the owner or manager of the property must annually apply to the agency. The application must be in the form prescribed by the agency, contain the information required by the agency, and be submitted by the date and time specified by the agency.

(b) Each application must include:

(1) the property tax identification number;

(2) the number, type, and size of units the applicant seeks to qualify as low-income housing under class 4d;

(3) the number, type, and size of units in the property for which the applicant is not seeking qualification, if any;

(4) a certification that the property has been inspected by a qualified inspector within the past three years and meets the minimum housing quality standards or is exempt from the inspection requirement under subdivision 4;

(5) a statement indicating the building is in compliance with the income limits;

(6) an executed agreement to restrict rents meeting the requirements specified by the agency or executed leases for the units for which qualification as low-income housing as class 4d under section 273.13 is sought and the rent schedule; and

(7) any additional information the agency deems appropriate to require.

(c) The applicant must pay a per-unit application fee to be set by the agency. The application fee charged by the agency must approximately equal the costs of processing and reviewing the applications. The fee must be deposited in the general fund.



Subd. 3. [AGREEMENT TO RESTRICT RENTS.] The agency may prescribe one or more standard form agreements to restrict rents that meet the requirements of section 273.126, subdivision 3. The agreements must be in recordable form. The agency may require applicants to execute a rent restriction agreement in this form as a condition of entering an agreement to restrict rents.

Subd. 4. [MINIMUM HOUSING QUALITY STANDARDS.] (a) To qualify for taxation under class 4d under section 273.13, a unit must meet both the housing maintenance code of the local unit of government in which the unit is located, if such a code has been adopted, and the housing quality standards adopted by the United States Department of Housing and Urban Development.

(b) In order to meet the minimum housing quality standards, a building must be inspected by an independent designated inspector at least once every three years. The inspector must certify that the building complies with the minimum standards. The property owner must pay the cost of the inspection.

(c) The agency may exempt from the inspection requirement housing units that are financed by a governmental entity and subject to regular inspection or other compliance checks with regard to minimum housing quality. Written certification must be supplied to show that these exempt units have been inspected within the last three years and comply with the requirements under the public financing or local requirements.

Subd. 5. [HOUSING INSPECTORS.] (a) Housing inspections required by this section may be conducted only by persons designated by the agency. The agency may designate one or more persons to conduct inspections for all or part of the state. A designated inspector may charge a fee for an inspection up to a maximum amount approved by the agency. The inspector must be independent of the owner or manager of the inspected property.

(b) The agency must maintain a list of persons eligible to conduct housing inspections under this section.

Subd. 6. [SECTION 8 AND TAX CREDIT UNITS.] (a) The agency may deem units as meeting the requirements of section 273.126 and this section, if the units either:

(1) are subject to a housing assistance payments contract under section 8 of the United States Housing Act of 1937, as amended; or

(2) are rent and income restricted units of a qualified low-income housing project receiving tax credits under section 42(g) of the Internal Revenue Code of 1986, as amended.

(b) The agency may certify these deemed units under subdivision 1 based on a simplified application procedure that verifies the unit's qualifications under paragraph (a).

Subd. 7. [MONITORING COMPLIANCE.] (a) The agency must monitor compliance by building owners with the requirements of section 273.126 and this section. The agency must annually conduct on-site examinations of a sample of the buildings receiving class 4d taxation to monitor compliance. The agency may contract with third parties to monitor compliance.

(b) An inspector, designated by the agency under subdivision 5, shall notify the agency if, in conducting an inspection under subdivision 4, the inspector finds that:

(1) a unit is receiving class 4d taxation;

(2) the unit is not in compliance with the requirements of subdivision 4; and

(3) the owner or manager fails or refuses to cure the violations within a reasonable time after receiving notification of the violation.

Subd. 8. [PENALTIES.] (a) The penalties provided by this subdivision apply to each unit that received class 4d taxation for a year and failed to meet the requirements of section 273.126 and this section.

(b) If the owner or manager does not comply with the rent restriction agreement, or does not comply with the income restrictions or minimum housing quality standards, a penalty applies equal to the increased taxes that would have been imposed if the property had not been classified under class 4d for the year in which restrictions were violated.

(c) If the agency finds that the violations were inadvertent and insubstantial, a penalty of \$50 per unit per year applies in lieu of the penalty specified under paragraph (b). In order to qualify under this paragraph, violations of the minimum housing quality standards must be corrected within a reasonable period of time and rent charged in excess of the agreement must be rebated to the tenants.

(d) The agency may abate the penalties under this subdivision for reasonable cause.

(e) Penalties assessed under paragraph (c) are payable to the agency and must be deposited in the general fund. If an owner or manager fails to timely pay a penalty imposed under paragraph (c), the agency may choose to:

(1) impose the penalty under paragraph (b); or

(2) certify the penalty under paragraph (c) to the auditor for collection as additional taxes.

The agency shall certify to the county auditor penalties assessed under paragraph (b) and clause (2). The auditor shall impose and collect the certified penalties as additional taxes which will be distributed to taxing districts in the same manner as property taxes on the property.

Subd. 9. [TAX COURT REVIEW.] (a) An owner may appeal to tax court as provided in section 271.06:

(1) a denial of a request for certification of a property as qualifying for class 4d taxation;

(2) imposition of a penalty under this section; or

(3) denial of a request to abate a penalty.

(b) The county attorney shall represent the public in opposing the appeal.

Subd. 10. [INTERAGENCY CONTRACTING AUTHORITY.] The agency may contract with the department of revenue or any other state agency or a private entity to carry out administrative functions under this section.

Subd. 11. [RULEMAKING.] (a) The agency may adopt administrative rules under chapter 14 to carry out the provisions of this section, including establishing standards for abating penalties, violations that are inadvertent and insubstantial, selection of inspectors, selection of persons to monitor compliance, and establishing rent restriction agreement terms.

(b) Pending final rulemaking, and in order to implement this section by January 1, 1998, the agency shall be allowed to make determinations regarding selection of inspectors, rent restriction agreement terms, fees, application information, application deadlines, required documentation, exemptions from inspection requirements, and deeming of eligibility. Any determinations adopted under this authority expire on January 1, 1999.

Sec. 16. [PROPERTY TAX REBATE.]

(a) A credit is allowed against the tax imposed on an individual under Minnesota Statutes, chapter 290 equal to 20 percent of the qualified property tax paid in calendar year 1997 for taxes assessed in 1996.

(b) For property owned and occupied by the taxpayer, qualified tax means property taxes payable as defined in Minnesota Statutes, section 290A.03, subdivision 13, assessed in 1996 and payable in 1997.

(c) For a renter, the qualified property tax means the amount of rent constituting property taxes

under Minnesota Statutes, section 290A.03, subdivision 11, based on rent paid in 1997. If two or more renters could be claimants under Minnesota Statutes, chapter 290A with regard to the rent constituting property taxes, the rules under Minnesota Statutes, section 290A.03, subdivision 8, paragraph (f), applies to determine the amount of the credit for the individual.

(d) For an individual who both owned and rented principal residences in calendar year 1997, qualified taxes are the sum of the amounts under paragraphs (a) and (b).

(e) If the amount of the credit under this subdivision exceeds the taxpayer's tax liability under this chapter, the commissioner shall refund the excess.

(f) To claim a credit under this subdivision, the taxpayer must attach a copy of the property tax statement and certificate of rent paid, as applicable, and provide any additional information the commissioner requires.

(g) An amount sufficient to pay refunds under this subdivision is appropriated to the commissioner from the general fund.

(h) This credit applies to taxable years beginning after December 31, 1996, and before January 1, 1998.

#### Sec. 17. [GENERAL EDUCATION LEVY REDUCTION.]

Notwithstanding the provisions of Minnesota Statutes, section 124A.23, subdivision 1, the general education levy shall be reduced by \$93,000,000 for taxes payable in 1998 and subsequent years. The amount necessary to offset the costs of the levy reductions contained in this section is annually appropriated from the general fund to the commissioner of children, families, and learning.

#### Sec. 18. [TEMPORARY EXEMPTIONS FROM INSPECTION REQUIREMENTS.]

(a) The Minnesota housing finance agency may provide a temporary exemption to the inspection requirement under Minnesota Statutes, sections 273.126, subdivision 4, and 462A.071, if the agency finds that:

(1) the property owner made a good faith effort to obtain an inspection; and

(2) the owner was unable to obtain an inspection in time to apply because the designated inspectors were unable to conduct all the requested inspections.

(b) If a unit that is exempted under this section does not ultimately obtain a certification from a designated inspector that it is in compliance with the minimum housing quality standards, the additional taxes under Minnesota Statutes, section 273.126, subdivision 5, apply.

(c) Procedures or rules for granting exemptions under this section are not subject to the administrative rulemaking under Minnesota Statutes, chapter 14.

(d) The authority under this section expires December 31, 2000.

#### Sec. 19. [TIF GRANTS; APPROPRIATIONS.]

Subdivision 1. [TIF GRANTS.] (a) The commissioner of revenue shall pay grants to municipalities for deficits in tax increment financing districts caused by the changes in class rates under this act. Municipalities must submit applications for the grants in a form prescribed by the commissioner by no later than March 1 for grants payable during the calendar year. The maximum grant equals the lesser of:

(1) for taxes payable in the year before the grant is paid, the reduction in the tax increment financing district's revenues derived from increment resulting from the class rate changes in this article; or

(2) the municipality's total tax increments, including unspent increments from previous years,

less the amount due during the calendar year to pay (i) bonds issued and sold before the day following final enactment of this act and (ii) binding contracts entered into before the day following final enactment of this act.

(b) The commissioner of revenue may require applicants for grants or pooling authority under this section to provide any information the commissioner deems appropriate. The commissioner shall calculate the amount under paragraph (a), clause (2), based on the reports for the tax increment financing district or districts filed with the state auditor on or before July 1 of the year before the year in which the grant is to be paid.

(c) This subdivision applies only to deficits in tax increment financing districts for which:

(1) the request for certification was made before the enactment date of this act; and

(2) all timely reports have been filed with the state auditor, as required by Minnesota Statutes, section 469.175.

(d) The commissioner shall pay the grants under this subdivision by December 26 of the year.

(e) \$2,000,000 is appropriated to the commissioner of revenue to make grants under this section. This appropriation is available until expended or this section expires under subdivision 3, whichever is earlier. If the amount of grant entitlements for a year exceed the appropriation, the commissioner shall reduce each grant proportionately so the total equals the amount available.

Subd. 2. [ADDITIONAL POOLING AUTHORITY.] Notwithstanding the provisions of Minnesota Statutes, section 469.1763, subdivision 2, and the provisions of the tax increment financing act in effect for districts for which the request for certification was made before June 30, 1982, revenues derived from increments may be spent on activities located outside of the district to pay binding obligations entered into before the day following final enactment. The amount qualifying under this subdivision to be spent outside the district is limited to an amount necessary to meet a binding obligation of the other district that cannot be paid by the other district because of the reduction in class rates under this section. Use of increments under this authority must be approved, in writing, by the commissioner of revenue.

Subd. 3. [EXPIRATION.] This section expires on January 1, 2001.

Sec. 20. [APPROPRIATION.]

(a) \$450,000 is appropriated for fiscal year 1998 from the general fund to the housing finance agency for purposes of administering the certification of qualifying low-income residential properties for property taxation under class 4d.

The cost ceiling for the Minnesota housing finance agency, as otherwise provided by legislation enacted in 1997 without regard to whether the legislation is enacted before or after this act, is increased by \$142,000 for fiscal year 1998 and by \$118,000 for fiscal year 1999.

(b) \$15,300,000 is appropriated from the general fund to the commissioner of children, families, and learning for fiscal year 1999 for alternative facilities aid under section 3.

Sec. 21. [REPEALER.]

(a) Minnesota Statutes, section 124.2134, is repealed.

(b) Minnesota Statutes, sections 273.1317; and 273.1318, are repealed.

Sec. 22. [EFFECTIVE DATES.]

Sections 1, 2, 5, 6, 7, 8, 9, 11, 12, 13, 14, 17, and 21, paragraph (a), are effective for taxes levied in 1997, payable in 1998 and subsequent years, except that the low-income housing provisions in class 4c and 4d are effective for taxes payable in 1999 and thereafter and the provisions in sections 6 and 8 relating to class 1c and 4c seasonal residential property that specify percentages of lodging receipts and bookings of at least two consecutive nights are effective for taxes payable in 1999 and thereafter.

Sections 4, 15, and 21, paragraph (b), are effective for taxes payable in 1999 and subsequent years.

Sections 3 and 20 are effective July 1, 1997.

Section 19 is effective for taxes payable in 1998, 1999, and 2000.

ARTICLE 2  
PROPERTY TAX

Section 1. Minnesota Statutes 1996, section 69.021, subdivision 7, is amended to read:

Subd. 7. [APPORTIONMENT OF FIRE STATE AID TO MUNICIPALITIES AND RELIEF ASSOCIATIONS.] (a) The commissioner shall apportion the fire state aid relative to the premiums reported on the Minnesota Firetown Premium Reports filed under this chapter to each municipality and/or firefighters' relief association.

(b) The commissioner shall calculate an initial fire state aid allocation amount for each municipality or fire department under paragraph (c) and a minimum fire state aid allocation amount for each municipality or fire department under paragraph (d). The municipality or fire department must receive the larger fire state aid amount.

(c) The initial fire state aid allocation amount is the amount available for apportionment as fire state aid under subdivision 5, without inclusion of any additional funding amount to support a minimum fire state aid amount under section 423A.02, subdivision 3, allocated one-half in proportion to the population as shown in the last official statewide federal census for each fire town and one-half in proportion to the market value of each fire town, including (1) the market value of tax exempt property and (2) the market value of natural resources lands receiving in lieu payments under sections 477A.11 to 477A.14, but excluding the market value of minerals. In the case of incorporated or municipal fire departments furnishing fire protection to other cities, towns, or townships as evidenced by valid fire service contracts filed with the commissioner, the distribution must be adjusted proportionately to take into consideration the crossover fire protection service. Necessary adjustments shall be made to subsequent apportionments. In the case of municipalities or independent fire departments qualifying for the aid, the commissioner shall calculate the state aid for the municipality or relief association on the basis of the population and the market value of the area furnished fire protection service by the fire department as evidenced by duly executed and valid fire service agreements filed with the commissioner. If one or more fire departments are furnishing contracted fire service to a city, town, or township, only the population and market value of the area served by each fire department may be considered in calculating the state aid and the fire departments furnishing service shall enter into an agreement apportioning among themselves the percent of the population and the market value of each service area. The agreement must be in writing and must be filed with the commissioner.

(d) The minimum fire state aid allocation amount is the amount in addition to the initial fire state allocation amount that is derived from any additional funding amount to support a minimum fire state aid amount under section 423A.02, subdivision 3, and allocated to municipalities with volunteer firefighter relief associations based on the number of active volunteer firefighters who are members of the relief association as reported in the annual financial reporting for the calendar year 1993 to the office of the state auditor, but not to exceed 30 active volunteer firefighters, so that all municipalities or fire departments with volunteer firefighter relief associations receive in total at least a minimum fire state aid amount per 1993 active volunteer firefighter to a maximum of 30 firefighters.

(e) The fire state aid must be paid to the treasurer of the municipality where the fire department is located and the treasurer of the municipality shall, within 30 days of receipt of the fire state aid, transmit the aid to the relief association if the relief association has filed a financial report with the treasurer of the municipality and has met all other statutory provisions pertaining to the aid apportionment.

(f) The commissioner may make rules to permit the administration of the provisions of this

section. Any adjustments needed to correct prior misallocations must be made to subsequent apportionments.

Sec. 2. Minnesota Statutes 1996, section 103D.905, subdivision 4, is amended to read:

Subd. 4. [BOND FUND.] A bond fund consists of the proceeds of special assessments, storm water charges, loan repayments, and ad valorem tax levies pledged by the watershed district for the payment of bonds or notes issued by the watershed district secured by the property of the watershed district that is producing or is likely to produce a regular income. The bond fund is to be used for the payment of the purchase price of the property or the value of the property as determined by the court in proper proceedings and for the improvement and development of the property principal of, premium or administrative surcharge, if any, and interest on the bonds and notes issued by the watershed district and for payments required to be made to the federal government under section 148(f) of the Internal Revenue Code of 1986, as amended through December 31, 1996.

Sec. 3. Minnesota Statutes 1996, section 103D.905, subdivision 5, is amended to read:

Subd. 5. [CONSTRUCTION OR IMPLEMENTATION FUND.] (a) A construction or implementation fund consists of:

(1) the proceeds of watershed district bonds or notes or of the sale of county bonds;

(2) construction or implementation loans from the pollution control agency under sections 103F.701 to 103F.761, or from any agency of the federal government; and

(3) special assessments, storm water charges, loan repayments, and ad valorem tax levies levied or to be levied to supply funds for the construction or implementation of the projects of the watershed district, including reservoirs, ditches, dikes, canals, channels, storm water facilities, sewage treatment facilities, wells, and other works, and the expenses incident to and connected with the construction or implementation.

(b) Construction or implementation loans from the pollution control agency under sections 103F.701 to 103F.761, or from an agency of the federal government may be repaid from money collected by the proceeds of watershed district bonds or notes or from the collections of storm water charges, loan repayments, ad valorem tax levies, or special assessments on properties benefited by the project.

Sec. 4. Minnesota Statutes 1996, section 103D.905, is amended by adding a subdivision to read:

Subd. 9. [PROJECT TAX LEVY.] In addition to other tax levies provided in this section or in any other law, a watershed district may levy a tax:

(1) to pay the costs of projects undertaken by the watershed district which are to be funded, in whole or in part, with the proceeds of grants or construction or implementation loans under sections 103F.701 to 103F.761;

(2) to pay the principal of, or premium or administrative surcharge, if any, and interest on, the bonds and notes issued by the watershed district pursuant to section 103F.725; or

(3) to repay the construction or implementation loans under sections 103F.701 to 103F.761.

Taxes levied with respect to payment of bonds and notes shall comply with section 475.61.

Sec. 5. Minnesota Statutes 1996, section 216B.16, is amended by adding a subdivision to read:

Subd. 6d. [WIND ENERGY; PROPERTY TAX.] An owner of a wind energy conversion facility which is required to pay property taxes under section 272.02, subdivision 1, paragraph (21), or a public utility regulated by the public utilities commission which purchases the wind generated electricity may petition the commission to include in any power purchase agreement between the owner of the facility and the public utility the amount of property taxes paid by the

owner of the facility. The public utilities commission shall require the public utility to amend the power purchase agreement to include the property taxes paid by the owner of the facility in the price paid by the utility for wind generated electricity if the commission finds:

- (a) the owner of the facility has paid the property taxes required by this subdivision;
- (b) the power purchase agreement between the public utility and the owner does not already require the utility to pay the amount of property taxes the owner has paid under this subdivision; and
- (c) the commission has approved a rate schedule containing provisions for the automatic adjustment of charges for utility service in direct relation to the charges ordered by the commission under section 272.02, subdivision 1, paragraph (21).

Sec. 6. Minnesota Statutes 1996, 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 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 ~~and to the county board of equalization~~, except for those taxpayers whose original assessments are determined by the commissioner of revenue. The tax court shall have no jurisdiction in any case involving an order of the state board of equalization unless a taxpayer contests the valuation of property. 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.

Sec. 7. Minnesota Statutes 1996, section 272.02, subdivision 1, is amended to read:

Subdivision 1. All property described in this section to the extent herein limited shall be exempt from taxation:

- (1) All public burying grounds.
- (2) All public schoolhouses.
- (3) All public hospitals.
- (4) All academies, colleges, and universities, and all seminaries of learning.
- (5) All churches, church property, and houses of worship.
- (6) Institutions of purely public charity except parcels of property containing structures and the structures described in section 273.13, subdivision 25, paragraph (c), clauses (1), (2), and (3), or paragraph (d), other than those that qualify for exemption under clause (25).
- (7) All public property exclusively used for any public purpose.

(8) Except for the taxable personal property enumerated below, all personal property and the property described in section 272.03, subdivision 1, paragraphs (c) and (d), shall be exempt.

The following personal property shall be taxable:

(a) personal property which is part of an electric generating, transmission, or distribution system or a pipeline system transporting or distributing water, gas, crude oil, or petroleum products or mains and pipes used in the distribution of steam or hot or chilled water for heating or cooling buildings and structures;

(b) railroad docks and wharves which are part of the operating property of a railroad company as defined in section 270.80;

(c) personal property defined in section 272.03, subdivision 2, clause (3);

(d) leasehold or other personal property interests which are taxed pursuant to section 272.01, subdivision 2; 273.124, subdivision 7; or 273.19, subdivision 1; or any other law providing the property is taxable as if the lessee or user were the fee owner;

(e) manufactured homes and sectional structures, including storage sheds, decks, and similar removable improvements constructed on the site of a manufactured home, sectional structure, park trailer or travel trailer as provided in section 273.125, subdivision 8, paragraph (f); and

(f) flight property as defined in section 270.071.

(9) Personal property used primarily for the abatement and control of air, water, or land pollution to the extent that it is so used, and real property which is used primarily for abatement and control of air, water, or land pollution as part of an agricultural operation, as a part of a centralized treatment and recovery facility operating under a permit issued by the Minnesota pollution control agency pursuant to chapters 115 and 116 and Minnesota Rules, parts 7001.0500 to 7001.0730, and 7045.0020 to 7045.1260, as a wastewater treatment facility and for the treatment, recovery, and stabilization of metals, oils, chemicals, water, sludges, or inorganic materials from hazardous industrial wastes, or as part of an electric generation system. For purposes of this clause, personal property includes ponderous machinery and equipment used in a business or production activity that at common law is considered real property.

Any taxpayer requesting exemption of all or a portion of any real property or any equipment or device, or part thereof, operated primarily for the control or abatement of air or water pollution shall file an application with the commissioner of revenue. The equipment or device shall meet standards, rules, or criteria prescribed by the Minnesota pollution control agency, and must be installed or operated in accordance with a permit or order issued by that agency. The Minnesota pollution control agency shall upon request of the commissioner furnish information or advice to the commissioner. On determining that property qualifies for exemption, the commissioner shall issue an order exempting the property from taxation. The equipment or device shall continue to be exempt from taxation as long as the permit issued by the Minnesota pollution control agency remains in effect.

(10) Wetlands. For purposes of this subdivision, "wetlands" means: (i) land described in section 103G.005, subdivision 15a; (ii) land which is mostly under water, produces little if any income, and has no use except for wildlife or water conservation purposes, provided it is preserved in its natural condition and drainage of it would be legal, feasible, and economically practical for the production of livestock, dairy animals, poultry, fruit, vegetables, forage and grains, except wild rice; or (iii) land in a wetland preservation area under sections 103F.612 to 103F.616. "Wetlands" under items (i) and (ii) include adjacent land which is not suitable for agricultural purposes due to the presence of the wetlands, but do not include woody swamps containing shrubs or trees, wet meadows, meandered water, streams, rivers, and floodplains or river bottoms. Exemption of wetlands from taxation pursuant to this section shall not grant the public any additional or greater right of access to the wetlands or diminish any right of ownership to the wetlands.

(11) Native prairie. The commissioner of the department of natural resources shall determine lands in the state which are native prairie and shall notify the county assessor of each county in



which the lands are located. Pasture land used for livestock grazing purposes shall not be considered native prairie for the purposes of this clause. Upon receipt of an application for the exemption provided in this clause for lands for which the assessor has no determination from the commissioner of natural resources, the assessor shall refer the application to the commissioner of natural resources who shall determine within 30 days whether the land is native prairie and notify the county assessor of the decision. Exemption of native prairie pursuant to this clause shall not grant the public any additional or greater right of access to the native prairie or diminish any right of ownership to it.

(12) Property used in a continuous program to provide emergency shelter for victims of domestic abuse, provided the organization that owns and sponsors the shelter is exempt from federal income taxation pursuant to section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1992, notwithstanding the fact that the sponsoring organization receives funding under section 8 of the United States Housing Act of 1937, as amended.

(13) If approved by the governing body of the municipality in which the property is located, property not exceeding one acre which is owned and operated by any senior citizen group or association of groups that in general limits membership to persons age 55 or older and is organized and operated exclusively for pleasure, recreation, and other nonprofit purposes, no part of the net earnings of which inures to the benefit of any private shareholders; provided the property is used primarily as a clubhouse, meeting facility, or recreational facility by the group or association and the property is not used for residential purposes on either a temporary or permanent basis.

(14) To the extent provided by section 295.44, real and personal property used or to be used primarily for the production of hydroelectric or hydromechanical power on a site owned by the state or a local governmental unit which is developed and operated pursuant to the provisions of section 103G.535.

(15) If approved by the governing body of the municipality in which the property is located, and if construction is commenced after June 30, 1983:

(a) a "direct satellite broadcasting facility" operated by a corporation licensed by the federal communications commission to provide direct satellite broadcasting services using direct broadcast satellites operating in the 12-ghz. band; and

(b) a "fixed satellite regional or national program service facility" operated by a corporation licensed by the federal communications commission to provide fixed satellite-transmitted regularly scheduled broadcasting services using satellites operating in the 6-ghz. band.

An exemption provided by clause (15) shall apply for a period not to exceed five years. When the facility no longer qualifies for exemption, it shall be placed on the assessment rolls as provided in subdivision 4. Before approving a tax exemption pursuant to this paragraph, the governing body of the municipality shall provide an opportunity to the members of the county board of commissioners of the county in which the facility is proposed to be located and the members of the school board of the school district in which the facility is proposed to be located to meet with the governing body. The governing body shall present to the members of those boards its estimate of the fiscal impact of the proposed property tax exemption. The tax exemption shall not be approved by the governing body until the county board of commissioners has presented its written comment on the proposal to the governing body or 30 days have passed from the date of the transmittal by the governing body to the board of the information on the fiscal impact, whichever occurs first.

(16) Real and personal property owned and operated by a private, nonprofit corporation exempt from federal income taxation pursuant to United States Code, title 26, section 501(c)(3), primarily used in the generation and distribution of hot water for heating buildings and structures.

(17) Notwithstanding section 273.19, state lands that are leased from the department of natural resources under section 92.46.

(18) Electric power distribution lines and their attachments and appurtenances, that are used primarily for supplying electricity to farmers at retail.

(19) Transitional housing facilities. "Transitional housing facility" means a facility that meets the following requirements. (i) It provides temporary housing to individuals, couples, or families. (ii) It has the purpose of reuniting families and enabling parents or individuals to obtain self-sufficiency, advance their education, get job training, or become employed in jobs that provide a living wage. (iii) It provides support services such as child care, work readiness training, and career development counseling; and a self-sufficiency program with periodic monitoring of each resident's progress in completing the program's goals. (iv) It provides services to a resident of the facility for at least three months but no longer than three years, except residents enrolled in an educational or vocational institution or job training program. These residents may receive services during the time they are enrolled but in no event longer than four years. (v) It is owned and operated or under lease from a unit of government or governmental agency under a property disposition program and operated by one or more organizations exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1992. This exemption applies notwithstanding the fact that the sponsoring organization receives financing by a direct federal loan or federally insured loan or a loan made by the Minnesota housing finance agency under the provisions of either Title II of the National Housing Act or the Minnesota housing finance agency law of 1971 or rules promulgated by the agency pursuant to it, and notwithstanding the fact that the sponsoring organization receives funding under Section 8 of the United States Housing Act of 1937, as amended.

(20) Real and personal property, including leasehold or other personal property interests, owned and operated by a corporation if more than 50 percent of the total voting power of the stock of the corporation is owned collectively by: (i) the board of regents of the University of Minnesota, (ii) the University of Minnesota Foundation, an organization exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1992, and (iii) a corporation organized under chapter 317A, which by its articles of incorporation is prohibited from providing pecuniary gain to any person or entity other than the regents of the University of Minnesota; which property is used primarily to manage or provide goods, services, or facilities utilizing or relating to large-scale advanced scientific computing resources to the regents of the University of Minnesota and others.

~~(21)(a) Small scale wind energy conversion systems, as defined in section 216C.06, subdivision 12, installed after January 1, 1991, and before January 2, 1995, and used as an electric power source, are exempt.~~

~~(b) "Small scale wind energy conversion systems" are wind energy conversion systems, as defined in section 216C.06, subdivision 12, installed after January 1, 1995, including the foundation or support pad, which are (i) used as an electric power source; (ii) located within one county and owned by the same owner; and (iii) produce two megawatts or less of electricity as measured by nameplate ratings, are exempt.~~

~~(e) (b) Medium scale wind energy conversion systems, as defined in section 216C.06, subdivision 12, installed after January 1, 1995 1991, and used as an electric power source but not exempt under item (b), 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 are: (i) used as an electric power source; (ii) 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 are: (i) used as an electric power source; and (ii) produce more than 12 megawatts of energy as measured by nameplate ratings.~~

(22) Containment tanks, cache basins, and that portion of the structure needed for the containment facility used to confine agricultural chemicals as defined in section 18D.01, subdivision 3, as required by the commissioner of agriculture under chapter 18B or 18C.

(23) Photovoltaic devices, as defined in section 216C.06, subdivision 13, installed after January 1, 1992, and used to produce or store electric power.

(24) Real and personal property owned and operated by a private, nonprofit corporation exempt from federal income taxation pursuant to United States Code, title 26, section 501(c)(3), primarily used for an ice arena or ice rink, and used primarily for youth and high school programs.

(25) A structure that is situated on real property that is used for:

(i) housing for the elderly or for low- and moderate-income families as defined in Title II of the National Housing Act, as amended through December 31, 1990, and funded by a direct federal loan or federally insured loan made pursuant to Title II of the act; or

(ii) housing lower income families or elderly or handicapped persons, as defined in Section 8 of the United States Housing Act of 1937, as amended.

In order for a structure to be exempt under (i) or (ii), it must also meet each of the following criteria:

(A) is owned by an entity which is operated as a nonprofit corporation organized under chapter 317A;

(B) is owned by an entity which has not entered into a housing assistance payments contract under Section 8 of the United States Housing Act of 1937, or, if the entity which owns the structure has entered into a housing assistance payments contract under Section 8 of the United States Housing Act of 1937, the contract provides assistance for less than 90 percent of the dwelling units in the structure, excluding dwelling units intended for management or maintenance personnel;

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

(D) was not assessed and did not pay tax under chapter 273 prior to the 1991 levy, while meeting the other conditions of this clause.

An exemption under this clause remains in effect for taxes levied in each year or partial year of the term of its permanent financing.

(26) Real and personal property that is located in the Superior National Forest, and owned or leased and operated by a nonprofit organization that is exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1992, and primarily used to provide recreational opportunities for disabled veterans and their families.

(27) Manure pits and appurtenances, which may include slatted floors and pipes, installed or operated in accordance with a permit, order, or certificate of compliance issued by the Minnesota pollution control agency. The exemption shall continue for as long as the permit, order, or certificate issued by the Minnesota pollution control agency remains in effect.

(28) Notwithstanding clause (8), item (a), attached machinery and other personal property which is part of a facility containing a cogeneration system as described in section 216B.166, subdivision 2, paragraph (a), if the cogeneration system has met the following criteria: (i) the system utilizes natural gas as a primary fuel and the cogenerated steam initially replaces steam generated from existing thermal boilers utilizing coal; (ii) the facility developer is selected as a result of a procurement process ordered by the public utilities commission; and (iii) construction of the facility is commenced after July 1, 1994, and before July 1, 1997.

(29) Real property acquired by a home rule charter city, statutory city, county, town, or school district under a lease purchase agreement or an installment purchase contract during the term of the lease purchase agreement as long as and to the extent that the property is used by the city, county, town, or school district and devoted to a public use and to the extent it is not subleased to any private individual, entity, association, or corporation in connection with a business or enterprise operated for profit.

Sec. 8. Minnesota Statutes 1996, section 272.02, is amended by adding a subdivision to read:

Subd. 9. [PERSONAL PROPERTY; BIOMASS FACILITY.] (a) Notwithstanding clause (8), item (a), of subdivision 1, attached machinery and other personal property, excluding transmission and distribution lines, that is part of a system that generates biomass electric energy that satisfies the mandate, in whole or in part, established in section 216B.2424, or a system that generates electric energy using waste wood, is exempt if it meets the requirements of this subdivision.

(b) The governing bodies of the county, city or town, and school district must each approve, by resolution, the exemption of the personal property under this subdivision. Each of the governing bodies shall file a copy of the resolution with the county auditor. The county auditor shall publish the resolutions in newspapers of general circulation within the county. The voters of the county may request a referendum on the proposed exemption by filing a petition within 30 days after the resolutions are published. The petition must be signed by voters who reside in the county. The number of signatures must equal at least ten percent of the number of persons voting in the county in the last general election. If such a petition is timely filed, the resolutions are not effective until they have been submitted to the voters residing in the county at a general or special election and a majority of votes cast on the question of approving the resolution are in the affirmative. The commissioner of revenue shall prepare a suggested form of question to be presented at the referendum.

(c) The exemption under this subdivision is limited to a maximum of five years, beginning with the assessment year immediately following the year during which the personal property is put in operation.

Sec. 9. Minnesota Statutes 1996, section 272.115, is amended to read:

272.115 [CERTIFICATE OF VALUE; FILING.]

Subdivision 1. [REQUIREMENT.] Except as otherwise provided in subdivision 5, whenever any real estate is sold for a consideration in excess of \$1,000, whether by warranty deed, quitclaim deed, contract for deed or any other method of sale, the grantor, grantee or the legal agent of either shall file a certificate of value with the county auditor in the county in which the property is located when the deed or other document is presented for recording. Contract for deeds are subject to recording under section 507.235, subdivision 1. Value shall, in the case of any deed not a gift, be the amount of the full actual consideration thereof, paid or to be paid, including the amount of any lien or liens assumed. The items and value of personal property transferred with the real property must be listed and deducted from the sale price. The certificate of value shall include the classification to which the property belongs for the purpose of determining the fair market value of the property. The certificate shall include financing terms and conditions of the sale which are necessary to determine the actual, present value of the sale price for purposes of the sales ratio study. The commissioner of revenue shall promulgate administrative rules specifying the financing terms and conditions which must be included on the certificate. Pursuant to the authority of the commissioner of revenue in section 270.066, the certificate of value must include the social security number or the federal employer identification number of the grantors and grantees. The identification numbers of the grantors and grantees are private data on individuals or nonpublic data as defined in section 13.02, subdivisions 9 and 12, but, notwithstanding that section, the private or nonpublic data may be disclosed to the commissioner of revenue for purposes of tax administration.

Subd. 2. [FORM; INFORMATION REQUIRED.] The certificate of value shall require such facts and information as may be determined by the commissioner to be reasonably necessary in the administration of the state education aid formulas. The form of the certificate of value shall be

prescribed by the department of revenue which shall provide an adequate supply of forms to each county auditor.

Subd. 3. [COPIES TRANSMITTED; HOMESTEAD STATUS.] The county auditor shall transmit two true copies of the certificate of value to the assessor who shall insert the most recent market value and when available, the year of original construction of each parcel of property on both copies and shall transmit one copy to the department of revenue. Upon the request of a city council located within the county, a copy of each certificate of value for property located in that city shall be made available to the governing body of the city. The assessor shall remove the homestead classification for the following assessment year from a property which is sold or transferred, unless the grantee or the person to whom the property is transferred completes a homestead application under section 273.124, subdivision 13, and qualifies for homestead status.

Subd. 4. [ELIGIBILITY FOR HOMESTEAD STATUS.] No real estate sold or transferred on or after January 1, 1993, under subdivision 1 shall be classified as a homestead, unless (1) a certificate of value has been filed with the county auditor in accordance with this section, or (2) the real estate was conveyed by the federal government, the state, a political subdivision of the state, or combination of them to a person otherwise eligible to receive homestead classification of the property.

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

Subd. 5. [EXEMPTION FOR GOVERNMENT BODIES.] A certificate of real estate value is not required when the real estate is being conveyed to or by a public authority or agency of the federal government, the state of Minnesota, a political subdivision of the state, or any combination of them, provided that the authority, agency, or governmental unit has agreed to file a list of the real estate conveyed by or to the authority, agency, or governmental unit with the commissioner of revenue by June 1 of the year following the year of the conveyance.

Sec. 10. Minnesota Statutes 1996, section 273.11, subdivision 1a, is amended to read:

Subd. 1a. [LIMITED MARKET VALUE.] In the case of all property classified as agricultural homestead or nonhomestead, residential homestead or nonhomestead, or noncommercial seasonal recreational residential, the assessor shall compare the value with that determined in the preceding assessment. The amount of the increase entered in the current assessment shall not exceed the greater of (1) ten percent of the value in the preceding assessment, or (2) ~~one-third~~ one-fourth of the difference between the current assessment and the preceding assessment. This limitation shall not apply to increases in value due to improvements. For purposes of this subdivision, the term "assessment" means the value prior to any exclusion under subdivision 16.

The provisions of this subdivision shall be in effect only for assessment years 1993 through ~~1997~~ 2001.

For purposes of the assessment/sales ratio study conducted under section 124.2131, and the computation of state aids paid under chapters 124, 124A, and 477A, market values and net tax capacities determined under this subdivision and subdivision 16, shall be used.

Sec. 11. Minnesota Statutes 1996, section 273.11, subdivision 16, is amended to read:

Subd. 16. [VALUATION EXCLUSION FOR CERTAIN IMPROVEMENTS.] Improvements to homestead property made before January 2, 2003, shall be fully or partially excluded from the value of the property for assessment purposes provided that (1) the house is at least 35 years old at the time of the improvement and (2) either

(a) the assessor's estimated market value of the house on January 2 of the current year is equal to or less than \$150,000, or

(b) if the estimated market value of the house is over \$150,000 market value but is less than \$300,000 on January 2 of the current year, the property qualifies if

(i) it is located in a city or town in which 50 percent or more of the owner-occupied housing units were constructed before 1960 based upon the 1990 federal census, and

(ii) the city or town's median family income based upon the 1990 federal census is less than the statewide median family income based upon the 1990 federal census, or

(c) if the estimated market value of the house is \$300,000 or more on January 2 of the current year, the property qualifies if

(i) it is located in a city or town in which 45 percent or more of the homes were constructed before 1940 based upon the 1990 federal census, and

(ii) it is located in a city or town in which 45 percent or more of the housing units were rental based upon the 1990 federal census, and

(iii) the city or town's median value of owner-occupied housing units based upon the 1990 federal census is less than the statewide median value of owner-occupied housing units based upon the 1990 federal census.

For purposes of determining this eligibility, "house" means land and buildings.

The age of a residence is the number of years ~~that the residence has existed at its present site since the original year of its construction.~~ In the case of a residence that is relocated, the relocation must be from a location within the state and the only improvements eligible for exclusion under this subdivision are (1) those for which building permits were issued to the homeowner after the residence was relocated to its present site, and (2) those undertaken during or after the year the residence is initially occupied by the homeowner, excluding any market value increase relating to basic improvements that are necessary to install the residence on its foundation and connect it to utilities at its present site. In the case of an owner-occupied duplex or triplex, the improvement is eligible regardless of which portion of the property was improved.

If the property lies in a jurisdiction which is subject to a building permit process, a building permit must have been issued prior to commencement of the improvement. Any improvement must add at least \$1,000 to the value of the property to be eligible for exclusion under this subdivision. Only improvements to the structure which is the residence of the qualifying homesteader or construction of or improvements to no more than one two-car garage per residence qualify for the provisions of this subdivision. If an improvement was begun between January 2, 1992, and January 2, 1993, any value added from that improvement for the January 1994 and subsequent assessments shall qualify for exclusion under this subdivision provided that a building permit was obtained for the improvement between January 2, 1992, and January 2, 1993. Whenever a building permit is issued for property currently classified as homestead, the issuing jurisdiction shall notify the property owner of the possibility of valuation exclusion under this subdivision. The assessor shall require an application, including documentation of the age of the house from the owner, if unknown by the assessor. The application may be filed subsequent to the date of the building permit provided that the application must be filed within three years of the date the building permit was issued for the improvement. If the property lies in a jurisdiction which is not subject to a building permit process, the application must be filed within three years of the date the improvement was made. The assessor may require proof from the taxpayer of the date the improvement was made. Applications must be received prior to July 1 of any year in order to be effective for taxes payable in the following year.

No exclusion may be granted for an improvement by a local board of review or county board of equalization and no abatement of the taxes for qualifying improvements may be granted by the county board unless (1) a building permit was issued prior to the commencement of the improvement if the jurisdiction requires a building permit, and (2) an application was completed.

The assessor shall note the qualifying value of each improvement on the property's record, and the sum of those amounts shall be subtracted from the value of the property in each year for ten years after the improvement has been made, at which time an amount equal to 20 percent of the qualifying value shall be added back in each of the five subsequent assessment years. If an

application is filed after the first assessment date at which an improvement could have been subject to the valuation exclusion under this subdivision, the ten-year period during which the value is subject to exclusion is reduced by the number of years that have elapsed since the property would have qualified initially. The valuation exclusion shall terminate whenever (1) the property is sold, or (2) the property is reclassified to a class which does not qualify for treatment under this subdivision. Improvements made by an occupant who is the purchaser of the property under a conditional purchase contract do not qualify under this subdivision unless the seller of the property is a governmental entity. The qualifying value of the property shall be computed based upon the increase from that structure's market value as of January 2 preceding the acquisition of the property by the governmental entity.

The total qualifying value for a homestead may not exceed \$50,000. The total qualifying value for a homestead with a house that is less than 70 years old may not exceed \$25,000. The term "qualifying value" means the increase in estimated market value resulting from the improvement if the improvement occurs when the house is at least 70 years old, or one-half of the increase in estimated market value resulting from the improvement otherwise. The \$25,000 and \$50,000 maximum qualifying value under this subdivision may result from up to three separate improvements to the homestead. The application shall state, in clear language, that if more than three improvements are made to the qualifying property, a taxpayer may choose which three improvements are eligible, provided that after the taxpayer has made the choice and any valuation attributable to those improvements has been excluded from taxation, no further changes can be made by the taxpayer.

If 50 percent or more of the square footage of a structure is voluntarily razed or removed, the valuation increase attributable to any subsequent improvements to the remaining structure does not qualify for the exclusion under this subdivision. If a structure is unintentionally or accidentally destroyed by a natural disaster, the property is eligible for an exclusion under this subdivision provided that the structure was not completely destroyed. The qualifying value on property destroyed by a natural disaster shall be computed based upon the increase from that structure's market value as determined on January 2 of the year in which the disaster occurred. A property receiving benefits under the homestead disaster provisions under section 273.123 is not disqualified from receiving an exclusion under this subdivision. If any combination of improvements made to a structure after January 1, 1993, increases the size of the structure by 100 percent or more, the valuation increase attributable to the portion of the improvement that causes the structure's size to exceed 100 percent does not qualify for exclusion under this subdivision.

Sec. 12. Minnesota Statutes 1996, section 273.111, subdivision 3, is amended to read:

Subd. 3. (a) Real estate consisting of ten acres or more or a nursery or greenhouse, and qualifying for classification as class 1b, 2a, or 2b under section 273.13, subdivision 23, paragraph (d), shall be entitled to valuation and tax deferral under this section only if it is ~~actively and exclusively~~ primarily devoted to agricultural use as ~~defined~~, and meets the qualifications in subdivision 6, and either:

(1) is the homestead of the owner, or of a surviving spouse, child, or sibling of the owner or is real estate which is farmed with the real estate which contains the homestead property; or

(2) has been in possession of the applicant, the applicant's spouse, parent, or sibling, or any combination thereof, for a period of at least seven years prior to application for benefits under the provisions of this section, or is real estate which is farmed with the real estate which qualifies under this clause and is within two townships or cities or combination thereof from the qualifying real estate; or

(3) is the homestead of a shareholder in a family farm corporation as defined in section 500.24, notwithstanding the fact that legal title to the real estate may be held in the name of the family farm corporation; or

(4) is in the possession of a nursery or greenhouse or an entity owned by a proprietor, partnership, or corporation which also owns the nursery or greenhouse operations on the parcel or parcels.

(b) Valuation of real estate under this section is limited to parcels the ownership of which is in noncorporate entities except for:

(1) family farm corporations organized pursuant to section 500.24; and

(2) corporations that derive 80 percent or more of their gross receipts from the wholesale or retail sale of horticultural or nursery stock.

Corporate entities who previously qualified for tax deferment pursuant to this section and who continue to otherwise qualify under subdivisions 3 and 6 for a period of at least three years following the effective date of Laws 1983, chapter 222, section 8, will not be required to make payment of the previously deferred taxes, notwithstanding the provisions of subdivision 9. Special assessments are payable at the end of the three-year period or at time of sale, whichever comes first.

(c) Land that previously qualified for tax deferment pursuant to ~~under~~ this section and no longer qualifies because it is not ~~classified as primarily used for agricultural land purposes~~ but would otherwise qualify under subdivisions 3 and 6 for a period of at least three years will not be required to make payment of the previously deferred taxes, notwithstanding the provisions of subdivision 9. Sale of the land prior to the expiration of the three-year period requires payment of deferred taxes as follows: sale in the year the land no longer qualifies requires payment of the current year's deferred taxes plus payment of deferred taxes for the two prior years; sale during the second year the land no longer qualifies requires payment of the current year's deferred taxes plus payment of the deferred taxes for the prior year; and sale during the third year the land no longer qualifies requires payment of the current year's deferred taxes. Deferred taxes shall be paid even if the land qualifies pursuant to subdivision 11a. When such property is sold or no longer qualifies under this paragraph, or at the end of the three-year period, whichever comes first, all deferred special assessments plus interest are payable in equal installments spread over the time remaining until the last maturity date of the bonds issued to finance the improvement for which the assessments were levied. If the bonds have matured, the deferred special assessments plus interest are payable within 90 days. The provisions of section 429.061, subdivision 2, apply to the collection of these installments. Penalties are not imposed on any such special assessments if timely paid.

Sec. 13. Minnesota Statutes 1996, section 273.111, subdivision 6, is amended to read:

Subd. 6. Real property qualifying under subdivision 3 shall be considered to be in agricultural use provided that annually:

(1) at least 33-1/3 percent of the total family income of the owner is derived therefrom, or the total production income including rental from the property is \$300 plus \$10 per tillable acre; and

(2) it is devoted to the production for sale of agricultural products as defined in section 273.13, subdivision 23, paragraph (e).

Slough, wasteland, and woodland contiguous to or surrounded by land that is entitled to valuation and tax deferment under this section is considered to be in agricultural use if under the same ownership and management.

Sec. 14. Minnesota Statutes 1996, section 273.112, subdivision 2, is amended to read:

Subd. 2. The present general system of ad valorem property taxation in the state of Minnesota does not provide an equitable basis for the taxation of certain private ~~outdoor~~ recreational, social, open space and park land property and has resulted in excessive taxes on some of these ~~lands~~. Therefore, it is hereby declared that the public policy of this state would be best served by equalizing tax burdens upon private ~~outdoor~~, recreational, social, open space and park land within this state through appropriate taxing measures to encourage private development of these lands which would otherwise not occur or have to be provided by governmental authority.

Sec. 15. Minnesota Statutes 1996, section 273.112, subdivision 3, is amended to read:



Subd. 3. Real estate shall be entitled to valuation and tax deferment under this section only if it is:

(a) actively and exclusively devoted to golf, skiing, lawn bowling, croquet, or archery or firearms range recreational use or ~~uses~~ and other recreational or social uses carried on at the establishment;

(b) five acres in size or more, except in the case of a lawn bowling or croquet green or an archery or firearms range or an establishment actively and exclusively devoted to indoor fitness, health, social, recreational, and related uses in which the establishment is owned and operated by a not-for-profit corporation;

(c)(1) operated by private individuals or, in the case of a lawn bowling or croquet green, by private individuals or corporations, and open to the public; or

(2) operated by firms or corporations for the benefit of employees or guests; or

(3) operated by private clubs having a membership of 50 or more or open to the public, provided that the club does not discriminate in membership requirements or selection on the basis of sex or marital status; and

(d) ~~made available, in the case of real estate devoted to golf, for use without discrimination on the basis of sex during the time when the facility is open to use by the public or by members, except that use for golf may be restricted on the basis of sex no more frequently than one, or part of one, weekend each calendar month for each sex and no more than two, or part of two, weekdays each week for each sex.~~

If a golf club membership allows use of golf course facilities by more than one adult per membership, the use must be equally available to all adults entitled to use of the golf course under the membership, except that use may be restricted on the basis of sex as permitted in this section. Memberships that permit play during restricted times may be allowed only if the restricted times apply to all adults using the membership. A golf club may not offer a membership or golfing privileges to a spouse of a member that provides greater or less access to the golf course than is provided to that person's spouse under the same or a separate membership in that club, except that the terms of a membership may provide that one spouse may have no right to use the golf course at any time while the other spouse may have either limited or unlimited access to the golf course.

A golf club may have or create an individual membership category which entitles a member for a reduced rate to play during restricted hours as established by the club. The club must have on record a written request by the member for such membership.

A golf club that has food or beverage facilities or services must allow equal access to those facilities and services for both men and women members in all membership categories at all times. Nothing in this paragraph shall be construed to require service or access to facilities to persons under the age of 21 years or require any act that would violate law or ordinance regarding sale, consumption, or regulation of alcoholic beverages.

For purposes of this subdivision and subdivision 7a, discrimination means a pattern or course of conduct and not linked to an isolated incident.

Sec. 16. Minnesota Statutes 1996, section 273.112, subdivision 4, is amended to read:

Subd. 4. The value of any real estate described in subdivision 3 shall upon timely application by the owner, in the manner provided in subdivision 6, be determined solely with reference to its appropriate private ~~outdoor~~, recreational, social, open space and park land classification and value notwithstanding sections 272.03, subdivision 8, and 273.11. In determining such value for ad valorem tax purposes the assessor shall not consider the value such real estate would have if it were converted to commercial, industrial, residential or seasonal residential use.

Sec. 17. Minnesota Statutes 1996, section 273.121, is amended to read:

## 273.121 [VALUATION OF REAL PROPERTY, NOTICE.]

Any county assessor or city assessor having the powers of a county assessor, valuing or classifying taxable real property shall in each year notify those persons whose property is to be assessed or reclassified that year if the person's address is known to the assessor, otherwise the occupant of the property. The notice shall be in writing and shall be sent by ordinary mail at least ten days before the meeting of the local board of review or equalization under section 274.01 or the review process established under section 274.13, subdivision 1c. It shall contain: (1) the market value, (2) the limited market value under section 273.11, subdivision 1a, (3) the qualifying amount of any improvements under section 273.11, subdivision 16, (4) the market value subject to taxation after subtracting the amount of any qualifying improvements, (5) the new classification, (6) a note that if the property is homestead and at least 35 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 review or equalization, the review process established under section 274.13, subdivision 1c, and the county board of equalization. If the assessment roll is not complete, the notice shall be sent by ordinary mail at least ten days prior to the date on which the board of review has adjourned. The assessor shall attach to the assessment roll a statement that the notices required by this section have been mailed. Any assessor who is not provided sufficient funds from the assessor's governing body to provide such notices, may make application to the commissioner of revenue to finance such notices. The commissioner of revenue shall conduct an investigation and, if satisfied that the assessor does not have the necessary funds, issue a certification to the commissioner of finance of the amount necessary to provide such notices. The commissioner of finance shall issue a warrant for such amount and shall deduct such amount from any state payment to such county or municipality. The necessary funds to make such payments are hereby appropriated. Failure to receive the notice shall in no way affect the validity of the assessment, the resulting tax, the procedures of any board of review or equalization, or the enforcement of delinquent taxes by statutory means.

Sec. 18. Minnesota Statutes 1996, section 273.124, subdivision 1, is amended to read:

Subdivision 1. [GENERAL RULE.] (a) Residential real estate that is occupied and used for the purposes of a homestead by its owner, who must be a Minnesota resident, is a residential homestead.

Agricultural land, as defined in section 273.13, subdivision 23, that is occupied and used as a homestead by its owner, who must be a Minnesota resident, is an agricultural homestead.

Dates for establishment of a homestead and homestead treatment provided to particular types of property are as provided in this section.

Property of a trustee, beneficiary, or grantor of a trust is not disqualified from receiving homestead benefits if the homestead requirements under this chapter are satisfied.

The assessor shall require proof, as provided in subdivision 13, of the facts upon which classification as a homestead may be determined. Notwithstanding any other law, the assessor may at any time require a homestead application to be filed in order to verify that any property classified as a homestead continues to be eligible for homestead status. Notwithstanding any other law to the contrary, the department of revenue may, upon request from an assessor, verify whether an individual who is requesting or receiving homestead classification has filed a Minnesota income tax return as a resident for the most recent taxable year for which the information is available.

When there is a name change or a transfer of homestead property, the assessor may reclassify the property in the next assessment unless a homestead application is filed to verify that the property continues to qualify for homestead classification.

(b) For purposes of this section, homestead property shall include property which is used for purposes of the homestead but is separated from the homestead by a road, street, lot, waterway, or other similar intervening property. The term "used for purposes of the homestead" shall include

but not be limited to uses for gardens, garages, or other outbuildings commonly associated with a homestead, but shall not include vacant land held primarily for future development. In order to receive homestead treatment for the noncontiguous property, the owner shall apply for it to the assessor by July 1 of the year when the treatment is initially sought. After initial qualification for the homestead treatment, additional applications for subsequent years are not required.

(c) Residential real estate that is occupied and used for purposes of a homestead by a relative of the owner is a homestead but only to the extent of the homestead treatment that would be provided if the related owner occupied the property. For purposes of this paragraph and paragraph (f) (g), "relative" means a parent, stepparent, child, stepchild, grandparent, grandchild, brother, sister, uncle, or aunt. This relationship may be by blood or marriage. 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 will not be reclassified as a homestead unless it is occupied as a homestead by the owner; this prohibition also applies to property that, in the absence of this paragraph, would have been classified as seasonal recreational residential property at the time when the residence was constructed. Neither the related occupant nor the owner of the property may claim a property tax refund under chapter 290A for a homestead occupied by a relative. In the case of a residence located on agricultural land, only the house, garage, and immediately surrounding one acre of land shall be classified as a homestead under this paragraph, except as provided in paragraph (d).

(d) Agricultural property that is occupied and used for purposes of a homestead by a relative of the owner, is a homestead, only to the extent of the homestead treatment that would be provided if the related owner occupied the property, and only if all of the following criteria are met:

(1) the relative who is occupying the agricultural property is a son, daughter, father, or mother of the owner of the agricultural property or a son or daughter of the spouse of the owner of the agricultural property,

(2) the owner of the agricultural property must be a Minnesota resident,

(3) the owner of the agricultural property must not receive homestead treatment on any other agricultural property in Minnesota, and

(4) the owner of the agricultural property is limited to only one agricultural homestead per family under this paragraph.

Neither the related occupant nor the owner of the property may claim a property tax refund under chapter 290A for a homestead occupied by a relative qualifying under this paragraph. For purposes of this paragraph, "agricultural property" means the house, garage, other farm buildings and structures, and agricultural land.

Application must be made to the assessor by the owner of the agricultural property to receive homestead benefits under this paragraph. The assessor may require the necessary proof that the requirements under this paragraph have been met.

(e) In the case of property owned by a property owner who is married, the assessor must not deny homestead treatment in whole or in part if only one of the spouses occupies the property and the other spouse is absent due to: (1) marriage dissolution proceedings, (2) legal separation, (3) employment or self-employment in another location, or (4) residence in a nursing home or boarding care facility, ~~or~~ (5) other personal circumstances causing the spouses to live separately, not including an intent to obtain two homestead classifications for property tax purposes. To qualify under clause (3), the spouse's place of employment or self-employment must be at least 50 miles distant from the other spouse's place of employment, and the homesteads must be at least 50 miles distant from each other. Homestead treatment, in whole or in part, shall not be denied to the owner's spouse who previously occupied the residence with the owner if the absence of the owner is due to one of the exceptions provided in this paragraph.

(f) The assessor must not deny homestead treatment in whole or in part if:

(1) in the case of a property owner who is not married, the owner is absent due to residence in a nursing home or boarding care facility and the property is not otherwise occupied; or

(2) in the case of a property owner who is married, the owner or the owner's spouse or both are absent due to residence in a nursing home or boarding care facility and the property is not occupied or is occupied only by the owner's spouse.

(g) If an individual is purchasing property with the intent of claiming it as a homestead and is required by the terms of the financing agreement to have a relative shown on the deed as a coowner, the assessor shall allow a full homestead classification. This provision only applies to first-time purchasers, whether married or single, or to a person who had previously been married and is purchasing as a single individual for the first time. The application for homestead benefits must be on a form prescribed by the commissioner and must contain the data necessary for the assessor to determine if full homestead benefits are warranted.

Sec. 19. Minnesota Statutes 1996, section 273.124, is amended by adding a subdivision to read:

Subd. 19. [LEASE-PURCHASE PROGRAM.] Qualifying buildings and appurtenances, together with the land on which they are located, are classified as homesteads, if the following qualifications are met:

(1) the property is leased for up to a five-year period by the occupant under a lease-purchase program administered by the Minnesota housing finance agency or a housing and redevelopment authority under sections 469.001 to 469.047;

(2) the occupant's income is no greater than 80 percent of the county or area median income, adjusted for family size;

(3) the building consists of one or two dwelling units;

(4) the lease agreement provides that part of the lease payment is escrowed as a nonrefundable down payment on the housing;

(5) the administering agency verifies the occupant's income eligibility and certifies to the county assessor that the occupant meets the income standards; and

(6) the property owner applies to the county assessor by May 30 of each year.

For purposes of this subdivision, "qualifying buildings and appurtenances" means a one- or two-unit residential building which was unoccupied, abandoned, and boarded for at least six months.

Sec. 20. Minnesota Statutes 1996, section 273.13, subdivision 23, is amended to read:

Subd. 23. [CLASS 2.] (a) Class 2a property is agricultural land including any improvements that is homesteaded. The market value of the house and garage and immediately surrounding one acre of land has the same class rates as class 1a property under subdivision 22. The value of the remaining land including improvements up to \$115,000 has a net class rate of ~~.45~~ 0.4 percent of market value and a gross class rate of ~~1.75~~ percent of market value. The remaining value of class 2a property over \$115,000 of market value that does not exceed 320 acres has a net class rate of ~~one 0.9~~ 1.4 percent of market value, and a gross class rate of ~~2.25~~ percent of market value. The remaining property over the \$115,000 market value in excess of 320 acres has a class rate of ~~1.5~~ 1.4 percent of market value, and a gross class rate of ~~2.25~~ percent of market value.

(b) Class 2b property is (1) real estate, rural in character and used exclusively for growing trees for timber, lumber, and wood and wood products; (2) real estate that is not improved with a structure and is used exclusively for growing trees for timber, lumber, and wood and wood products, if the owner has participated or is participating in a cost-sharing program for afforestation, reforestation, or timber stand improvement on that particular property, administered or coordinated by the commissioner of natural resources; (3) real estate that is nonhomestead agricultural land; or (4) a landing area or public access area of a privately owned public use airport. Class 2b property has a net class rate of ~~1.5~~ 1.4 percent of market value, and a gross class rate of ~~2.25~~ percent of market value.

(c) Agricultural land as used in this section means contiguous acreage of ten acres or more, primarily used during the preceding year for agricultural purposes. ~~Agricultural use may include "Agricultural purposes" as used in this section means the raising or cultivation of agricultural products or enrollment in the Reinvest in Minnesota program under sections 103F.501 to 103F.535 or the federal Conservation Reserve Program as contained in Public Law Number 99-198. Contiguous acreage on the same parcel, or contiguous acreage on an immediately adjacent parcel under the same ownership, may also qualify as agricultural land, but only if it is pasture, timber, waste, unusable wild land, and or land included in state or federal farm or conservation programs. "Agricultural purposes" as used in this section means the raising or cultivation of agricultural products. Land enrolled in the Reinvest in Minnesota program under sections 103F.505 to 103F.531 or the federal Conservation Reserve Program as contained in Public Law Number 99-198, and consisting of a minimum of ten contiguous acres, shall be classified as agricultural. Agricultural classification for property shall be determined with respect to the use of the whole parcel, excluding the house, garage, and immediately surrounding one acre of land, and shall not be based upon the market value of any residential structures on the parcel or contiguous parcels under the same ownership.~~

(d) ~~Real estate, excluding the house, garage, and immediately surrounding one acre of land, of less than ten acres which is exclusively and intensively used principally for raising or cultivating agricultural products, shall be considered as agricultural land, if it is not used primarily for residential purposes.~~

Land shall be classified as agricultural even if all or a portion of the agricultural use of that property is the leasing to, or use by another person for agricultural purposes.

Classification under this subdivision is not determinative for qualifying under section 273.111.

The property classification under this section supersedes, for property tax purposes only, any locally administered agricultural policies or land use restrictions that define minimum or maximum farm acreage.

(e) The term "agricultural products" as used in this subdivision includes production for sale of:

(1) livestock, dairy animals, dairy products, poultry and poultry products, fur-bearing animals, horticultural and nursery stock described in sections 18.44 to 18.61, fruit of all kinds, vegetables, forage, grains, bees, and apiary products by the owner;

(2) fish bred for sale and consumption if the fish breeding occurs on land zoned for agricultural use;

(3) the commercial boarding of horses if the boarding is done in conjunction with raising or cultivating agricultural products as defined in clause (1);

(4) property which is owned and operated by nonprofit organizations used for equestrian activities, excluding racing; and

(5) game birds and waterfowl bred and raised for use on a shooting preserve licensed under section 97A.115.

(f) If a parcel used for agricultural purposes is also used for commercial or industrial purposes, including but not limited to:

(1) wholesale and retail sales;

(2) processing of raw agricultural products or other goods;

(3) warehousing or storage of processed goods; and

(4) office facilities for the support of the activities enumerated in clauses (1), (2), and (3), the assessor shall classify the part of the parcel used for agricultural purposes as class 1b, 2a, or 2b, whichever is appropriate, and the remainder in the class appropriate to its use. The grading,

sorting, and packaging of raw agricultural products for first sale is considered an agricultural purpose. A greenhouse or other building where horticultural or nursery products are grown that is also used for the conduct of retail sales must be classified as agricultural if it is primarily used for the growing of horticultural or nursery products from seed, cuttings, or roots and occasionally as a showroom for the retail sale of those products. Use of a greenhouse or building only for the display of already grown horticultural or nursery products does not qualify as an agricultural purpose.

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

(g) To qualify for classification under paragraph (b), clause (4), a privately owned public use airport must be licensed as a public airport under section 360.018. For purposes of paragraph (b), clause (4), "landing area" means that part of a privately owned public use airport properly cleared, regularly maintained, and made available to the public for use by aircraft and includes runways, taxiways, aprons, and sites upon which are situated landing or navigational aids. A landing area also includes land underlying both the primary surface and the approach surfaces that comply with all of the following:

(i) the land is properly cleared and regularly maintained for the primary purposes of the landing, taking off, and taxiing of aircraft; but that portion of the land that contains facilities for servicing, repair, or maintenance of aircraft is not included as a landing area;

(ii) the land is part of the airport property; and

(iii) the land is not used for commercial or residential purposes.

The land contained in a landing area under paragraph (b), clause (4), must be described and certified by the commissioner of transportation. The certification is effective until it is modified, or until the airport or landing area no longer meets the requirements of paragraph (b), clause (4). For purposes of paragraph (b), clause (4), "public access area" means property used as an aircraft parking ramp, apron, or storage hangar, or an arrival and departure building in connection with the airport.

Sec. 21. Minnesota Statutes 1996, section 273.13, is amended by adding a subdivision to read:

Subd. 25a. [ELDERLY ASSISTED LIVING FACILITY PROPERTY.] "Elderly assisted living facility property" means residential real estate containing more than one unit held for use by the tenants or lessees as a residence for periods of 30 days or more, along with community rooms, lounges, activity rooms, and related facilities, designed to meet the housing, health, and financial security needs of the elderly. The real estate may be owned by an individual, partnership, limited partnership, for-profit corporation or nonprofit corporation exempt from federal income taxation under United States Code, title 26, section 501(c)(3) or related sections.

An admission or initiation fee may be required of tenants. Monthly charges may include charges for the residential unit, meals, housekeeping, utilities, social programs, a health care alert system, or any combination of them. On-site health care may be provided by in-house staff or an outside health care provider.

The assessor shall classify elderly assisted living facility property, depending upon the property's ownership, occupancy, and use. The applicable class rates shall apply based on its classification, if taxable.

Sec. 22. Minnesota Statutes 1996, section 273.18, is amended to read:

273.18 [LISTING, VALUATION, AND ASSESSMENT OF EXEMPT PROPERTY BY COUNTY AUDITORS.]

(a) In every sixth year after the year 1926, the county auditor shall enter, in a separate place in the real estate assessment books, the description of each tract of real property exempt by law from taxation, with the name of the owner, if known, and the assessor shall value and assess the same in the same manner that other real property is valued and assessed, and shall designate in each case the purpose for which the property is used.

(b) For purposes of the apportionment of fire state aid under section 69.021, subdivision 7, the county auditor shall include on the abstract of assessment of exempt real property filed under this section, the total number of acres of all natural resources lands for which in lieu payments are made under sections 477A.11 to 477A.14. The assessor shall estimate its market value, provided that if the assessor is not able to estimate the market value of the land on a per parcel basis, the assessor shall furnish the commissioner of revenue with an estimate of the average value per acre of this land within the county.

Sec. 23. Minnesota Statutes 1996, section 274.01, is amended to read:

274.01 [BOARD OF REVIEW.]

Subdivision 1. [ORDINARY BOARD; MEETINGS, DEADLINES, GRIEVANCES.] (a) The town board of a town, or the council or other governing body of a city, is the board of review except (1) in cities whose charters provide for a board of equalization or (2) in any city or town that has transferred its local board of review power and duties to the county board as provided in subdivision 3. The county assessor shall fix a day and time when the board or the board of equalization shall meet in the assessment districts of the county. On or before February 15 of each year the assessor shall give written notice of the time to the city or town clerk. Notwithstanding the provisions of any charter to the contrary, the meetings must be held between April 1 and May 31 each year. The clerk shall give published and posted notice of the meeting at least ten days before the date of the meeting.

If in any county, at least 25 percent of the total net tax capacity of a city or town is noncommercial seasonal residential recreational property classified under section 273.13, subdivision 25, the county must hold two countywide informational meetings on Saturdays. The meetings will allow noncommercial seasonal residential recreational taxpayers to discuss their property valuation with the appropriate assessment staff. These Saturday informational meetings must be scheduled to allow the owner of the noncommercial seasonal residential recreational property the opportunity to attend one of the meetings prior to the scheduled board of review for their city or town. The Saturday meeting dates must be contained on the notice of valuation of real property under section 273.121.

The board shall meet at the office of the clerk to review the assessment and classification of property in the town or city. No changes in valuation or classification which are intended to correct errors in judgment by the county assessor may be made by the county assessor after the board of review or the county board of equalization has adjourned in those cities or towns that hold a local board of review; however, corrections of errors that are merely clerical in nature or changes that extend homestead treatment to property are permitted after adjournment until the tax extension date for that assessment year. The changes must be fully documented and maintained in the assessor's office and must be available for review by any person. A copy of the changes made during this period in those cities or towns that hold a local board of review must be sent to the county board no later than December 31 of the assessment year.

(b) The board shall determine whether the taxable property in the town or city has been properly placed on the list and properly valued by the assessor. If real or personal property has been omitted, the board shall place it on the list with its market value, and correct the assessment so that each tract or lot of real property, and each article, parcel, or class of personal property, is entered on the assessment list at its market value. No assessment of the property of any person may be raised unless the person has been duly notified of the intent of the board to do so. On application of any person feeling aggrieved, the board shall review the assessment or classification, or both, and correct it as appears just.

(c) A local board of review may reduce assessments upon petition of the taxpayer but the total

reductions must not reduce the aggregate assessment made by the county assessor by more than one percent. If the total reductions would lower the aggregate assessments made by the county assessor by more than one percent, none of the adjustments may be made. The assessor shall correct any clerical errors or double assessments discovered by the board of review without regard to the one percent limitation.

(d) A majority of the members may act at the meeting, and adjourn from day to day until they finish hearing the cases presented. The assessor shall attend, with the assessment books and papers, and take part in the proceedings, but must not vote. The county assessor, or an assistant delegated by the county assessor shall attend the meetings. The board shall list separately, on a form appended to the assessment book, all omitted property added to the list by the board and all items of property increased or decreased, with the market value of each item of property, added or changed by the board, placed opposite the item. The county assessor shall enter all changes made by the board in the assessment book.

(e) Except as provided in subdivision 3, if a person fails to appear in person, by counsel, or by written communication before the board after being duly notified of the board's intent to raise the assessment of the property, or if a person feeling aggrieved by an assessment or classification fails to apply for a review of the assessment or classification, the person may not appear before the county board of equalization for a review of the assessment or classification. This paragraph does not apply if an assessment was made after the board meeting, as provided in section 273.01, or if the person can establish not having received notice of market value at least five days before the local board of review meeting.

(f) The board of review or the board of equalization must complete its work and adjourn within 20 days from the time of convening stated in the notice of the clerk, unless a longer period is approved by the commissioner of revenue. No action taken after that date is valid. All complaints about an assessment or classification made after the meeting of the board must be heard and determined by the county board of equalization. A nonresident may, at any time, before the meeting of the board of review file written objections to an assessment or classification with the county assessor. The objections must be presented to the board of review at its meeting by the county assessor for its consideration.

Subd. 2. [SPECIAL BOARD; DUTIES DELEGATED.] The governing body of a city, including a city whose charter provides for a board of equalization, may appoint a special board of review. The city may delegate to the special board of review all of the powers and duties in subdivision 1. The special board of review shall serve at the direction and discretion of the appointing body, subject to the restrictions imposed by law. The appointing body shall determine the number of members of the board, the compensation and expenses to be paid, and the term of office of each member. At least one member of the special board of review must be an appraiser, realtor, or other person familiar with property valuations in the assessment district.

Subd. 3. [LOCAL BOARD DUTIES TRANSFERRED TO COUNTY.] The town board of any town or the governing body of any home rule charter or statutory city may transfer its powers and duties under subdivision 1 to the county board, and no longer perform the function of a local board. Before the town board or the governing body of a city transfers the powers and duties to the county board, the town board or city's governing body shall give public notice of the meeting at which the proposal for transfer is to be considered. The public notice shall follow the procedure contained in section 471.705, subdivision 1c, paragraph (b). A transfer of duties as permitted under this subdivision must be communicated to the county assessor, in writing, before December 1 of any year to be effective for the following year's assessment. This transfer of duties to the county may either be permanent or for a specified number of years, provided that the transfer cannot be for less than three years. Its length must be stated in writing. A town or city may renew its option to transfer. The option to transfer duties under this subdivision is only available to a town or city whose assessment is done by the county.

Sec. 24. Minnesota Statutes 1996, section 274.13, is amended by adding a subdivision to read:

Subd. 1b. [ASSESSMENT CHANGES.] No changes in valuation or classification that are intended to correct errors in judgment by the county assessor may be made by the county assessor



after the county board of equalization has adjourned; however, corrections of errors that are merely clerical in nature or changes that extend homestead treatment to property are permitted after adjournment until the tax extension date for that assessment year. The changes must be fully documented and maintained in the assessor's office and must be available for review by any person.

Sec. 25. Minnesota Statutes 1996, section 274.13, is amended by adding a subdivision to read:

Subd. 1c. [ALTERNATIVE REVIEW OPTION.] The county shall notify taxpayers whose town or city elected to transfer its powers and duties under section 274.01 to the county. Prior to the time of the county board of equalization, the county shall make available to those taxpayers a procedure for a review of its assessments, including, but not limited to, open book meetings. This alternative review process shall take place in April and May.

Sec. 26. Minnesota Statutes 1996, section 281.13, is amended to read:

281.13 [NOTICE OF EXPIRATION OF REDEMPTION.]

Every person holding a tax certificate after expiration of three years, or the redemption period specified in section 281.17 if shorter, after the date of the tax sale under which the same was issued, may present such certificate to the county auditor; and thereupon the auditor shall prepare, under the auditor's hand and official seal, a notice, directed to the person or persons in whose name such lands are assessed, specifying the description thereof, the amount for which the same was sold, the amount required to redeem the same, exclusive of the costs to accrue upon such notice, and the time when the redemption period will expire. If, at the time when any tax certificate is so presented, such lands are assessed in the name of the holder of the certificate, such notice shall be directed also to the person or persons in whose name title in fee of such land appears of record in the office of the county recorder. The auditor shall deliver such notice to the party applying therefor, who shall deliver it to the sheriff of the proper county or any other person not less than 18 years of age for service. Within 20 days after receiving it, the sheriff or other person serving the notice shall serve such notice upon the persons to whom it is directed, if to be found in the sheriff's county, in the manner prescribed for serving a summons in a civil action; if not so found, then upon the person in possession of the land, and make return thereof to the auditor. In the case of land held in joint tenancy the notice shall be served upon each joint tenant. If one or more of the persons to whom the notice is directed cannot be found in the county, and there is no one in possession of the land, of each of which facts the return of the sheriff or other person serving the notice so specifying shall be prima facie evidence, service shall be made upon those persons that can be found and service shall also be made by two weeks' published notice, proof of which publication shall be filed with the auditor.

When the records in the office of the county recorder show that any lot or tract of land is encumbered by an unsatisfied mortgage or other lien, and show the post office address of the mortgagee or lienee, or if the same has been assigned, the post office address of the assignee, the person holding such tax certificate shall serve a copy of such notice upon such mortgagee, lienee, or assignee by certified mail addressed to such mortgagee, lienee, or assignee at the post office address of the mortgagee, lienee, or assignee as disclosed by the records in the office of the county recorder, at least 60 days prior to the time when the redemption period will expire.

The notice herein provided for shall be sufficient if substantially in the following form:

"NOTICE OF EXPIRATION OF REDEMPTION

Office of the County Auditor

County of ....., State of Minnesota.

To .....

You are hereby notified that the following described piece or parcel of land, situated in the county of ....., and State of Minnesota, and known and described as follows: .....  
....., is now assessed in your name; that on the

..... day of May, ....., at the sale of land pursuant to the real estate tax judgment, duly given and made in and by the district court in and for said county of ....., on the ..... day of March, ....., in proceedings to enforce the payment of taxes delinquent upon real estate for the year ..... for said county of ..... the above described piece or parcel of land was sold for the sum of \$....., and the amount required to redeem such piece or parcel of land from such sale, exclusive of the cost to accrue upon this notice, is the sum of \$....., and interest at the rate of ..... percent per annum from said ..... day of ....., ....., to the day such redemption is made, and that the tax certificate has been presented to me by the holder thereof, and the time for redemption of such piece or parcel of land from such sale will expire 60 days after the service of this notice and proof thereof has been filed in my office.

Witness my hand and official seal this ..... day of ....., .....

.....

(OFFICIAL SEAL)

County Auditor of

..... County, Minnesota."

Sec. 27. Minnesota Statutes 1996, section 281.23, is amended by adding a subdivision to read:

Subd. 5a. [DEFINITION.] In this section, "occupied parcel" means a parcel containing a structure subject to property taxation.

Sec. 28. Minnesota Statutes 1996, section 281.23, subdivision 6, is amended to read:

Subd. 6. [SERVICE BY SHERIFF OF NOTICE.] (a) Forthwith after the commencement of such publication or mailing the county auditor shall deliver to the sheriff of the county or any other person not less than 18 years of age a sufficient number of copies of such notice of expiration of redemption for service upon the persons in possession of all parcels of such land as are actually occupied and documentation if the certified mail notice was returned as undeliverable or the notice was not mailed to the address associated with the property. Within 30 days after receipt thereof, the sheriff or other person serving the notice shall make such investigation as may be necessary to ascertain whether or not the parcels covered by such notice are actually occupied or not parcels, and shall serve a copy of such notice of expiration of redemption upon the person in possession of each parcel found to be so an occupied parcel, in the manner prescribed for serving summons in a civil action. The sheriff or other person serving the notice shall make prompt return to the auditor as to all notices so served and as to all parcels found vacant and unoccupied. Such return shall be made upon a copy of such notice and shall be prima facie evidence of the facts therein stated.

Unless compensation for such services is otherwise provided by law, If the notice is served by the sheriff, the sheriff shall receive from the county, in addition to other compensation prescribed by law, such fees and mileage for service on persons in possession as are prescribed by law for such service in other cases, and shall also receive such compensation for making investigation and return as to vacant and unoccupied lands as the county board may fix, subject to appeal to the district court as in case of other claims against the county. As to either service upon persons in possession or return as to vacant lands, the sheriff shall charge mileage only for one trip if the occupants of more than two tracts are served simultaneously, and in such case mileage shall be prorated and charged equitably against all such owners.

(b) The secretary of state shall receive sheriff's service for all out-of-state interests.

Sec. 29. Minnesota Statutes 1996, section 281.273, is amended to read:

**281.273 [EXPIRATION OF TIME OF REDEMPTION ON LANDS OWNED BY PERSONS IN MILITARY SERVICE.]**

When a county sheriff or other person serves notice of expiration of the time for redemption of

any parcel of real property from delinquent taxes upon any occupant of the real property, the sheriff or other person shall inquire of the occupant and otherwise as the sheriff or other person may deem proper whether the real property was owned and occupied for dwelling, professional, business or agricultural purposes by a person in the military service of the United States as defined in the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, or the person's dependents at the commencement of the period of military service. On finding that the real property is so owned, the sheriff or other person shall make a certificate to the county auditor, setting forth the description of the property, the name of the owner, the particulars of the owner's military service so far as ascertained or claimed, and the names and addresses of the persons of whom the sheriff or other person made inquiry. The certificate shall be filed with the county auditor and shall be prima facie evidence of the facts stated. If the real property described in the certificate becomes forfeited to the state, it shall be withheld from sale or conveyance as tax-forfeited property in accordance with and subject to the provisions of the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, except that the requirement in United States Code, title 50, section 560, that the property be occupied by the dependent or employee of the person in military service does not apply. The period of withholding from sale or conveyance shall be no longer than is required by that act. If upon further investigation the sheriff or other person finds at any time that the certificate is erroneous in any particular, the sheriff or other person shall file a supplemental certificate referring to the matter in error and stating the facts as found. The supplemental certificate shall be prima facie evidence of the facts stated, and shall supersede any prior certificate so far as in conflict therewith. If it appears from the supplemental certificate that the owner of the real property affected is not entitled to have the same withheld from sale under the Soldiers' and Sailors' Civil Relief Act of 1940, as amended, the property shall not be withheld from sale further under this section.

Sec. 30. Minnesota Statutes 1996, section 281.276, is amended to read:

281.276 [RETURN OF SHERIFF MUST SHOW MILITARY SERVICE.]

Unless a sheriff's certificate showing military service is filed as required by section 281.273, it shall be presumed that the owner of the property described in the notice of expiration of the time for redemption from delinquent taxes is not in such service. The filing of the sheriff's certificate provided for in section 281.273 shall not affect the forfeiture of the real property described in such notice of the expiration of the time for redemption from delinquent taxes or their proceedings relating thereto except as expressly herein provided.

Sec. 31. Minnesota Statutes 1996, section 373.40, subdivision 7, is amended to read:

Subd. 7. [REPEALER.] This section is repealed effective for bonds issued after July 1, 1998 2003, but continues to apply to bonds issued before that date.

Sec. 32. Minnesota Statutes 1996, section 375.192, subdivision 2, is amended to read:

Subd. 2. [PROCEDURE, CONDITIONS.] Upon written application by the owner of any property, the county board may grant the reduction or abatement of estimated market valuation or taxes and of any costs, penalties, or interest on them as the board deems just and equitable and order the refund in whole or part of any taxes, costs, penalties, or interest which have been erroneously or unjustly paid. Except as provided in sections 469.1812 to 469.1815, no reduction or abatement may be granted on the basis of providing an incentive for economic development or redevelopment. Except as provided in section 375.194, the county board is authorized to consider and grant reductions or abatements on applications only as they relate to taxes payable in the current year and the two prior years; provided that reductions or abatements for the two prior years shall be considered or granted only for (i) clerical errors, or (ii) when the taxpayer fails to file for a reduction or an adjustment due to hardship, as determined by the county board. The application must include the social security number of the applicant. The social security number is private data on individuals as defined by section 13.02, subdivision 12. All applications must be approved by the county assessor, or, if the property is located in a city of the first or second class having a city assessor, by the city assessor, and by the county auditor before consideration by the county board, except that the part of the application which is for the abatement of penalty or interest must be approved by the county treasurer and county auditor. Approval by the county or city assessor is

not required for abatements of penalty or interest. No reduction, abatement, or refund of any special assessments made or levied by any municipality for local improvements shall be made unless it is also approved by the board of review or similar taxing authority of the municipality. Before taking action on any reduction or abatement where the reduction of taxes, costs, penalties, and interest exceed \$10,000, the county board shall give 20 days' notice to the school board and the municipality in which the property is located. The notice must describe the property involved, the actual amount of the reduction being sought, and the reason for the reduction. If the school board or the municipality object to the granting of the reduction or abatement, the county board must refer the abatement or reduction to the commissioner of revenue with its recommendation. The commissioner shall consider the abatement or reduction under section 270.07, subdivision 1.

An appeal may not be taken to the tax court from any order of the county board made in the exercise of the discretionary authority granted in this section.

The county auditor shall notify the commissioner of revenue of all abatements resulting from the erroneous classification of real property, for tax purposes, as nonhomestead property. For the abatements relating to the current year's tax processed through June 30, the auditor shall notify the commissioner on or before July 31 of that same year of all abatement applications granted. For the abatements relating to the current year's tax processed after June 30 through the balance of the year, the auditor shall notify the commissioner on or before the following January 31 of all applications granted. The county auditor shall submit a form containing the social security number of the applicant and such other information the commissioner prescribes.

Sec. 33. Minnesota Statutes 1996, section 465.71, is amended to read:

465.71 [INSTALLMENT AND LEASE PURCHASES; CITIES; COUNTIES; SCHOOL DISTRICTS.]

A home rule charter city, statutory city, county, town, or school district may purchase personal property under an installment contract, or lease real or personal property with an option to purchase under a lease-purchase agreement, by which contract or agreement title is retained by the seller or vendor or assigned to a third party as security for the purchase price, including interest, if any, but such purchases are subject to statutory and charter provisions applicable to the purchase of real or personal property. For purposes of the bid requirements contained in section 471.345, "the amount of the contract" shall include the total of all lease payments for the entire term of the lease under a lease-purchase agreement. The obligation created by a lease-purchase agreement for personal property or a lease-purchase agreement for real property if the amount of the contract for purchase of the real property is less than \$1,000,000 shall not be included in the calculation of net debt for purposes of section 475.53, and shall not constitute debt under any other statutory provision. No election shall be required in connection with the execution of a lease-purchase agreement authorized by this section. The city, county, town, or school district must have the right to terminate a lease- purchase agreement at the end of any fiscal year during its term.

Sec. 34. Minnesota Statutes 1996, section 465.81, subdivision 1, is amended to read:

Subdivision 1. [SCOPE.] Sections 465.81 to 465.87 establish procedures to be used by counties, cities, or towns that adopt by resolution an agreement providing a plan to provide combined services during an initial cooperation period that may not exceed two years and then:

- (1) to merge into a single unit of government over the succeeding two-year period; or
- (2) to agree to apportion the entire area of at least one local government unit between or among two or more local government units contiguous to the unit to be apportioned, resulting in the elimination of at least one local government unit over the succeeding two years.

Sec. 35. Minnesota Statutes 1996, section 465.81, subdivision 3, is amended to read:

Subd. 3. [COMBINATION REQUIREMENTS.] Counties may combine with one or more other counties. Cities may combine with one or more other cities or with one or more towns. Towns may combine with one or more other towns or with one or more cities. Units that combine must be contiguous. A county, through the adoption of a resolution by all county boards that are

affected by the combination, may apportion its territory between or among two or more counties contiguous to the county that is to be apportioned. A city, through the adoption of a resolution by all city councils that are affected by the combination, may apportion its territory between or among two or more cities contiguous to the city that is to be apportioned. A township, through the adoption of a resolution by all town boards or city councils that are affected by the combination, may apportion its territory between or among two or more townships or cities contiguous to the township that is to be apportioned.

Sec. 36. Minnesota Statutes 1996, section 465.82, subdivision 1, is amended to read:

Subdivision 1. [ADOPTION AND STATE AGENCY REVIEW.] Each governing body that proposes to ~~combine~~ take part in a combination under sections 465.81 to 465.87 must ~~adopt~~ by resolution adopt a plan for cooperation and combination. The plan must address each item in this section. The plan must be specific for any item that will occur within three years and may be general or set forth alternative proposals for an item that will occur more than three years in the future. The plan must be submitted to the board of government innovation and cooperation for review and comment. For a metropolitan area local government unit, the plan must also be submitted to the metropolitan council for review and comment. The council may point out any resources or technical assistance it may be able to provide a governing body submitting a plan under this subdivision. Significant modifications and specific resolutions of items must be submitted to the board and council, if appropriate, for review and comment. In the official newspaper of each local government unit ~~proposed for~~ proposing to take part in the combination, the governing body ~~must~~ shall publish at least a summary of the adopted plans, each significant modification and resolution of items, and, if appropriate, the results of each board and council, ~~if appropriate,~~ review and comment. If a territory of a unit is to be apportioned between or among two or more units contiguous to the unit that is to be apportioned, the plan must specify the area that will become a part of each remaining unit.

Sec. 37. Minnesota Statutes 1996, section 465.82, subdivision 2, is amended to read:

Subd. 2. [CONTENTS OF PLAN.] The plan must state:

(1) the specific cooperative activities the units will engage in during the first two years of the venture;

(2) the steps to be taken to effect the merger of the governmental units, with completion no later than four years after the process begins;

(3) the steps by which a single governing body will be created or, when the entire territory of a unit will be apportioned between or among two or more units contiguous to the unit that is to be apportioned, the steps to be taken by the governing bodies of the remaining units to provide for representation of the residents of the apportioned unit;

(4) changes in services provided, facilities used, and administrative operations and staffing required to effect the preliminary cooperative activities and the final merger, and a two-, five-, and ten-year projection of expenditures for each unit if it combined and if it remained separate;

(5) treatment of employees of the merging governmental units, specifically including provisions for reassigning employees, dealing with ~~unions~~ exclusive representatives, and providing financial incentives to encourage early retirements;

(6) financial arrangements for the merger, specifically including responsibility for debt service on outstanding obligations of the merging ~~entities~~ units;

(7) one- and two-year impact analysis analyses, prepared by the granting state agency at the request of the local government unit, of major state aid revenues received for each unit if it combined and if it remained separate. ~~This would also include, including an impact analysis, prepared by the department of revenue, of any property tax revenue implications, if any, associated with tax increment financing districts and fiscal disparities under chapter 276A or 473F resulting from the merger;~~

(8) procedures for a referendum to be held before the proposed combination to approve combining the local government units, specifically stating whether a majority of those voting in each district proposed for combination or a majority of those voting on the question in the entire area proposed for combination ~~would be~~ is needed to pass the referendum; and

(9) a time schedule for implementation.

Notwithstanding clause (3) or any other law to the contrary, all current members of the governing bodies of the local ~~governmental~~ government units that propose to combine under sections 465.81 to 465.88 may serve on the initial governing body of the combined unit until a gradual reduction in membership is achieved by foregoing election of new members when terms expire until the number permitted by other law is reached.

Sec. 38. Minnesota Statutes 1996, section 465.82, is amended by adding a subdivision to read:

Subd. 3. [INTERIM GOVERNING BODY.] The plan for cooperation and combination adopted in accordance with subdivision 1 may establish an interim governing body to act on behalf of the new local government unit before the effective date of the combination. If established, the interim governing body must consist of at least a majority of the elected officials from each local government unit taking part in the combination. If the plan establishes an interim governing body, the governing body of each unit taking part in the combination shall appoint its representatives to serve on the interim governing body. An interim governing body may not take any official action on behalf of the new local government unit before approval of the combination through the referendum required by section 465.84. After approval of the combination through the referendum, and before the effective date of the combination, an interim governing body may exercise all statutory authority of the governing body of the new local government unit, including the authority to enter into contracts and adopt policies and local ordinances.

Sec. 39. Minnesota Statutes 1996, section 465.87, subdivision 1a, is amended to read:

Subd. 1a. [ADDITIONAL ELIGIBILITY.] A local government unit is eligible to apply for aid under this section if it has combined with another unit of government in accordance with any process within chapter 414 that results in the elimination of at least one local government unit and a copy of the municipal board's order or orders combining the ~~two~~ units of government is forwarded to the board. If the municipal board issues two or more orders within 30 days for the annexation of the area of an entire township by two or more cities contiguous to the township, the cities subject to the board's order are eligible to receive pro rata shares, on the basis of their populations, of the total amount of cooperation and combination aid all participating units of government would be eligible to receive under subdivision 2. If two units of government cooperate in the orderly annexation of the entire area of a third unit of government which has a population of at least 8,000 people, the two units of government are each eligible for the amount of aid specified in subdivision 2.

Sec. 40. Minnesota Statutes 1996, section 465.87, subdivision 2, is amended to read:

Subd. 2. [AMOUNT OF AID.] The annual amount of aid to be paid to each eligible local government unit may not exceed the following per capita amounts, based on the combined population of the units, as estimated by the state demographer, or \$100,000, whichever is less.

Combined Population	Aid
after Combination	Per Capita
0 - 2,500	\$25
2,500 - 5,000	20
5,000 - 20,000	15
over 20,000	10

If two or more units are eligible for a single award under this subdivision, the award must be divided among the units in pro rata shares based on each unit's population. Payments must be

made on the dates provided for payments of local government aid under section 477A.013, beginning in the year during which substantial cooperative activities under the plan initially occur, unless those activities begin after July 1, in which case the initial aid payment must be made in the following calendar year. Payments to a local government unit that qualifies for aid under subdivision 1a must be made on the dates provided for payments of local government aids under section 477A.013, beginning in the calendar year during which a combination in any form is expected to be ordered by the Minnesota municipal board as evidenced in a resolution adopted by July 1 by the affected local government units declaring their intent to combine. The resolutions must certify that the combination agreement addressing all issues relative to the combination is substantially complete. The total amount of aid paid may not exceed the amount appropriated to the board for purposes of this section.

Sec. 41. Minnesota Statutes 1996, section 465.88, is amended to read:

465.88 [PLANNING AID FOR CONSOLIDATION STUDIES.]

Two or more local units of government with a combined population of ~~2,500~~ 30,000 or less based on the most recent decennial census may apply to the board for aid to assist in the study of a possible consolidation or combination. To be eligible for receipt of aid under this section, the ~~two~~ local units of government must be subject to a municipal board ~~motion~~ proceeding to form a consolidation commission under section 414.041, subdivision 2, or the governing bodies of the local units of government must have approved a resolution expressing their intent to develop and submit a combination plan for consideration by the board. The application must be on a form prescribed by the board and must provide a proposed budget detailing how the requested aid ~~shall~~ is to be used. The governing bodies of the local units of government ~~must~~ shall also approve resolutions certifying that the requested aid is essential for paying a portion of the costs associated with the consolidation or combination study. The board may grant up to \$10,000 in aid for each application received. Two or more local government units with a combined population of at least 2,500 but not greater than 30,000, based on the most recent decennial census, must agree to provide at least \$1 for the study of a possible consolidation or combination for each dollar of aid granted by the board under this section.

Sec. 42. Minnesota Statutes 1996, section 469.012, subdivision 1, is amended to read:

Subdivision 1. [SCHEDULE OF POWERS.] An authority shall be a public body corporate and politic and shall have all the powers necessary or convenient to carry out the purposes of sections 469.001 to 469.047, except that the power to levy and collect taxes or special assessments is limited to the power provided in sections 469.027 to 469.033. Its powers include the following powers in addition to others granted in sections 469.001 to 469.047:

(1) to sue and be sued; to have a seal, which shall be judicially noticed, and to alter it; to have perpetual succession; and to make, amend, and repeal rules consistent with sections 469.001 to 469.047;

(2) to employ an executive director, technical experts, and officers, agents, and employees, permanent and temporary, that it requires, and determine their qualifications, duties, and compensation; for legal services it requires, to call upon the chief law officer of the city or to employ its own counsel and legal staff; so far as practicable, to use the services of local public bodies in its area of operation, provided that those local public bodies, if requested, shall make the services available;

(3) to delegate to one or more of its agents or employees the powers or duties it deems proper;

(4) within its area of operation, to undertake, prepare, carry out, and operate projects and to provide for the construction, reconstruction, improvement, extension, alteration, or repair of any project or part thereof;

(5) subject to the provisions of section 469.026, to give, sell, transfer, convey, or otherwise dispose of real or personal property or any interest therein and to execute leases, deeds, conveyances, negotiable instruments, purchase agreements, and other contracts or instruments, and take action that is necessary or convenient to carry out the purposes of these sections;

(6) within its area of operation, to acquire real or personal property or any interest therein by gifts, grant, purchase, exchange, lease, transfer, bequest, devise, or otherwise, and by the exercise of the power of eminent domain, in the manner provided by chapter 117, to acquire real property which it may deem necessary for its purposes, after the adoption by it of a resolution declaring that the acquisition of the real property is necessary to eliminate one or more of the conditions found to exist in the resolution adopted pursuant to section 469.003 or to provide decent, safe, and sanitary housing for persons of low and moderate income, or is necessary to carry out a redevelopment project. Real property needed or convenient for a project may be acquired by the authority for the project by condemnation pursuant to this section. This includes any property devoted to a public use, whether or not held in trust, notwithstanding that the property may have been previously acquired by condemnation or is owned by a public utility corporation, because the public use in conformity with the provisions of sections 469.001 to 469.047 shall be deemed a superior public use. Property devoted to a public use may be so acquired only if the governing body of the municipality has approved its acquisition by the authority. An award of compensation shall not be increased by reason of any increase in the value of the real property caused by the assembly, clearance or reconstruction, or proposed assembly, clearance or reconstruction for the purposes of sections 469.001 to 469.047 of the real property in an area;

(7) within its area of operation, and without the adoption of an urban renewal plan, to acquire, by all means as set forth in clause (6) but without the adoption of a resolution provided for in clause (6), real property, and to demolish, remove, rehabilitate, or reconstruct the buildings and improvements or construct new buildings and improvements thereon, or to so provide through other means as set forth in Laws 1974, chapter 228, or to grade, fill, and construct foundations or otherwise prepare the site for improvements. The authority may dispose of the property pursuant to section 469.029, provided that the provisions of section 469.029 requiring conformance to an urban renewal plan shall not apply. The authority may finance these activities by means of the redevelopment project fund or by means of tax increments or tax increment bonds or by the methods of financing provided for in section 469.033 or by means of contributions from the municipality provided for in section 469.041, clause (9), or by any combination of those means. Real property with buildings or improvements thereon shall only be acquired under this clause when the buildings or improvements are substandard. The exercise of the power of eminent domain under this clause shall be limited to real property which contains, or has contained within the three years immediately preceding the exercise of the power of eminent domain and is currently vacant, buildings and improvements which are vacated and substandard. Notwithstanding the prior sentence, in cities of the first class the exercise of the power of eminent domain under this clause shall be limited to real property which contains, or has contained within the three years immediately preceding the exercise of the power of eminent domain, buildings and improvements which are substandard. For the purpose of this clause, substandard buildings or improvements mean hazardous buildings as defined in section 463.15, subdivision 3, or buildings or improvements that are dilapidated or obsolescent, faultily designed, lack adequate ventilation, light, or sanitary facilities, or any combination of these or other factors that are detrimental to the safety or health of the community;

(8) within its area of operation, to determine the level of income constituting low or moderate family income. The authority may establish various income levels for various family sizes. In making its determination, the authority may consider income levels that may be established by the Department of Housing and Urban Development or a similar or successor federal agency for the purpose of federal loan guarantees or subsidies for persons of low or moderate income. The authority may use that determination as a basis for the maximum amount of income for admissions to housing development projects or housing projects owned or operated by it;

(9) to provide in federally assisted projects any relocation payments and assistance necessary to comply with the requirements of the Federal Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970, and any amendments or supplements thereto;

(10) to make an agreement with the governing body or bodies creating the authority which provides exemption from all ad valorem real and personal property taxes levied or imposed by the state, city, county, or other political subdivisions, for which the authority shall make payments in lieu of taxes to the state, city, county, or other political subdivisions as provided in section 469.040



body or bodies creating the authority. The governing body shall agree on behalf of all the applicable governing bodies affected that local cooperation as required by the federal government shall be provided by the local governing body or bodies in whose jurisdiction the project is to be located, at no cost or at no greater cost than the same public services and facilities furnished to other residents;

(11) to cooperate with or act as agent for the federal government, the state or any state public body, or any agency or instrumentality of the foregoing, in carrying out any of the provisions of sections 469.001 to 469.047 or of any other related federal, state, or local legislation; and upon the consent of the governing body of the city to purchase, lease, manage, or otherwise take over any housing project already owned and operated by the federal government;

(12) to make plans for carrying out a program of voluntary repair and rehabilitation of buildings and improvements, and plans for the enforcement of laws, codes, and regulations relating to the use of land and the use and occupancy of buildings and improvements, and to the compulsory repair, rehabilitation, demolition, or removal of buildings and improvements. The authority may develop, test, and report methods and techniques, and carry out demonstrations and other activities for the prevention and elimination of slums and blight;

(13) to borrow money or other property and accept contributions, grants, gifts, services, or other assistance from the federal government, the state government, state public bodies, or from any other public or private sources;

(14) to include in any contract for financial assistance with the federal government any conditions that the federal government may attach to its financial aid of a project, not inconsistent with purposes of sections 469.001 to 469.047, including obligating itself (which obligation shall be specifically enforceable and not constitute a mortgage, notwithstanding any other laws) to convey to the federal government the project to which the contract relates upon the occurrence of a substantial default with respect to the covenants or conditions to which the authority is subject; to provide in the contract that, in case of such conveyance, the federal government may complete, operate, manage, lease, convey, or otherwise deal with the project until the defaults are cured if the federal government agrees in the contract to reconvey to the authority the project as then constituted when the defaults have been cured;

(15) to issue bonds for any of its corporate purposes and to secure the bonds by mortgages upon property held or to be held by it or by pledge of its revenues, including grants or contributions;

(16) to invest any funds held in reserves or sinking funds, or any funds not required for immediate disbursement, in property or securities in which savings banks may legally invest funds subject to their control or in the manner and subject to the conditions provided in section 118A.04 for the deposit and investment of public funds;

(17) within its area of operation, to determine where blight exists or where there is unsafe, unsanitary, or overcrowded housing;

(18) to carry out studies of the housing and redevelopment needs within its area of operation and of the meeting of those needs. This includes study of data on population and family groups and their distribution according to income groups, the amount and quality of available housing and its distribution according to rentals and sales prices, employment, wages, desirable patterns for land use and community growth, and other factors affecting the local housing and redevelopment needs and the meeting of those needs; to make the results of those studies and analyses available to the public and to building, housing, and supply industries;

(19) if a local public body does not have a planning agency or the planning agency has not produced a comprehensive or general community development plan, to make or cause to be made a plan to be used as a guide in the more detailed planning of housing and redevelopment areas;

(20) to lease or rent any dwellings, accommodations, lands, buildings, structures, or facilities included in any project and, subject to the limitations contained in sections 469.001 to 469.047 with respect to the rental of dwellings in housing projects, to establish and revise the rents or charges therefor;

(21) to own, hold, and improve real or personal property and to sell, lease, exchange, transfer, assign, pledge, or dispose of any real or personal property or any interest therein;

(22) to insure or provide for the insurance of any real or personal property or operations of the authority against any risks or hazards;

(23) to procure or agree to the procurement of government insurance or guarantees of the payment of any bonds or parts thereof issued by an authority and to pay premiums on the insurance;

(24) to make expenditures necessary to carry out the purposes of sections 469.001 to 469.047;

(25) to enter into an agreement or agreements with any state public body to provide informational service and relocation assistance to families, individuals, business concerns, and nonprofit organizations displaced or to be displaced by the activities of any state public body;

(26) to compile and maintain a catalog of all vacant, open and undeveloped land, or land which contains substandard buildings and improvements as that term is defined in clause (7), that is owned or controlled by the authority or by the governing body within its area of operation and to compile and maintain a catalog of all authority owned real property that is in excess of the foreseeable needs of the authority, in order to determine and recommend if the real property compiled in either catalog is appropriate for disposal pursuant to the provisions of section 469.029, subdivisions 9 and 10;

(27) to recommend to the city concerning the enforcement of the applicable health, housing, building, fire prevention, and housing maintenance code requirements as they relate to residential dwelling structures that are being rehabilitated by low- or moderate-income persons pursuant to section 469.029, subdivision 9, for the period of time necessary to complete the rehabilitation, as determined by the authority;

(28) to recommend to the city the initiation of municipal powers, against certain real properties, relating to repair, closing, condemnation, or demolition of unsafe, unsanitary, hazardous, and unfit buildings, as provided in section 469.041, clause (5);

(29) to sell, at private or public sale, at the price or prices determined by the authority, any note, mortgage, lease, sublease, lease purchase, or other instrument or obligation evidencing or securing a loan made for the purpose of economic development, job creation, redevelopment, or community revitalization by a public agency to a business, for-profit or nonprofit organization, or an individual;

(30) within its area of operation, to acquire and sell real property that is benefited by federal housing assistance payments, other rental subsidies, interest reduction payments, or interest reduction contracts for the purpose of preserving the affordability of low- and moderate-income multifamily housing;

(31) to apply for, enter into contracts with the federal government, administer, and carry out a section 8 program. Authorization by the governing body creating the authority to administer the program at the authority's initial application is sufficient to authorize operation of the program in its area of operation for which it was created without additional local governing body approval. Approval by the governing body or bodies creating the authority constitutes approval of a housing program for purposes of any special or general law requiring local approval of section 8 programs undertaken by city, county, or multicounty authorities; and

(32) to secure a mortgage or loan for a rental housing project by obtaining the appointment of receivers or assignments of rents and profits under sections 559.17 and 576.01, except that the limitation relating to the minimum amounts of the original principal balances of mortgages specified in sections 559.17, subdivision 2, clause (2); and 576.01, subdivision 2, does not apply.

Sec. 43. Minnesota Statutes 1996, section 469.033, subdivision 6, is amended to read:

Subd. 6. [OPERATION AREA AS TAXING DISTRICT, SPECIAL TAX.] All of the territory

included within the area of operation of any authority shall constitute a taxing district for the purpose of levying and collecting special benefit taxes as provided in this subdivision. All of the taxable property, both real and personal, within that taxing district shall be deemed to be benefited by projects to the extent of the special taxes levied under this subdivision. Subject to the consent by resolution of the governing body of the city in and for which it was created, an authority may levy a tax upon all taxable property within that taxing district. The tax shall be extended, spread, and included with and as a part of the general taxes for state, county, and municipal purposes by the county auditor, to be collected and enforced therewith, together with the penalty, interest, and costs. As the tax, including any penalties, interest, and costs, is collected by the county treasurer it shall be accumulated and kept in a separate fund to be known as the "housing and redevelopment project fund." The money in the fund shall be turned over to the authority at the same time and in the same manner that the tax collections for the city are turned over to the city, and shall be expended only for the purposes of sections 469.001 to 469.047. It shall be paid out upon vouchers signed by the chair of the authority or an authorized representative. The amount of the levy shall be an amount approved by the governing body of the city, but shall not exceed ~~0.0131~~ 0.0144 percent of taxable market value. ~~The authority may levy an additional levy, not to exceed 0.0013 percent of taxable market value, to be used to defray costs of providing informational service and relocation assistance as set forth in section 469.012, subdivision 1.~~ The authority shall each year formulate and file a budget in accordance with the budget procedure of the city in the same manner as required of executive departments of the city or, if no budgets are required to be filed, by August 1. The amount of the tax levy for the following year shall be based on that budget.

Sec. 44. Minnesota Statutes 1996, section 469.040, subdivision 3, is amended to read:

Subd. 3. [STATEMENT FILED WITH ASSESSOR; PERCENTAGE TAX ON RENTALS.] Notwithstanding the provisions of subdivision 1, after a housing project or a housing development project carried on under sections 469.016 to 469.026 has become occupied, in whole or in part, an authority shall file with the assessor, on or before April 15 of each year, a statement of the aggregate shelter rentals of that project collected during the preceding calendar year. Unless a greater amount has been agreed upon between the authority and the governing body or bodies for which the authority was created, in whose jurisdiction the project is located, five percent of the aggregate shelter rentals shall be charged to the authority as a service charge for the services and facilities to be furnished with respect to that project. The service charge shall be collected from the authority in the manner provided by law for the assessment and collection of taxes. The amount so collected shall be distributed to the several taxing bodies in the same proportion as the tax rate of each bears to the total tax rate of those taxing bodies. The governing body or bodies for which the authority has been created, in whose jurisdiction the project is located, may agree with the authority for the payment of a service charge for a housing project or a housing development project in an amount greater than five percent of the aggregate annual shelter rentals of any project, upon the basis of shelter rentals or upon another basis agreed upon. The service charge may not exceed the amount which would be payable in taxes were the property not exempt. If such an agreement is made, the service charge so agreed upon shall be collected and distributed in the manner above provided. If the project has become occupied, or if the land upon which the project is to be constructed has been acquired, the agreement shall specify the location of the project for which the agreement is made. "Shelter rental" means the total rentals of a housing project exclusive of any charge for utilities and special services such as heat, water, electricity, gas, sewage disposal, or garbage removal. "Service charge" means payment in lieu of taxes. The records of each housing project shall be open to inspection by the proper assessing officer.

Sec. 45. [469.1812] [DEFINITIONS.]

Subdivision 1. [SCOPE.] For purposes of sections 469.1812 to 469.1815, the following terms have the meanings given.

Subd. 2. [GOVERNING BODY.] "Governing body" means, for a city, the city council; for a school district, the school board; for a county, the county board; and for a town, the annual meeting of the town.

Subd. 3. [MUNICIPALITY.] "Municipality" means a statutory or home rule charter city or a town.

Subd. 4. [POLITICAL SUBDIVISION OR SUBDIVISION.] "Political subdivision" or "subdivision" means a statutory or home rule charter city, town, school district, or county.

Sec. 46. [469.1813] [ABATEMENT AUTHORITY.]

Subdivision 1. [AUTHORITY.] The governing body of a political subdivision may grant an abatement of the taxes imposed by the political subdivision on a parcel of property, if:

(a) it expects the benefits to the political subdivision of the proposed abatement agreement to at least equal the costs to the political subdivision of the proposed agreement; and

(b) it finds that doing so is in the public interest because it will:

(1) increase or preserve tax base;

(2) provide employment opportunities in the political subdivision;

(3) provide or help acquire or construct public facilities;

(4) help redevelop or renew blighted areas; or

(5) help provide access to services for residents of the political subdivision.

Subd. 2. [ABATEMENT RESOLUTION.] The governing body of a political subdivision may grant an abatement only by adopting an abatement resolution, specifying the terms of the abatement. The resolution must also include a specific statement as to the nature and extent of the public benefits which the governing body expects to result from the agreement. The abatement may reduce all or part of the property tax levied by the political subdivision on the parcel. The political subdivision may limit the abatement:

(1) to a specific dollar amount per year or in total;

(2) to the increase in property taxes resulting from improvement of the property;

(3) to the increases in property taxes resulting from increases in the market value or tax capacity of the property; or

(4) in any other manner the governing body of the subdivision determines is appropriate.

The political subdivision may not abate tax attributable to the value of the land or the areawide tax under chapter 276A or 473F.

Subd. 3. [SCHOOL DISTRICT ABATEMENT PROCEDURE.] Notwithstanding the amounts in subdivision 2, a school district that grants an abatement under this section must limit the abatement for any property to not more than an amount equal to the product of: (1) the property's net tax capacity, and (2) the difference between the district's total tax rate for that year and one-half of the general education tax rate for that year. An abatement granted under this section is not an abatement for purposes of state aid or local levy under chapter 124.

Subd. 4. [PROPERTY LOCATED IN TAX INCREMENT FINANCING DISTRICTS.] The governing body of a governmental subdivision may not enter into a property tax abatement agreement under sections 469.1812 to 469.1815 if the property is located in a tax increment financing district.

Subd. 5. [NOTICE AND PUBLIC HEARING.] (a) The governing body of the political subdivision may approve an abatement under sections 469.1812 to 469.1815 only after holding a public hearing on the abatement.

(b) Notice of the hearing must be published in a newspaper of general circulation in the political subdivision at least once more than ten days but less than 30 days before the hearing. The newspaper must be one of general interest and readership in the community, and not one of limited subject matter. The newspaper must be published at least once per week. The notice must indicate that the governing body will consider granting a property tax abatement, identify the property or

properties for which an abatement is under consideration, and the total estimated amount of the abatement.

Subd. 6. [DURATION LIMIT.] (a) A political subdivision other than a school district may grant an abatement for a period no longer than ten years. The subdivision may specify in the abatement resolution a shorter duration. If the resolution does not specify a period of time, the abatement is for eight years. If an abatement has been granted to a parcel of property and the period of the abatement has expired, the political subdivision that granted the abatement may not grant another abatement for eight years after the expiration of the first abatement. This prohibition does not apply to improvements added after and not subject to the first abatement.

(b) A school district may grant an abatement for only one year at a time. Once a school district has authorized an abatement for a property, it may reauthorize the abatement in any subsequent year for the next seven years, or nine years if provided in the original abatement agreement. This prohibition does not apply to improvements added after and not subject to the original abatement agreement.

Subd. 7. [REVIEW AND MODIFICATION OF ABATEMENTS.] The political subdivision may provide in the abatement resolution that the abatement may not be modified or changed during its term. If the abatement resolution does not provide that the abatement may not be modified or changed, the governing body of the political subdivision may review and modify the abatement every second year after it was approved.

Subd. 8. [LIMITATION ON ABATEMENTS.] In any year, the total amount of property taxes abated by a political subdivision under this section may not exceed (1) five percent of the current levy, or (2) \$100,000, whichever is greater.

Sec. 47. [469.1814] [BONDING AUTHORITY.]

Subdivision 1. [AUTHORITY.] A political subdivision may issue bonds or other obligations to provide an amount equal to the sum of the abatements granted for a property under section 469.1813. The maximum principal amount of these bonds may not exceed the estimated sum of the abatements for the property for the years authorized. The bonds may be general obligations of the political subdivision if the governing body of the political subdivision elects to pledge the full faith and credit of the subdivision in the resolution issuing the bonds.

Subd. 2. [BOND CODE APPLIES.] Chapter 475 applies to the obligations authorized by this section, except bonds are excluded from the calculation of the net debt limit.

Subd. 3. [MUNICIPAL ISSUE FOR COMBINED ABATEMENTS.] If two or more political subdivisions decide to grant abatements for the same property, the municipality in which the property is located may issue bonds to provide an amount equal to the sum of the abatements for each of the jurisdictions that agrees. The governing body of each of the other jurisdictions must guarantee and pledge to pay annually to the municipality the amount of the abatement. This pledge and guarantee is a binding obligation of the political subdivision and must be included in the abatement resolution.

Subd. 4. [BONDED ABATEMENTS NOT SUBJECT TO REVIEW.] If bonds are issued to provide advance payment of abatements under this section, the amount of abatement is not subject to periodic review by the political subdivision under section 469.1813, subdivision 7.

Subd. 5. [USE OF PROCEEDS.] The proceeds of bonds issued under this section may be used to (1) pay for public improvements that benefit the property, (2) to acquire and convey land or other property, as provided under this section, (3) to reimburse the property owner for the cost of improvements made to the property, or (4) to pay the costs of issuance of the bonds.

Sec. 48. [469.1815] [ADMINISTRATIVE.]

Subdivision 1. [INCLUSION IN PROPOSED AND FINAL LEVIES.] The political subdivision must add to its levy amount for the current year under sections 275.065 and 275.07 the total estimated amount of all current year abatements granted. The tax amounts shown on the

proposed notice under section 275.065, subdivision 3, and on the property tax statement under section 276.04, subdivision 2, are the total amounts before the reduction of any abatements that will be granted on the property.

Subd. 2. [PROPERTY TAXES; ABATEMENT PAYMENT.] The total property taxes shall be levied on the property and shall be due and payable to the county at the times provided under section 279.01. The political subdivision will pay the abatement to the property owner, lessee, or a representative of the bondholders, as provided by the abatement resolution.

Sec. 49. Minnesota Statutes 1996, section 477A.011, subdivision 36, is amended to read:

Subd. 36. [CITY AID BASE.] (a) Except as provided in paragraphs (b) ~~and~~, (c), and (d), "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 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.

Sec. 50. Laws 1992, chapter 511, article 2, section 52, is amended to read:

Sec. 52. [WATERSHED DISTRICT LEVIES.]

(a) The Nine Mile Creek watershed district, the Riley-Purgatory Bluff Creek watershed district, the Minnehaha Creek watershed district, the Coon Creek watershed district, and the Lower Minnesota River watershed district may levy in 1992 and thereafter a tax not to exceed \$200,000 on property within the district for the administrative fund. The levy authorized under this section is in lieu of section 103D.905, subdivision 3. The administrative fund shall be used for the purposes contained in Minnesota Statutes, section 103D.905, subdivision 3. The board of managers shall make the levy for the administrative fund in accordance with Minnesota Statutes, section 103D.915.

(b) The Wild Rice watershed district may levy, for taxes payable in 1993, 1994, 1995, 1996, and 1997, 1998, 1999, 2000, 2001, and 2002, an ad valorem tax not to exceed \$200,000 on property within the district for the administrative fund. The additional \$75,000 above the amount authorized in Minnesota Statutes, section 103D.905, subdivision 3, must be used for costs incurred in connection with the development and maintenance of cost-sharing projects with the United States Army Corps of Engineers. The board of managers shall make the levy for the administrative fund in accordance with Minnesota Statutes, section 103D.915.

Sec. 51. Laws 1997, chapter 75, section 2, is amended to read:

Sec. 2. [EFFECTIVE DATE; EXPIRATION.]

Section 1 is effective May 2, 1997, and expires January 1, 1998.

Sec. 52. [VALUATION EXCLUSION FOR IMPROVEMENTS TO CERTAIN BUSINESS PROPERTY.]

Property classified under Minnesota Statutes, section 273.13, subdivision 24, which is eligible for the preferred class rate on the market value up to \$150,000, shall qualify for a valuation exclusion for assessment purposes, provided all of the following conditions are met:

(1) the building must be at least 50 years old at the time of the improvement or damaged by the 1997 floods;

(2) the building must be located in a city or town with a population of 10,000 or less that is located outside the seven-county metropolitan area, as defined in section 473.121, subdivision 2;

(3) the total estimated market value of the land and buildings must be \$100,000 or less prior to the improvement and prior to the damage caused by the 1997 floods;

(4) the current year's estimated market value of the property must be equal to or less than the property's estimated market value in each of the two previous years' assessments;

(5) a building permit must have been issued prior to the commencement of the improvement, or if the building is located in a city or town which does not have a building permit process, the property owner must notify the assessor prior to the commencement of the improvement;

(6) the property, including its improvements, has received no public assistance, grants or financing;

(7) the property is not receiving a property tax abatement under section 469.1813; and

(8) the improvements are made after the effective date of this act and prior to January 1, 1999.

The assessor shall estimate the market value of the building in the assessment year immediately following the year that (1) the building permit was taken out, or (2) the taxpayer notified the assessor that an improvement was to be made. If the estimated market value of the building has increased over the prior year's assessment, the assessor shall note the amount of the increase on the property's record, and that amount shall be subtracted from the value of the property in each year for five years after the improvement has been made, at which time an amount equal to 20 percent of the excluded value shall be added back in each of the five subsequent assessment years.

For any property, there can be no more than two improvements qualifying for exclusion under this subdivision. The maximum amount of value that can be excluded from any property under this subdivision is \$50,000.

The assessor shall require an application, including documentation of the age of the building from the owner, if unknown by the assessor. Applications must be received prior to July 1 of any year in order to be effective for taxes payable in the following year.

For purposes of this subdivision, "population" has the same meaning given in Minnesota Statutes, section 477A.011, subdivision 3.

Sec. 53. [CITY OF DULUTH; REASSESSMENTS OF CANCELED SPECIAL ASSESSMENTS.]

Subdivision 1. [AUTHORIZATION.] Notwithstanding any law, city charter provision, or ordinance to the contrary, if a parcel of tax-forfeited land located in the city of Duluth is returned to private ownership and the parcel is benefited by an improvement for which special assessments were canceled because of the forfeiture, the city council may, upon notice and hearing as provided for in the original assessment, make a reassessment or a new assessment as to the parcel in an amount equal to the amount remaining unpaid on the original assessment.

Subd. 2. [LOCAL APPROVAL REQUIRED.] This section is effective upon approval by the governing body of the city of Duluth and compliance with Minnesota Statutes, section 645.021, subdivision 3.

Sec. 54. [FLOODWOOD JOINT RECREATION BOARD TAX.]

Subdivision 1. [LEVY AUTHORIZATION.] Each year, the Floodwood joint recreation board may levy a tax not to exceed \$25,000 on the value of property situated in the territory of independent school district No. 698 in accordance with this section. Property in territory in the school district may be made subject to the tax permitted by this section by the agreement of the governing body or town board of the city or town where it is located. The agreement may be by resolution of a governing body or town board or by a joint powers agreement pursuant to Minnesota Statutes, section 471.59. If levied, the tax is in addition to all other taxes on the property subject to it permitted to be levied for park and recreation purposes by the cities and towns other than for the support of the joint recreation board. It shall be disregarded in the calculation of all other mill rate or per capita tax levy limitations imposed by law or charter upon them. A city or town may withdraw its agreement to future taxes by notice to the recreation board and the county auditor unless provided otherwise by a joint powers agreement. The tax shall be collected by the applicable county auditor and treasurer and paid directly to the Floodwood joint recreation board.

Subd. 2. [LOCAL APPROVAL.] This section is effective in the city of Floodwood, the towns of Arrowhead, Fine Lakes, Floodwood, Halden, Van Buren, Cedar Valley, Prairie Lake, and Unorganized Township 52-21 in St. Louis county, and Unorganized Township 52-22 in Aitkin county the day after compliance with Minnesota Statutes, section 645.021, subdivision 3, by the governing body of each. This section is effective for each city, town, and unorganized township regardless of the action of the others.

Approval of this section is not agreement to be subject to the tax permitted by it. Agreement to the tax must be by separate action in accordance with subdivision 1.

Sec. 55. [SAUK RIVER WATERSHED DISTRICT.]

Subdivision 1. [LEVY AUTHORIZATION.] Notwithstanding Minnesota Statutes, section 103D.905, subdivision 3, the Sauk River watershed district may levy up to \$150,000 for its administrative fund for taxes levied in 1997, payable in 1998.

Subd. 2. [EFFECTIVE DATE.] This section is effective the day following final enactment.

Sec. 56. [VIRGINIA AREA AMBULANCE DISTRICT.]

Subdivision 1. [AGREEMENT; POWERS; GENERAL DESCRIPTION.] (a) The cities of Virginia, Mountain Iron, and Gilbert, and the towns of Pike, Clinton, McDavitt, Colvin, Sandy, Cherry, Ellsburg, Wouri, Lavell, Cotton, and Embarrass, may by resolution of their city councils and town boards establish the Virginia area ambulance district.

(b) The St. Louis county board may by resolution provide that property located in unorganized townships described in clauses (1) to (6) may be included within the district:

(1) Township 61 North, Range 17 West;



(2) Township 59 North, Ranges 16 and 18 West;

(3) Township 56 North, Range 16 West;

(4) Township 60 North, Range 18 West;

(5) Township 55 North, Range 15; and

(6) Township 57, Range 16.

(c) The district shall make payments of the proceeds of the tax authorized in this section to the city of Virginia, which shall provide ambulance services throughout the district and may exercise all the powers of the cities and towns that relate to ambulance service anywhere within its territory.

(d) Any other contiguous town or home rule charter or statutory city may join the district with the agreement of the cities and towns that comprise the district at the time of its application to join. Action to join the district may be taken by the city council or town board of the city or town.

Subd. 2. [BOARD.] The district shall be governed by a board composed of one member appointed by the city council or town board of each city and town in the district. A district board member may, but is not required to, be a member of a city council or town board. Except as provided in this section, members shall serve two-year terms ending the first Monday in January and until their successors are appointed and qualified. Of the members first appointed, as far as possible, the terms of one-half shall expire on the first Monday in January in the first year following appointment and one-half the first Monday in January in the second year. The terms of those initially appointed must be determined by lot. If an additional member is added because an additional city or town joins the district, the member's term must be fixed so that, as far as possible, the terms of one-half of all the members expire on the same date.

Subd. 3. [TAX.] The district may impose a property tax on real and personal property in the district in an amount sufficient to discharge its operating expenses and debt payable in each year, but not to exceed .0528 percent of the district's taxable market value. The St. Louis county auditor shall collect the tax and distribute it to the Virginia area ambulance district.

Subd. 4. [EXPENDITURES.] The taxes collected under subdivision 3 shall be used for licensed ambulance services and first responders. Licensed ambulance services shall receive 80 percent of the available funds and first responders shall receive 20 percent of the available funds. The amounts allocated to first responders shall be used for education, training, and reimbursement for their allowable expenses. Only education and training that meets the recognized education and training guidelines set by the emergency medical services regulatory board under Minnesota Statutes, chapter 144E, shall be reimbursable under this subdivision.

Subd. 5. [PUBLIC INDEBTEDNESS.] The district may incur debt in the manner provided for a municipality by Minnesota Statutes, chapter 475, when necessary to accomplish a duty charged to it.

Subd. 6. [WITHDRAWAL.] Upon two years' notice, a city or town may withdraw from the district. Its territory shall remain subject to taxation for debt incurred prior to its withdrawal under Minnesota Statutes, chapter 475.

Subd. 7. [EFFECTIVE DATE.] This section is effective (1) in the cities of Virginia, Mountain Iron, and Gilbert, and the towns of Pike, Clinton, McDavitt, Colvin, Sandy, Cherry, Ellsburg, Wouri, Lavell, Cotton, and Embarrass, the day after compliance with Minnesota Statutes, section 645.021, subdivision 2, by the governing body of each, and (2) for unorganized townships described in subdivision 1, paragraph (b), clauses (1) to (6), the day after compliance with Minnesota Statutes, section 645.021, subdivision 2, by the St. Louis county board, provided that the district must be established by September 1, 2000. Any of the cities, towns, and unorganized townships listed in subdivision 1 that do not join the district initially may join the district after its establishment.

Sec. 57. [ST. LOUIS COUNTY; UTILITY PERSONAL PROPERTY EXEMPTION.]

(a) An electric generating facility with a capacity of 110,000 kilowatts located in St. Louis County whose operation is integral to the development and operation of a new, adjacent industrial park is exempt from property taxes on attached machinery and other personal property for replacement equipment and improvements installed after July 1, 1997. If the industrial park is not built by July 1, 2001, this exemption expires.

(b) The governing bodies of the county, city or town, and school district must each approve by resolution the exemption of the personal property under this section. The resolution shall contain the number of years for which the exemption is granted. Each of the governing bodies shall file a copy of the resolution with the county auditor. The county auditor shall publish the resolutions in newspapers of general circulation within the county. The voters of the county may request a referendum on the proposed exemption by filing a petition within 30 days after the resolutions are published. The petition must be signed by voters who reside in the county. The number of signatures must equal at least ten percent of the number of persons voting in the county in the last general election. If such a petition is timely filed, the resolutions are not effective until they have been submitted to the voters residing in the county at a general or special election and a majority of votes cast on the question of approving the resolution are in the affirmative. The commissioner of revenue shall prepare a suggested form of question to be presented at the referendum.

(c) The exemption under this section is limited to a maximum of five years, beginning with the assessment year immediately following when the personal property is put in operation and expires thereafter.

Sec. 58. [WASHINGTON COUNTY; LEVY TO FUND THE COUNTY HOUSING AND REDEVELOPMENT AUTHORITY.]

Subdivision 1. [AUTHORIZATION.] In addition to all other levies authorized by law, Washington county may levy an amount not to exceed \$2,000,000 over a ten-year period beginning in 1997 for taxes payable in 1998, and transfer the proceeds of the levy to the Washington county housing and redevelopment authority to be used to support the activities of the authority, which may include refinancing of indebtedness of the authority, in the city of Landfall.

Subd. 2. [LOCAL APPROVAL.] This section is effective upon approval by the governing body of Washington county and compliance with Minnesota Statutes, section 645.021, subdivision 3.

Sec. 59. [BROOKLYN PARK; CERTIFICATION OF CHARGES; DEFINITIONS.]

Subdivision 1. [SCOPE.] For the purpose of sections 60 and 61, the terms defined in this section have the meanings given them.

Subd. 2. [ASSOCIATION.] "Association" has the meaning given it in Minnesota Statutes, section 515B.1-103, paragraph (4).

Subd. 3. [AUTHORITY.] "Authority" means the Brooklyn Park economic development authority.

Subd. 4. [COMMON ELEMENTS.] "Common elements" has the meaning given it in Minnesota Statutes, section 515B.1-103, paragraph (7).

Subd. 5. [COMMON ELEMENT IMPROVEMENTS.] "Common element improvements" means any physical repair, replacement, or modification of, or addition to, the common elements of a common interest community.

Subd. 6. [COMMON INTEREST COMMUNITY.] "Common interest community" has the meaning given it in Minnesota Statutes, section 515B.1-103, paragraph (10).

Subd. 7. [UNIT.] "Unit" has the meaning given it in Minnesota Statutes, section 515B.1-103, paragraph (33).

Subd. 8. [UNIT OWNER.] "Unit owner" has the meaning given it in Minnesota Statutes, section 515B.1-103, paragraph (35).

Sec. 60. [BROOKLYN PARK; AUTHORITY GRANTED.]

If:

(1) the authority lends or agrees to lend funds to an association for the provision or construction of common element improvements;

(2) the association has duly levied common expense assessments against the units in order to provide the association with funds to:

(i) pay principal and interest on the loan;

(ii) provide coverage in excess of principal and interest payments on the loan;

(iii) create or replenish reserve funds pledged as security for the loan; or

(iv) pay expenses related to the loan or the assessments that are identified in the loan agreement between the authority and the association;

(3) a unit owner has become delinquent in the payment of any assessment installment; and

(4) the association has declared the entire amount of the assessment due and owing pursuant to Minnesota Statutes, section 515B.3-115, paragraph (k), then

the authority may certify the delinquent assessment, together with interest and penalties, to the county auditor for collection to the same extent and in the same manner provided by law for the assessment and collection of real estate taxes.

Sec. 61. [BROOKLYN PARK; DISCLOSURE REQUIRED.]

For any common interest community located in the city of Brooklyn Park, the disclosure statement required under Minnesota Statutes, section 515B.4-102, must include a description of the potential applicability and consequences of section 60.

Sec. 62. [MINNEAPOLIS UTILITY CHARGE ASSESSMENTS.]

Subdivision 1. [BECOMES LIEN WHEN DELINQUENT.] An assessment levied by the city of Minneapolis for delinquent utility charges, and interest and penalties on the charges under Minnesota Statutes, section 272.32; Laws 1969, chapter 499; Laws 1973, chapter 320; or Laws 1994, chapter 587, article 9, section 4, with accruing interest, is a lien upon all property included in the assessment, concurrent with general taxes, from the date the utility charges become delinquent, regardless of the date the assessment is levied. The time of effect of a lien attached for delinquent utility charge assessments supersedes any contrary law in Minnesota Statutes, section 272.32 or 429.061.

Subd. 2. [WHEN DELINQUENT; STATEMENT REQUIRED.] Utility charges become delinquent for the purposes of this section when they are set forth in a statement sent by the city of Minneapolis to the current billpayer of the property subject to the utility charges and are not paid in full on or before the due date stated in the statement. The utility billing office of the city of Minneapolis shall provide a written summary of unpaid utility statements within ten business days of receipt of a written request for a specified real property title transaction. If a summary is not provided by the utility billing office within the requested time or a previous statement charge is omitted, those charges and the lien under subdivision 1 are not enforceable against third parties who rely upon the summary for real property transaction purposes.

Subd. 3. [UTILITY CHARGES DEFINED.] "Utility charges," in this section, includes all fees, taxes, special charges, or other charges imposed by the city of Minneapolis in connection with the provision of services for sewer, water, solid waste collection and management, nuisance abatement, or other services or improvements specified in Minnesota Statutes, section 429.101; Laws 1969, chapter 499; and Laws 1973, chapter 320.

Subd. 4. [NOT CONVEYANCES.] The statement issued by the city of Minneapolis for utility charges or any instrument in writing created in connection with any assessment for delinquent utility charges subject to this section are not conveyances as defined in Minnesota Statutes, section 507.01, and are not subject to the requirements of Minnesota Statutes, chapter 507, regarding conveyances of real estate.

Sec. 63. [BROOKLYN CENTER, RICHFIELD, AND ST. LOUIS PARK; APARTMENT EXCLUSIONS.]

Subdivision 1. [IMPROVEMENTS MADE TO CERTAIN APARTMENTS.] (a) Notwithstanding any other provisions to the contrary, the market value increase resulting from improvements made after the effective date of this act and prior to January 1, 1999, to qualifying property located in the city of Brooklyn Center, Richfield, or St. Louis Park shall be excluded for assessment purposes under the conditions provided in this subdivision.

(b) "Qualifying property" means property that meets all of the following criteria:

(1) the building is at least 30 years old at the time of the improvements;

(2) the building is residential real estate of four or more units and is classified under Minnesota Statutes, section 273.13, subdivision 25, as class 4a, 4c, or 4d property; and

(3) the total cost of the qualifying improvements exceeds \$5,000 per unit.

(c) A building permit must have been issued prior to the commencement of the improvements. Only improvements to the residential structure and garages qualify under this subdivision. The assessor shall require an application, including, if unknown by the assessor, documentation of the age of the building from the owner. The application may be filed subsequent to the date of the building permit provided that the application is filed prior to the next assessment date.

(d) If the property qualifies under this subdivision, the assessor shall note the qualifying value of the improvements on the property's record and that amount shall be subtracted from the qualifying property's market value for the five assessment years immediately following the year in which the improvements were completed, at which time the assessor shall determine the property's estimated market value, and 20 percent of the qualifying value shall be added back in each of the next five subsequent assessment years. The assessor may require from the owner any documentation necessary to verify that the cost of improvements exceed the \$5,000 per unit minimum.

Subd. 2. [EFFECTIVE DATE.] This section is effective for each of the cities of Brooklyn Center, Richfield, and St. Louis Park upon compliance with Minnesota Statutes, section 645.021, subdivision 3, by the governing body of that city.

Sec. 64. [PROPERTY TAX ABATEMENTS; FLOOD PROPERTY.]

Subdivision 1. [AUTHORIZATION.] Notwithstanding the requirements of Minnesota Statutes, section 375.192, the county board of a qualified county may grant abatements of the full amount of taxes on eligible property for taxes payable in 1997 as provided in this section. The owner of the property is not required to apply for the abatement.

Subd. 2. [DEFINITIONS.] (a) As used in this section, the terms defined in this subdivision have the meanings given them.

(b) "Qualified county" means any county that has been designated between April 1, 1997, and May 1, 1997, by the director of the Federal Emergency Management Agency as eligible for federal aid due to flooding.

(c) "Eligible property" means a parcel of taxable property located in a qualified county that contains a structure that has been determined by the assessor to have lost over 50 percent of its estimated market value due to flooding and flood damage. In the case of agricultural property, the abatement is limited to the taxes on the parcel attributable to the value of the house, garage, and

surrounding one acre, if the house has lost over 50 percent of its estimated market value, and the tax attributable to the value of any farm buildings and structures that have lost over 50 percent of their estimated market value.

Subd. 3. [ASSESSORS' DUTIES.] As soon as practicable, local and county assessors in qualified counties shall notify the county board and property owners of parcels of eligible property.

Sec. 65. [DISASTER AREA; DUE DATE EXTENDED FOR BUSINESS PROPERTY TAXES.]

(a) Notwithstanding Minnesota Statutes, section 279.01, subdivision 1, a penalty shall not accrue if (1) because of a natural disaster, a taxpayer is unable to pay the first half of the payable 1997 property taxes on class 3a or 3b property, classified under Minnesota Statutes, section 273.13, subdivision 24, located in an area designated by the Federal Emergency Management Agency pursuant to a major disaster declaration issued for Minnesota by President Clinton between April 1, 1997, and April 14, 1997, and (2) the taxpayer pays the first half of the payable 1997 taxes by October 15, 1997.

(b) If the first one half payment is paid after October 15, 1997, then all penalties that would have occurred on the due date under Minnesota Statutes, section 279.01, subdivision 1, shall be charged on the amount of the unpaid tax.

(c) The property taxpayer shall attach to the payment a statement that the property is located in a disaster area and qualified for an extension under this section.

Sec. 66. [DELAY OF FINANCIAL REPORT FILING; DISASTER AREAS.]

For any city or town located in whole or in part within a county that has been designated between April 1, 1997, and May 1, 1997, by the director of the Federal Emergency Management Agency as eligible for federal aid due to flooding, the deadline by which financial reports are required to be filed under Minnesota Statutes, section 471.697 or 471.698, is extended by 90 days.

Sec. 67. [LOW-INCOME HOUSING CREDITS; PRIORITY IN DISASTER AREAS.]

For its 1998 allocation of low-income housing tax credits through the greater Minnesota pool under Minnesota Statutes, section 462A.222, the Minnesota housing finance agency must give priority to projects located in areas that have lost low-income housing due to the floods that occurred in this state during 1997.

Sec. 68. [ELDERLY ASSISTED LIVING FACILITIES.]

Subdivision 1. [APPLICATION.] To facilitate a review by the 1998 legislature of the property taxation of elderly assisted living facilities and the development of standards and criteria for the taxation of these facilities, this section:

(1) requires the commissioner of revenue to conduct a survey of the tax status of these facilities under subdivision 2; and

(2) prohibits changes in assessment practices and policies regarding these facilities under subdivision 3.

Subd. 2. [REPORT BY COMMISSIONER OF REVENUE.] The commissioner of revenue shall survey all county assessors on the tax status of all elderly assisted living facilities as defined in Minnesota Statutes, section 273.13, subdivision 25a, located in the state, and report the findings to the chairs of the house and senate tax committees by February 1, 1998. The survey must include, but is not limited to, estimates of the amount of charitable contributions, if any, for each elderly assisted living facility and the relative portion of those charitable contributions to the total operating costs of the elderly assisted living facility.

Subd. 3. [MORATORIUM ON CHANGES IN ASSESSMENT PRACTICES.] (a) An assessor

may not change the current practices or policies used generally in assessing elderly assisted living facilities.

(b) An assessor may not change the assessment of an existing elderly assisted living facility, unless the change is made as a result of a change in ownership, occupancy, or use of the facility. This paragraph does not apply to:

(1) a facility that was constructed during calendar year 1997;

(2) a facility that was converted to an elderly assisted living facility during calendar year 1997;  
or

(3) a change in market value.

(c) This subdivision expires and no longer applies on the earlier of:

(1) the enactment of legislation establishing criteria for the property taxation of elderly assisted living facilities; or

(2) final adjournment of the 1998 legislature.

Subd. 4. [DEFINITION.] For purposes of this section, "elderly assisted living facility" has the meaning given in Minnesota Statutes, section 273.13, subdivision 25a.

Sec. 69. [INSTRUCTION TO THE REVISOR.]

The revisor of statutes shall change the phrase "implicit price deflator for state and local government purchases of goods and services" wherever it appears in the next edition of Minnesota Statutes and Minnesota Rules to "implicit price deflator for government consumption expenditures and gross investment for state and local governments" unless the reference is to the implicit price deflator as of a specified date before January 1, 1996.

Sec. 70. [REPEALER.]

(a) Minnesota Statutes 1996, sections 270B.12, subdivision 11; 276.012; 290A.055; and 290A.26; and Laws 1995, chapter 264, article 4, as amended by Laws 1996, chapter 471, article 3, are repealed. Notwithstanding Minnesota Statutes, section 645.34, the sections of statutes amended by the repealed Laws 1995, chapter 264, article 4, as amended, remain in effect as if not so amended.

(b) Minnesota Statutes 1996, section 469.181, is repealed.

(c) Minnesota Statutes 1996, sections 276.20; and 276.21, are repealed.

Sec. 71. [EFFECTIVE DATE.]

Section 1 is effective for aids distributed in 1999 and thereafter.

Sections 2 to 4, 6, 17, 23 to 25, 32, 51, 57, 64 to 67, and 70, paragraph (a), are effective the day following final enactment.

Sections 7, 8, 12 to 16, 18, 20, 21, 45 to 48, and 70, paragraph (c), are effective for the 1997 assessment and thereafter, for taxes payable in 1998 and thereafter.

Section 10 is effective beginning with the 1997 assessment.

Section 11 is effective beginning with the 1997 assessment and ending with the 2002 assessment, for qualifying improvements made after January 2, 1993, to a residence that has been relocated; provided, that any residence that originally qualifies in that time period is allowed to receive the benefits provided under section 11 for the full ten-year time period. In order to qualify for a market value exclusion under Minnesota Statutes, section 273.11, subdivision 10, for the 1997 assessment for improvements made to a relocated residence, a homeowner must notify the assessor by July 1, 1997.

Section 19 is effective payable 1999 and thereafter.

Section 22 is effective for the abstracts of exempt real property filed in 1998, and thereafter.

Sections 33 and 42 are effective for agreements executed on or after the day following final enactment.

Section 44 is effective the day following final enactment for all housing development projects.

Section 49 is effective for aids payable in 1998 and thereafter.

Sections 59 to 61 are effective the day after the governing body of Brooklyn Park complies with Minnesota Statutes, section 645.021, subdivision 3.

Section 70, paragraph (b), is effective for property tax deferrals granted after June 30, 1997.

### ARTICLE 3

#### LEVY LIMITS

Section 1. Minnesota Statutes 1996, section 275.16, is amended to read:

275.16 [COUNTY AUDITOR TO FIX AMOUNT OF LEVY.]

If any such municipality shall return to the county auditor a levy greater than permitted by chapters 124, 124A, 124B, 136C, ~~and 136D~~, and sections 275.124 to 275.16, and sections 275.70 to 275.74, such county auditor shall extend only such amount of taxes as the limitations herein prescribed will permit; provided, if such levy shall include any levy for the payment of bonded indebtedness or judgments, such levies for bonded indebtedness or judgments shall be extended in full, and the remainder of the levies shall be reduced so that the total thereof, including levies for bonds and judgments, shall not exceed such amount as the limitations herein prescribed will permit.

Sec. 2. Minnesota Statutes 1996, section 275.62, subdivision 1, is amended to read:

Subdivision 1. [REPORT ON TAXES LEVIED.] The commissioner of revenue shall establish procedures for the annual reporting of local government levies. Each local governmental unit shall submit a report to the commissioner by December 30 of the year in which the tax is levied. The report shall include, but is not limited to, information on the amount of the tax levied by the governmental unit for the following purposes:

(1) debt, which includes taxes levied for the purposes defined in Minnesota Statutes 1991 Supplement, section 275.50, subdivision 5, clauses (b), (c), (d), and (e);

(2) social services and related programs, which include taxes levied for the purposes defined in Minnesota Statutes 1991 Supplement, section 275.50, subdivision 5, clauses (a), (j), and (v);

(3) libraries, which include taxes levied for the purposes defined in Minnesota Statutes 1991 Supplement, section 275.50, subdivision 5, clause (n); ~~and~~

(4) for counties only, the amount of levy needed to fund increased county costs associated with the welfare reform under Minnesota Laws 1997, chapter 85, including increased administration and program costs of the income maintenance programs and also related support services as they relate directly to the welfare reform; and

(5) other levies, which include the taxes levied for all purposes not included in clause (1), (2), ~~or (3)~~, or (4).

Sec. 3. [275.70] [LEVY LIMITATIONS; DEFINITIONS.]

Subdivision 1. [APPLICATION.] For the purposes of sections 275.70 to 275.74, the following terms shall have the meanings given them, unless provided otherwise.

Subd. 2. [IMPLICIT PRICE DEFLATOR.] "Implicit price deflator" means the implicit price deflator for government consumption expenditures and gross investment for state and local governments prepared by the bureau of economic analysis of the United States Department of Commerce for the 12-month period ending March 31 of the levy year.

Subd. 3. [LOCAL GOVERNMENTAL UNIT.] "Local governmental unit" means a county, or a statutory or home rule charter city with a population greater than 2,500.

Subd. 4. [POPULATION AND HOUSEHOLD ESTIMATES.] "Population" or "number of households" means the population or number of households for the local governmental unit as established by the last federal census, by a census taken under section 275.14, or by an estimate made by the metropolitan council or by the state demographer under section 4A.02, whichever is most recent as to the stated date of the count or estimate up to and including July 1 of the current levy year.

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

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

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

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

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

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

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

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

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

(5) for unreimbursed expenses related to flooding that occurred during the first half of calendar year 1997, as allowed by the commissioner of revenue under section 275.74, paragraph (b);

(6) for local units of government located in an area designated by the Federal Emergency Management Agency pursuant to a major disaster declaration issued for Minnesota by President Clinton after April 1, 1997, and before April 21, 1997, for the amount of tax dollars lost due to abatements authorized under section 273.123, subdivision 7, to the extent that they are related to the major disaster;

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

(8) 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 1997, or (ii) it is a new matching requirement that didn't exist prior to 1998; and

(9) 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).



Sec. 4. [275.71] [LEVY LIMITS.]

Subdivision 1. [LIMIT ON LEVIES.] Notwithstanding any other provision of law or municipal charter to the contrary which authorize ad valorem taxes in excess of the limits established by sections 275.70 to 275.74, the provision of this section shall apply to local governmental units for all purposes other than those for which special levies and special assessments are made.

Subd. 2. [LEVY LIMIT BASE.] (a) The levy limit base for a local governmental unit for taxes levied in 1997 shall be equal to the sum of:

(1) the amount the local governmental unit levied in 1996, less any amount levied for debt, as reported to the department of revenue under section 275.62, subdivision 1, clause (1), and less any tax levied in 1996 against market value as provided for in section 275.61;

(2) the amount of aids the local governmental unit was certified to receive in calendar year 1997 under sections 477A.011 to 477A.03 before any reductions for state tax increment financing aid under section 273.1399, subdivision 5;

(3) the amount of homestead and agricultural credit aid the local governmental unit was certified to receive under section 273.1398 in calendar year 1997 before any reductions for tax increment financing aid under section 273.1399, subdivision 5;

(4) the amount of local performance aid the local governmental unit was certified to receive in calendar year 1997 under section 477A.05;

(5) the amount of any payments certified to the local government unit in 1997 under sections 298.28 and 298.282; and

(6) the amount of any adjustments authorized under section 275.72.

If a governmental unit was not required to report under section 275.62 for taxes levied in 1997, the commissioner shall request information on levies used for debt from the local governmental unit and adjust its levy limit base accordingly.

(b) The levy limit base for a local governmental unit for taxes levied in 1998 is limited to its adjusted levy limit base in the previous year, subject to any adjustments under section 275.72.

Subd. 3. [ADJUSTED LEVY LIMIT BASE.] For taxes levied in 1997 and 1998, the adjusted levy limit is equal to the levy limit base computed under subdivision 2, multiplied by:

(1) one plus a percentage equal to the percentage growth in the implicit price deflator; and

(2) for all cities and for counties outside of the seven-county metropolitan area, one plus a percentage equal to the percentage increase in number of households, if any, for the most recent 12-month period for which data is available; and

(3) for counties located in the seven-county metropolitan area, one plus a percentage equal to the greater of the percentage increase in the number of households in the county or the percentage increase in the number of households in the entire seven-county metropolitan area for the most recent 12-month period for which data is available.

Subd. 4. [PROPERTY TAX LEVY LIMIT.] For taxes levied in 1997 and 1998, the property tax levy limit for a local governmental unit is equal to its adjusted levy limit base determined under subdivision 3 plus any additional levy authorized under section 275.73, which is levied against net tax capacity, reduced by the sum of (1) the total amount of aids that the local governmental unit is certified to receive under sections 477A.011 to 477A.014, (2) homestead and agricultural aids it is certified to receive under section 273.1398, (3) local performance aid it is certified to receive under section 477A.05, and (4) taconite aids under sections 298.28 and 298.282 including any aid which was required to be placed in a special fund for expenditure in the next succeeding year.

Subd. 5. [LEVIES IN EXCESS OF LEVY LIMITS.] 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.

Sec. 5. [275.72] [LEVY LIMIT ADJUSTMENTS FOR CONSOLIDATION AND ANNEXATION.]

Subdivision 1. [ADJUSTMENTS FOR CONSOLIDATION.] If all of the area included in two or more local governmental units is consolidated, merged, or otherwise combined to constitute a single governmental unit, the levy limit base for the resulting governmental unit in the first levy year in which the consolidation is effective shall be equal to (1) the highest tax rate in any of the merging governmental units in the previous year multiplied by the net tax capacity of all the merging governmental units in the previous year, minus (2) the sum of all levies in the merging governmental units in the previous year that qualify as special levies under section 275.70, subdivision 3.

Subd. 2. [ADJUSTMENTS FOR ANNEXATION.] If a local governmental unit increases its tax base through annexation of an area which is not the area of an entire local governmental unit, the levy limit base of the local governmental unit in the first year in which the annexation is effective shall be equal to its adjusted levy limit base from the previous year multiplied by the ratio of the net tax capacity in the local governmental unit after the annexation compared to its net tax capacity before the annexation.

Subd. 3. [TRANSFER OF GOVERNMENTAL FUNCTIONS.] If a function or service of one local governmental unit is transferred to another local governmental unit, the levy limits established under section 275.71 shall be adjusted by the commissioner of revenue in such manner so as to fairly and equitably reflect the reduced or increased property tax burden resulting from the transfer. The aggregate of the adjusted limitations shall not exceed the aggregate of the limitations prior to adjustment.

Subd. 4. [EFFECTIVE DATE FOR LEVY LIMITS PURPOSES.] Annexations, mergers, and shifts in services and functional responsibilities that are effective by June 30 of the levy year are included in the calculation of the levy limit for that levy year. Annexations, mergers, and shifts in services and functional responsibilities that are effective after June 30 of a levy year are not included in the calculation of the levy limit until the subsequent levy year.

Sec. 6. [275.73] [ELECTIONS FOR ADDITIONAL LEVIES.]

Subdivision 1. [ADDITIONAL LEVY AUTHORIZATION.] Notwithstanding the provisions of sections 275.70 to 275.72, but subject to other law or charter provisions establishing other limitations on the amount of property taxes a local governmental unit may levy, a local governmental unit may levy an additional levy in any amount which is approved by the majority of voters of the governmental unit voting on the question at a general or special election. Notwithstanding section 275.61, any levy authorized under this section shall be levied against net tax capacity unless the levy required voter approval under another general or special law or any charter provisions. When the governing body of the local governmental unit resolves to increase the levy pursuant to this section, it shall provide for submission of the proposition of an additional levy at a general or special election. Notice of the election shall be given in the manner required by law. The notice shall state the purpose and the maximum yearly amount of the additional levy.

Subd. 2. [LEVY EFFECTIVE DATE.] An additional levy approved under subdivision 1 at a general or special election held prior to September 1 in any levy year may be levied in that same levy year and subsequent levy years. An additional levy approved under subdivision 1 at a general or special election held after August 31 in any levy year shall not be levied in that same levy but may be levied in subsequent levy years.

Sec. 7. [275.74] [STATE REGULATION OF LEVIES.]

(a) The commissioner of revenue shall make all necessary calculations for determining levy limits for local governmental units and notify the affected governmental units of their levy limits

directly by August 1 of each levy year. The local governmental unit shall report by September 15, in a manner prescribed by the commissioner, the maximum amount of taxes it plans to levy for each of the purposes listed under special levies and any additional levy authorized under section 275.73, along with any necessary documentation. The commissioner shall review the proposed special levies and make any adjustments needed. The commissioner's decision is final. The final allowed special levy amounts and any levy limit adjustments shall be certified back to the local governments by December 10. In addition, the commissioner of revenue shall notify all county auditors on or before five working days after December 20 of the sum of the levy limit plus the total of allowed special levies for each local governmental unit located within their boundaries so that they may fix the levies as required in section 275.16. The local governmental units shall provide the commissioner of revenue with all information that the commissioner deems necessary to make the calculations provided for in sections 275.70 to 275.73.

(b) A local governmental unit may request authorization to levy under section 275.70, subdivision 5, clause (5), if (i) the governmental unit is located in an area designated by the Federal Emergency Management Agency pursuant to a major disaster declaration issued for Minnesota by President Clinton after April 1, 1997, and before April 21, 1997, and (ii) the amount of direct unreimbursed costs incurred by the governmental unit related to the flooding and its clean up, including emergency disaster assistance to residents, exceeds five percent of its levy in 1997. A local governmental unit may request authorization to levy for unreimbursed costs for other natural disasters, except the 1997 floods, under section 275.70, subdivision 5, clause (9). The local governmental unit must submit a request to levy under section 275.70, subdivision 5, clause (5) or (9), to the commissioner of revenue by September 15 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. The commissioner shall send a report to the chairs of the house and senate tax committees on the levies authorized and levied under this provision by February 28 of the year following the levy year.

#### Sec. 8. [FARIBAULT COUNTY; CITY OF BLUE EARTH; SPECIAL LEVY.]

The amount of taxes levied by Faribault county and by the city of Blue Earth is a special levy for the purposes of levy limits under Minnesota Statutes, sections 275.70 to 275.73, if the levy's purpose is to raise the matching funds required to receive restitution funds awarded by plea agreement in the case of *United States v. Darling International, Inc.*, for developing environmental projects that will improve water quality in the Blue Earth and Minnesota rivers.

#### Sec. 9. [EFFECTIVE DATE.]

Sections 1 to 7 are effective for taxes levied in 1997 and 1998, payable in 1998 and 1999.

Upon compliance with Minnesota Statutes, section 645.021, subdivision 3, by the governing body of Faribault county or the city of Blue Earth, section 8 is effective for taxes levied in 1997 and 1998 in the county or city that approves it.

### ARTICLE 4

#### TRUTH IN TAXATION

Section 1. Minnesota Statutes 1996, section 275.065, subdivision 1, is amended to read:

Subdivision 1. [PROPOSED LEVY.] (a) Notwithstanding any law or charter to the contrary, on or before September 15, each taxing authority, other than a school district, shall adopt a proposed budget and shall certify to the county auditor the proposed or, in the case of a town, the final property tax levy for taxes payable in the following year.

(b) On or before September 30, each school district shall certify to the county auditor the proposed property tax levy for taxes payable in the following year. The school district may shall certify the proposed levy as:

(1) ~~a specific dollar amount; or~~ the state determined school levy amount as prescribed under section 124A.23, subdivision 2;

(2) voter approved referendum and debt levies; and

(2) an amount equal to (3) the sum of the remaining school levies, or the maximum levy limitation certified by the commissioner of children, families, and learning to the county auditor according to section 124.918, subdivision 1, less the amounts levied under clauses (1) and (2).

(c) If the board of estimate and taxation or any similar board that establishes maximum tax levies for taxing jurisdictions within a first class city certifies the maximum property tax levies for funds under its jurisdiction by charter to the county auditor by September 15, the city shall be deemed to have certified its levies for those taxing jurisdictions.

(d) For purposes of this section, "taxing authority" includes all home rule and statutory cities, towns, counties, school districts, and special taxing districts as defined in section 275.066. Intermediate school districts that levy a tax under chapter 124 or 136D, joint powers boards established under sections 124.491 to 124.495, and common school districts No. 323, Franconia, and No. 815, Prinsburg, are also special taxing districts for purposes of this section.

Sec. 2. Minnesota Statutes 1996, section 275.065, is amended by adding a subdivision to read:

Subd. 1a. [LEVY; SHARED, MERGED, CONSOLIDATED SERVICES.] If two or more taxing authorities are in the process of negotiating an agreement for sharing, merging, or consolidating services between those taxing authorities at the time the proposed levy is to be certified under subdivision 1, each taxing authority involved in the negotiation shall certify its total proposed levy as provided in that subdivision, including a notification to the county auditor of the specific service involved in the agreement which is not yet finalized. The affected taxing authorities may amend their proposed levies under subdivision 1 until October 10 for levy amounts relating only to the specific service involved.

Sec. 3. Minnesota Statutes 1996, 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 ~~and, in the case of a town, final 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 ~~other than a town~~ proposes to collect for taxes payable the following year ~~and, for a town, the amount of its final levy.~~ It ~~In the case of a town, or in the case of the state determined portion of the school district levy, the final tax amount will be its proposed tax.~~ 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 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; 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, school district excess referenda levy state determined school tax net of the education homestead credit under section 273.1382, remaining voter approved school levy, other local school district levy, regional library district, if in existence, the total of the metropolitan special taxing districts as defined in paragraph

~~(i) and the sum of the remaining special taxing districts, and as a total of the all taxing authorities, including all special taxing districts, the proposed or, for a town, final net tax on the property for taxes payable the following year and the actual tax for taxes payable the current year;~~

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

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

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

(iv) the proposed tax amount.

In the case of a town or the state determined school 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 124A.03, subdivision 2, 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. For the purposes of this subdivision, "school district excess referenda levy" means school district taxes for operating purposes approved at referendums, including those taxes based on net tax capacity as well as those based on market value. "School district excess referenda levy" does not include school district taxes for capital expenditures approved at referendums or school district taxes to pay for the debt service on bonds approved at referenda. 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 in the amounts in clause (2) from between the total taxes payable in the current year to and the total proposed or, for a town, final taxes payable the following year taxes, expressed as a dollar amount and as a percentage.~~

(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.

(g) If the notice the taxpayer receives under this section lists the property as nonhomestead and the homeowner provides satisfactory documentation to the county assessor that the property is owned and used as the owner's homestead, 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) For taxes levied in 1996, payable in 1997 only, in the case of a statutory or home rule charter city or town that exercises the local levy option provided in section 473.388, subdivision 7, the notice of its proposed taxes may include a statement of the amount by which its proposed tax increase for taxes payable in 1997 is attributable to its exercise of that option, together with a statement that the levy of the metropolitan council was decreased by a similar amount because of the exercise of that option.~~

Sec. 4. Minnesota Statutes 1996, section 275.065, is amended by adding a subdivision to read:

Subd. 3a. [CONSTANT SPENDING LEVY AMOUNT.] (a) For purposes of this section, "constant spending levy amount" for a county, city, town, or special taxing district means the property tax levy that the taxing authority would need to levy so that the sum of (i) its levy, including its fiscal disparities distribution levy under section 276A.06, subdivision 3, clause (a), or 473F.08, subdivision 3, clause (a), plus (ii) its property tax aid amounts, would remain constant from the current year to the proposed year, taking into account the fiscal disparities distribution levy amounts and the property tax aid amounts that have been certified for the proposed year. For the purposes of this paragraph, property tax aids include homestead and agricultural credit aid under section 273.1398, subdivision 2, local government aid under section 477A.013, local performance aid under section 477A.05, county criminal justice aid under section 477A.0121, and family preservation aid under section 477A.0122.

(b) For the state determined school tax, "constant spending levy amount" is the same as the proposed tax.

(c) For the voter approved school levy, "constant spending levy amount" is the result of the following computation: (i) compute the current year's revenue per pupil in average daily membership as the ratio of the voter approved referendum and debt service levy plus aid revenue to the number of pupils in average daily membership, as estimated at the time of levy certification the previous December; (ii) compute the proposed year's levy ratio as ratio of the proposed year's levy limitation for voter approved referendum and debt service revenue to the maximum referendum and debt service levy plus aid revenue for the proposed year, at the time of proposed levy certification in September; and (iii) compute the "constant spending levy amount" as the product of the current year's revenue per pupil from clause (i) times the proposed year's levy ratio from clause (ii) times the proposed year's pupils in average daily membership.

(d) For the sum of all other school levies not included in paragraph (b) or (c), "constant

spending levy amount" is the result of the following computation: (i) compute the current year's revenue per pupil in average daily membership as the ratio of the levy plus associated aid revenue to the number of pupils in average daily membership, as estimated at the time of levy certification the previous December; (ii) compute the proposed year's levy ratio as ratio of the proposed year's levy limitation to the maximum levy plus associated aid revenue for the proposed year, estimated at the time of proposed levy certification in September; and (iii) compute the "constant spending levy amount" as the product of the current year's revenue per pupil from clause (i) times the proposed year's levy ratio from clause (ii) times the proposed year's pupils in average daily membership.

(e) Each year, the commissioner of children, families, and learning must compute and report to the county auditor each school district's constant spending levy amounts by September 30. In no case shall a constant spending levy amount be less than \$0. For the purposes of this subdivision, school homestead and agricultural credit aid under section 273.1398, subdivision 2, shall be included in the other school levy category. For purposes of this subdivision, the school fiscal disparities distribution levy shall be apportioned proportionately among levy categories.

(f) For the tax increment financing tax, and the fiscal disparities tax, the "constant spending levy amount" is the same as the proposed tax.

Sec. 5. Minnesota Statutes 1996, section 275.065, subdivision 5a, is amended to read:

Subd. 5a. [PUBLIC ADVERTISEMENT.] (a) A city that has a population of more than 2,500, county, a metropolitan special taxing district as defined in subdivision 3, paragraph (i), a regional library district established under section 134.201, or school district shall advertise in a newspaper a notice of its intent to adopt a budget and property tax levy or, in the case of a school district, to review its current budget and proposed property taxes payable in the following year, at a public hearing. The notice must be published not less than two business days nor more than six business days before the hearing.

The advertisement must be at least one-eighth page in size of a standard-size or a tabloid-size newspaper. The advertisement must not be placed in the part of the newspaper where legal notices and classified advertisements appear. The advertisement must be published in an official newspaper of general circulation in the taxing authority. The newspaper selected must be one of general interest and readership in the community, and not one of limited subject matter. The advertisement must appear in a newspaper that is published at least once per week.

For purposes of this section, the metropolitan special taxing district's advertisement must only be published in the Minneapolis Star and Tribune and the Saint Paul Pioneer Press.

(b) The advertisement for school districts, metropolitan special taxing districts, and regional library districts must be in the following form, except that the notice for a school district may include references to the current budget in regard to proposed property taxes.

"NOTICE OF  
PROPOSED PROPERTY TAXES  
(City/County/School District/Metropolitan  
Special Taxing District/Regional  
Library District) of .....

The governing body of ..... will soon hold budget hearings and vote on the property taxes for (city/county/metropolitan special taxing district/regional library district services that will be provided in 199\_ (year)/school district services that will be provided in 199\_ (year) and 199\_ (year)).

NOTICE OF PUBLIC HEARING:

All concerned citizens are invited to attend a public hearing and express their opinions on the proposed (city/county/school district/metropolitan special taxing district/regional library district) budget and property taxes, or in the case of a school district, its current budget and proposed

property taxes, payable in the following year. The hearing will be held on (Month/Day/Year) at (Time) at (Location, Address)."

(c) The advertisement for cities and counties must be in the following form.

"NOTICE OF PROPOSED

TOTAL BUDGET AND PROPERTY TAXES

The (city/county) governing body or board of commissioners will hold a public hearing to discuss the budget and to vote on the amount of property taxes to collect for services the (city/county) will provide in (year).

SPENDING: The total budget amounts below compare (city's/county's) (year) total actual budget with the amount the (city/county) proposes to spend in (year).

<u>(Year) Total Actual Budget</u>	<u>Proposed (Year) Budget</u>	<u>Change from (Year)-(Year)</u>
<u>\$.....</u>	<u>\$.....</u>	<u>...%</u>

TAXES: The property tax amounts below compare that portion of the current budget levied in property taxes in (city/county) for (year) with the property taxes the (city/county) proposes to collect in (year).

<u>(Year) Property Taxes</u>	<u>Proposed (Year) Property Taxes</u>	<u>Change from (Year)-(Year)</u>
<u>\$.....</u>	<u>\$.....</u>	<u>...%</u>

ATTEND THE PUBLIC HEARING

All (city/county) residents are invited to attend the public hearing of the (city/county) to express your opinions on the budget and the proposed amount of (year) property taxes. The hearing will be held on:

(Month/Day/Year/Time)

If the discussion of the budget cannot be completed, a time and place for continuing the discussion will be announced at the hearing. You are also invited to send your written comments to:

(City/County)

(d) For purposes of this subdivision, the budget amounts listed on the advertisement mean:

(1) for cities, the total government fund expenditures, as defined by the state auditor under section 471.6965, less any expenditures for improvements or services that are specially assessed or charged under chapter 429, 430, 435, or the provisions of any other law or charter; and

(2) for counties, the total government fund expenditures, as defined by the state auditor under section 375.169, less any expenditures for direct payments to recipients or providers for the human service aids listed below:



(1) aid to families with dependent children under sections 256.82, subdivision 1, and 256.935, subdivision 1;

(2) medical assistance under sections 256B.041, subdivision 5, and 256B.19, subdivision 1;

(3) general assistance medical care under section 256D.03, subdivision 6;

(4) general assistance under section 256D.03, subdivision 2;

(5) emergency assistance under section 256.871, subdivision 6;

(6) Minnesota supplemental aid under section 256D.36, subdivision 1;

(7) preadmission screening under section 256B.0911, and alternative care grants under section 256B.0913;

(8) general assistance medical care claims processing, medical transportation and related costs under section 256D.03, subdivision 4;

(9) medical transportation and related costs under section 256B.0625, subdivisions 17 to 18a;

(10) group residential housing under 256I.05, subdivision 8, transferred from programs in clauses (4) and (6); or

(11) any successor programs to those listed in clauses (1) to (10).

(e) (e) A city with a population of over 500 but not more than 2,500 must advertise by posted notice as defined in section 645.12, subdivision 1. The advertisement must be posted at the time provided in paragraph (a). It must be in the form required in paragraph (b).

(d) (f) For purposes of this subdivision, the population of a city is the most recent population as determined by the state demographer under section 4A.02.

(e) (g) The commissioner of revenue, subject to the approval of the chairs of the house and senate tax committees, shall prescribe the form and format of the advertisement.

~~(f) For calendar year 1993, each taxing authority required to publish an advertisement must include on the advertisement a statement that information on the increases or decreases of the total budget, including employee and independent contractor compensation in the prior year, current year, and proposed budget year will be discussed at the hearing.~~

~~(g) Notwithstanding paragraph (f), for 1993, the commissioner of revenue shall prescribe the form, format, and content of an advertisement comparing current and proposed expense budgets for the metropolitan council, the metropolitan airports commission, and the metropolitan mosquito control commission. The expense budget must include occupancy, personnel, contractual and capital improvement expenses. The form, format, and content of the advertisement must be approved by the chairs of the house and senate tax committees prior to publication.~~

Sec. 6. Minnesota Statutes 1996, section 275.065, subdivision 6, is amended to read:

Subd. 6. [PUBLIC HEARING; ADOPTION OF BUDGET AND LEVY.]

(a) For purposes of this section, the following terms shall have the meanings given:

(1) "Initial hearing" means the first and primary hearing held to discuss the taxing authority's proposed budget and proposed property tax levy for taxes payable in the following year, or, for school districts, the current budget and the proposed property tax levy for taxes payable in the following year.

(2) "Continuation hearing" means a hearing held to complete the initial hearing, if the initial hearing is not completed on its scheduled date.

(3) "Subsequent hearing" means the hearing held to adopt the taxing authority's final property

tax levy, and, in the case of taxing authorities other than school districts, the final budget, for taxes payable in the following year.

(b) Between November 29 and December 20, the governing bodies of a city that has a population over 500, county, metropolitan special taxing districts as defined in subdivision 3, paragraph (i), and regional library districts shall each hold a an initial public hearing to discuss and seek public comment on its final budget and property tax levy for taxes payable in the following year, and the governing body of the school district shall hold a an initial public hearing to review its current budget and proposed property tax levy for taxes payable in the following year. The metropolitan special taxing districts shall be required to hold only a single joint initial public hearing, the location of which will be determined by the affected metropolitan agencies.

(c) The initial hearing must be held after 5:00 p.m. if scheduled on a day other than Saturday. No initial hearing may be held on a Sunday.

(d) At the initial hearing under this subdivision, the percentage increase in property taxes proposed by the taxing authority, if any, and the specific purposes for which property tax revenues are being increased must be discussed. During the discussion, the governing body shall hear comments regarding a proposed increase and explain the reasons for the proposed increase. The public shall be allowed to speak and to ask questions. At the public hearing, the school district must also provide and discuss information on the distribution of its revenues by revenue source, and the distribution of its spending by program area.

(e) If the initial hearing is not completed on its scheduled date, the taxing authority must announce, prior to adjournment of the hearing, the date, time, and place for the continuation of the hearing. The continuation hearing must be held at least five business days but no more than 14 business days after the initial hearing. A continuation hearing may not be held later than December 20 except as provided in paragraphs (f) and (g). A continuation hearing must be held after 5:00 p.m. if scheduled on a day other than Saturday. No continuation hearing may be held on a Sunday.

(f) The governing body of a county shall hold its initial hearing on the second Tuesday in December each year, and may hold additional initial hearings on other dates before December 20 if necessary for the convenience of county residents. If the county needs a continuation of its hearing, the continuation hearing shall be held on the third Tuesday in December. If the third Tuesday in December falls on December 21, the county's continuation hearing shall be held on Monday, December 20.

(g) The metropolitan special taxing districts shall hold a joint initial public hearing on the first Monday of December. A continuation hearing, if necessary, shall be held on the second Monday of December even if that second Monday is after December 10.

(h) The county auditor shall provide for the coordination of initial and continuation hearing dates for all school districts and cities within the county to prevent conflicts under clauses (i) and (j).

(i) By August 10, each school board and the board of the regional library district shall certify to the county auditors of the counties in which the school district or regional library district is located the dates on which it elects to hold its initial hearing and any continuation hearing. If a school board or regional library district does not certify these dates by August 10, the auditor will assign the initial and continuation hearing dates. The dates elected or assigned must not conflict with the initial and continuation hearing dates of the county or the metropolitan special taxing districts.

(j) By August 20, the county auditor shall notify the clerks of the cities within the county of the dates on which school districts and regional library districts have elected to hold their initial and continuation hearings. At the time a city certifies its proposed levy under subdivision 1 it shall certify the dates on which it elects to hold its initial hearing and any continuation hearing. If a city does not certify these dates by September 15, the auditor shall assign the initial and continuation hearing dates. The dates elected or assigned for the initial hearing must not conflict with the initial hearing dates of the county, metropolitan special taxing districts, regional library districts, or school districts within which the city is located. To the extent possible, the dates of the city's

continuation hearing should not conflict with the continuation hearing dates of the county, metropolitan special taxing districts, regional library districts, or school districts within which the city is located. This paragraph does not apply to cities of 500 population or less.

(k) The county initial hearing date and the city, metropolitan special taxing district, regional library district, and school district initial hearing dates must be designated on the notices required under subdivision 3. The continuation hearing dates need not be stated on the notices.

(l) At a subsequent hearing, each county, school district, city over 500 population, and metropolitan special taxing district may amend its proposed property tax levy and must adopt a final property tax levy. Each county, city over 500 population, and metropolitan special taxing district may also amend its proposed budget and must adopt a final budget at the subsequent hearing. The final property tax levy must be adopted prior to adopting the final budget. A school district is not required to adopt its final budget at the subsequent hearing. The subsequent hearing of a taxing authority must be held on a date subsequent to the date of the taxing authority's initial public hearing, or subsequent to the date of its continuation hearing. If a continuation hearing is held, the subsequent hearing must be held either immediately following the continuation hearing or on a date subsequent to the continuation hearing. The subsequent hearing may be held at a regularly scheduled board or council meeting or at a special meeting scheduled for the purposes of the subsequent hearing. The subsequent hearing of a taxing authority does not have to be coordinated by the county auditor to prevent a conflict with an initial hearing, a continuation hearing, or a subsequent hearing of any other taxing authority. All subsequent hearings must be held prior to five working days after December 20 of the levy year. The date, time, and place of the subsequent hearing must be announced at the initial public hearing or at the continuation hearing.

(m) The property tax levy certified under section 275.07 by a city of any population, county, metropolitan special taxing district, regional library district, or school district must not exceed the proposed levy determined under subdivision 1, except by an amount up to the sum of the following amounts:

(1) the amount of a school district levy whose voters approved a referendum to increase taxes under section 124.82, subdivision 3, 124A.03, subdivision 2, or 124B.03, subdivision 2, after the proposed levy was certified;

(2) the amount of a city or county levy approved by the voters after the proposed levy was certified;

(3) the amount of a levy to pay principal and interest on bonds approved by the voters under section 475.58 after the proposed levy was certified;

(4) the amount of a levy to pay costs due to a natural disaster occurring after the proposed levy was certified, if that amount is approved by the commissioner of revenue under subdivision 6a;

(5) the amount of a levy to pay tort judgments against a taxing authority that become final after the proposed levy was certified, if the amount is approved by the commissioner of revenue under subdivision 6a;

(6) the amount of an increase in levy limits certified to the taxing authority by the commissioner of children, families, and learning or the commissioner of revenue after the proposed levy was certified; and

(7) the amount required under section 124.755.

At the hearing under this subdivision, the percentage increase in property taxes proposed by the taxing authority, if any, and the specific purposes for which property tax revenues are being increased must be discussed.

During the discussion, the governing body shall hear comments regarding a proposed increase and explain the reasons for the proposed increase. The public shall be allowed to speak and to ask questions. At the subsequent hearing held as provided in this subdivision, the governing body,

other than the governing body of a school district, shall adopt its final property tax levy prior to adopting its final budget.

If the hearing is not completed on its scheduled date, the taxing authority must announce, prior to adjournment of the hearing, the date, time, and place for the continuation of the hearing. The continued hearing must be held at least five business days but no more than 14 business days after the original hearing.

The hearing must be held after 5:00 p.m. if scheduled on a day other than Saturday. No hearing may be held on a Sunday. The governing body of a county shall hold a hearing on the second Tuesday in December each year, and may hold additional hearings on other dates before December 20 if necessary for the convenience of county residents. If the county needs a continuation of its hearing, the continued hearing shall be held on the third Tuesday in December. If the third Tuesday in December falls on December 21, the county's continuation hearing shall be held on Monday, December 20. The county auditor shall provide for the coordination of hearing dates for all cities and school districts within the county.

The metropolitan special taxing districts shall hold a joint public hearing on the first Monday of December. A continuation hearing, if necessary, shall be held on the second Monday of December.

By August 10, each school board and the board of the regional library district shall certify to the county auditors of the counties in which the school district or regional library district is located the dates on which it elects to hold its hearings and any continuations. If a school board or regional library district does not certify the dates by August 10, the auditor will assign the hearing date. The dates elected or assigned must not conflict with the hearing dates of the county or the metropolitan special taxing districts. By August 20, the county auditor shall notify the clerks of the cities within the county of the dates on which school districts and regional library districts have elected to hold their hearings. At the time a city certifies its proposed levy under subdivision 1 it shall certify the dates on which it elects to hold its hearings and any continuations. For its initial hearing and for the subsequent hearing at which the final property tax levy will be adopted, the city must not select dates that conflict with the county hearing dates, metropolitan special taxing district dates, or with those elected by or assigned to the school districts or regional library district in which the city is located. For continuation hearings, the city may select dates that conflict with other taxing authorities' dates if the city deems it necessary.

The county hearing dates and the city, metropolitan special taxing district, regional library district, and school district hearing dates must be designated on the notices required under subdivision 3. The continuation dates need not be stated on the notices.

(n) This subdivision does not apply to towns and special taxing districts other than regional library districts and metropolitan special taxing districts.

(o) Notwithstanding the requirements of this section, the employer is required to meet and negotiate over employee compensation as provided for in chapter 179A.

Sec. 7. Minnesota Statutes 1996, section 275.065, is amended by adding a subdivision to read:

Subd. 6b. [JOINT PUBLIC HEARINGS.] Notwithstanding any other provision of law, any city with a population of 10,000 and over, may conduct a more comprehensive public hearing than is contained in subdivision 6 by including a board member from the county, a board member from the school district located within the city's boundary, and a representative of the metropolitan council, if the city is in the metropolitan area, as defined in section 473.121, subdivision 2, at the city's public hearing. All provisions regarding the public hearings under subdivision 6 are applicable to the joint public hearings under this subdivision.

Upon the adoption of a resolution by the governing body of the city to hold a joint hearing, the city shall notify the county, the school district, and the metropolitan council if the city is in the metropolitan area, of the decision to hold a joint public hearing and request a board member from each of those taxing authorities, and the member or the designee of the metropolitan council if

applicable, to be at the joint hearing. If the city is located in more than one county, the city may choose to request a county board member from each county or only from the county containing the majority of the city's market value. If more than one school district is partially or totally located within the city, the city may choose to request a school district board member from each school district, or a board member only from the school district containing the majority of the city's market value. If, as a result of requests under this subdivision, there are not sufficient board members in the county or the school district to attend the joint hearing, the county or school district may send a nonelected person working for its taxing authority to speak on the authority's behalf. The city may also invite each state senator and representative who represents the city, or a portion of the city, to come to the joint hearing.

The primary purpose of the joint hearing is to discuss the city's budget and property tax levy. The county and school district officials, and metropolitan council representative, if the city is in the metropolitan area, should be prepared to answer questions relevant to its budget and levy and the effect that its levy has on the property owners in the city.

If a city conducts a hearing under this subdivision, this hearing is in lieu of the initial hearing required under subdivision 6. However, the city is still required to adopt its proposed property tax levy at a subsequent hearing as provided under subdivision 6. The hearings under this subdivision do not relieve a county, school district, or the metropolitan council of the requirement to hold its individual hearing under subdivision 6.

Sec. 8. Minnesota Statutes 1996, section 275.065, subdivision 8, is amended to read:

Subd. 8. [HEARING.] Notwithstanding any other provision of law, Ramsey county, the city of St. Paul, and independent school district No. 625 are authorized to and shall hold their initial public hearing jointly. The hearing must be held on the second Tuesday of December each year. The advertisement required in subdivision 5a may be a joint advertisement. The hearing is otherwise subject to the requirements of this section.

Ramsey county is authorized to hold an additional initial hearing or hearings as provided under this section, provided that any additional hearings must not conflict with the initial or continuation hearing dates of the other taxing districts. However, if Ramsey county elects not to hold such additional initial hearing or hearings, the joint initial hearing required by this subdivision must be held in a St. Paul location convenient to residents of Ramsey county.

Sec. 9. Minnesota Statutes 1996, section 275.07, subdivision 4, is amended to read:

Subd. 4. [REPORT TO COMMISSIONER.] (a) On or before October 8 of each year, the county auditor shall report to the commissioner of revenue the proposed levy certified by local units of government under section 275.065, subdivision 1. If any taxing authorities have notified the county auditor that they are in the process of negotiating an agreement for sharing, merging, or consolidating services but that when the proposed levy was certified under section 275.065, subdivision 1a, the agreement was not yet finalized, the county auditor shall supply that information to the commissioner when filing the report under this section and shall recertify the affected levies as soon as practical after October 10.

(b) On or before January 15 of each year, the county auditor shall report to the commissioner of revenue the final levy certified by local units of government under subdivision 1.

(c) The levies must be reported in the manner prescribed by the commissioner. The reports must show a total levy and the amount of each special levy.

Sec. 10. Minnesota Statutes 1996, 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 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 determined school tax from the parcel of real property for which a particular tax statement is prepared. The dollar amounts due attributable to the county, the state determined school 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), school district excess referenda levy, remaining school district levy, and the total of other voter approved referenda levies based on market value under section 275.61 must be separately stated. The amounts due all other special taxing districts, if any, may be aggregated. For the purposes of this subdivision, "school district excess referenda levy" means school district taxes for operating purposes approved at referenda, including those taxes based on net tax capacity as well as those based on market value. "School district excess referenda levy" does not include school district taxes for capital expenditures approved at referendums or school district taxes to pay for the debt service on bonds approved at referenda. 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. The statement shall include the following sentence sentences, printed in upper case letters in boldface print: "EVEN THOUGH THE STATE OF MINNESOTA DOES NOT RECEIVE ANY PROPERTY TAX REVENUES, IT SETS THE AMOUNT OF THE STATE-DETERMINED SCHOOL TAX LEVY. THE STATE OF MINNESOTA REDUCES YOUR PROPERTY TAX BY PAYING CREDITS AND REIMBURSEMENTS TO LOCAL UNITS OF GOVERNMENT."

(b) The property tax statements for manufactured homes and sectional structures taxed as personal property shall contain the same information that is required on the tax statements for real property.

(c) 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 multiplying the property's gross tax capacity times the total local tax rate and adding the property's total property tax to the result the sum of the aids enumerated in clause (4);
- (4) a total of the following aids:
  - (i) education aids payable under chapters 124 and 124A;
  - (ii) local government aids for cities, towns, and counties under chapter 477A; and
  - (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 education homestead and agricultural credit aid apportioned to the property. This amount is obtained by multiplying the total local tax rate by the difference between the property's gross and net tax capacities under section 273.13. This amount must be separately stated and identified as "homestead and agricultural credit." For purposes of comparison with the previous year's amount for the statement for taxes payable in 1990, the statement must show the homestead credit for taxes payable in 1989 under section 273.13, and the agricultural credit under section 273.132 for taxes payable in 1989 under section 273.1382;
- (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 ~~clauses (3) and~~ clause (4) that local governments will receive in the following year. ~~In the case of a county containing a city of the first class, for taxes levied in 1991, and for all counties for taxes levied in 1992 and thereafter,~~ The commissioner must certify this amount by ~~September~~ January 1 of each year.

Sec. 11. Minnesota Statutes 1996, section 383A.75, subdivision 3, is amended to read:

Subd. 3. [DUTIES.] The committee is authorized to and shall meet from time to time to make appropriate recommendations for the efficient and effective use of property tax dollars raised by the jurisdictions for programs, buildings, and operations. In addition, the committee shall:

(1) identify trends and factors likely to be driving budget outcomes over the next five years with recommendations for how the jurisdictions should manage those trends and factors to increase efficiency and effectiveness;

(2) agree, by ~~September~~ October 1 of each year, on the appropriate level of overall property tax levy for the three jurisdictions and publicly report such to the governing bodies of each jurisdiction for ratification or modification by resolution;

(3) plan for the joint truth-in-taxation hearings under section 275.065, subdivision 8; and

(4) identify, by December 31 of each year, areas of the budget to be targeted in the coming year for joint review to improve services or achieve efficiencies.

In carrying out its duties, the committee shall consult with public employees of each jurisdiction and with other stakeholders of the city, county, and school district, as appropriate.

Sec. 12. Laws 1993, chapter 375, article 7, section 29, is amended to read:

Sec. 29. [EFFECTIVE DATE.]

Sections 1, 6 to 8, 13, 15 to 25, 27, and 28 are effective for taxes levied in 1993, payable in 1994 and thereafter.

Section 3, subdivision 5, and the provisions of sections 9 to 11 relating to regional library districts are effective for property taxes levied in 1994, payable in 1995, and thereafter. The other provisions of sections 9 to 11 are effective for property taxes levied in 1993, payable in 1994 and thereafter.

Sections 12 and 14 are effective the day following final enactment and without local approval, as provided in Minnesota Statutes, section 645.023, subdivision 1, clause (a), ~~and shall expire after December 31, 1997.~~

Section 26 is effective beginning with aids payable in calendar year 1993.

Sec. 13. [EXCEPTION FOR TAXES PAYABLE IN 1998.]

(a) Notwithstanding Minnesota Statutes, section 275.065, subdivision 3, for taxes payable in 1998 only, the commissioner of revenue may allow a county auditor, upon request, to prepare notices of proposed property taxes that do not itemize school district levies as required by that section, if the county determines that it is not able to compute the separate levies for the actual tax payable in 1997.

(b) Notwithstanding Minnesota Statutes, section 276.04, subdivision 2, for taxes payable in 1998 only, the commissioner of revenue may allow a county treasurer, upon request, to prepare property tax statements that (i) do not itemize school levies as required by that section, and (ii) do not include homestead and agricultural credit aid as required by paragraph (c), clause (4), if the county determines that it is not able to compute the separate items for the tax payable in 1997.

Sec. 14. [APPROPRIATION.]

\$1,000,000 is appropriated for fiscal year 1998 to the commissioner of revenue for distribution to the 87 counties for implementing the various provisions of this act, including the added expenses of the truth in taxation provisions. The commissioner shall distribute the dollars using the following formula: 25 percent shall be distributed equally, 25 percent shall be distributed based on population within each county, and the remaining 50 percent shall be distributed based on the number of property tax statements within each county.

Sec. 15. [EFFECTIVE DATE.]

Sections 1 to 4 and 9 are effective for levies and notices for taxes payable in 1998, and thereafter.

Section 5 is effective for newspaper advertisements prepared in 1997 for taxes payable in 1998, and thereafter.

Sections 6 to 8 are effective for public hearings held in 1997, and thereafter.

Section 10 is effective for property tax statements prepared in 1998, and thereafter.

#### ARTICLE 5

#### INCOME TAXES AND PROPERTY TAX REFUNDS

Section 1. Minnesota Statutes 1996, section 270B.02, is amended by adding a subdivision to read:

Subd. 6. [CLIENT LISTS; THIRD-PARTY BULK FILERS.] Client lists required under section 290.92, subdivision 30, are classified as private data on individuals or nonpublic data, as defined in section 13.02, subdivisions 9 and 12.

Sec. 2. Minnesota Statutes 1996, 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 not to exceed \$650 for each dependent in grades kindergarten to 6 and \$1,000 for each dependent in grades 7 to 12, for tuition, textbooks, and transportation of each dependent in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363. As used in this clause, "textbooks" includes books and other instructional materials and equipment used in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to,



extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. In order to qualify for the subtraction under this clause the taxpayer must elect to itemize deductions under section 63(e) of the Internal Revenue Code;

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

(5) income as provided under section 290.0802;

(6) the amount of unrecovered accelerated cost recovery system deductions allowed under subdivision 19g;

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

(8) to the extent not deducted in determining federal taxable income, the amount paid for health insurance of self-employed individuals as determined under section 162(l) of the Internal Revenue Code, except that the 25 percent limit does not apply. If the taxpayer 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(1) of the Internal Revenue Code or excluded from income or (B) the total amount deductible for medical care under section 213(a); and

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

(10) to the extent included in federal taxable income, postservice benefits for youth community service under section 121.707 for volunteer service under United States Code, title 42, section 5011(d), as amended.

Sec. 3. Minnesota Statutes 1996, 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 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 windfall profits tax deducted under section 164 or 471 of the Internal Revenue Code;~~

~~(5) 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;~~

~~(6) (5) the amount of any special deductions taken for federal income tax purposes under sections 241 to 247 of the Internal Revenue Code;~~

~~(7) (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;~~

~~(8) (7) the amount of any capital losses deducted for federal income tax purposes under sections 1211 and 1212 of the Internal Revenue Code;~~

~~(9) (8) the amount of any charitable contributions deducted for federal income tax purposes under section 170 of the Internal Revenue Code;~~

~~(10) (9) the exempt foreign trade income of a foreign sales corporation under sections 921(a) and 291 of the Internal Revenue Code;~~

~~(11) (10) the amount of percentage depletion deducted under sections 611 through 614 and 291 of the Internal Revenue Code;~~

~~(12) (11) 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; and~~

~~(13) (12) the amount of any deemed dividend from a foreign operating corporation determined pursuant to section 290.17, subdivision 4, paragraph (g); and~~

~~(13) the amount of any environmental tax paid under section 59(a) of the Internal Revenue Code.~~

Sec. 4. Minnesota Statutes 1996, 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;

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

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

(11) ~~the following percentage~~ 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:

Taxable Year	
Beginning After.....	Percentage
December 31, 1988.....	50 percent
December 31, 1990.....	80 percent ;

(12) 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;

(13) 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;

(14) 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; and

(15) 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; and

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

Sec. 5. Minnesota Statutes 1996, section 290.06, is amended by adding a subdivision to read:

Subd. 26. [CREDIT FOR PROPERTY TAXES PAID ON SEASONAL RESIDENTIAL RECREATIONAL PROPERTY.] A taxpayer may take as a credit against the tax due from the taxpayer and a spouse, if any, under this chapter the credit allowed under section 290A.04, subdivision 2j. The credit allowed may not exceed the tax due under this chapter. In the case of a nonresident, or a part-year resident, the credit must be allocated based on the ratio in subdivision 2c.

Sec. 6. Minnesota Statutes 1996, 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 an aid to families with dependent children grant or allowance to or on behalf of the child, or as a grant or allowance to or on behalf of the child under the successor program pursuant to Public Law 104-193, must not be taken into account in determining whether the child received more than half of the child's support from the taxpayer, and the provisions of section 32(b)(1)(D) of the Internal Revenue Code do not apply.

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

(c) If a married couple:

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

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

(3) does not participate in a dependent care assistance program as defined in section 129 of the Internal Revenue Code, in lieu of the actual employment related expenses paid for that child under paragraph (a) or the deemed amount under paragraph (b), the lesser of (i) the combined earned income of the couple or (ii) \$2,400 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.

Sec. 7. [290.0672] [LONG-TERM CARE INSURANCE CREDIT.]

Subdivision 1. [DEFINITIONS.] (a) For purposes of this section, the following terms have the meanings given.

(b) "Long-term care insurance" means a policy that:

(1) qualifies for a deduction under section 213 of the Internal Revenue Code, disregarding the 7.5 percent income test; or meets the requirements given in section 62A.46; or provides similar coverage issued under the laws of another jurisdiction; and

(2) does not have a lifetime long-term care benefit limit of less than \$100,000; and

(3) includes inflation protection that meets or exceeds the inflation protection requirements of the long-term care insurance model regulation cited under section 7702B(g)(2)(A)(i)(x) of the Internal Revenue Code.

(c) "Qualified beneficiary" means the taxpayer or the taxpayer's spouse.

(d) "Premiums deducted in determining federal taxable income" means the lesser of (1) long-term care insurance premiums that qualify as deductions under section 213 of the Internal Revenue Code; and (2) the total amount deductible for medical care under section 213 of the Internal Revenue Code.

Subd. 2. [CREDIT.] A taxpayer is allowed a credit against the tax imposed by this chapter for long-term care insurance policy premiums paid during the tax year. The credit for each policy equals the lesser of (1) 25 percent of premiums paid to the extent not deducted in determining federal taxable income; or (2) \$100. A taxpayer may claim a credit for only one policy for each qualified beneficiary. Only one credit may be claimed by any taxpayer for each policy. The maximum total credit allowed per year is \$200 for married couples filing joint returns and \$100 for all other filers. For a nonresident or part-year resident, the credit determined under this section must be allocated based on the percentage calculated under section 290.06, subdivision 2c, paragraph (e).

Sec. 8. [290.0673] [JOB TRAINING PROGRAM CREDIT.]

Subdivision 1. [CREDIT ALLOWED.] (a) A credit is allowed against the tax imposed by section 290.06, subdivision 1, equal to the sum of:

(1) placement fees paid to a job training program upon hiring a qualified graduate of the program; and

(2) retention fees paid to a job training program for retention of a qualified graduate of the program.

(b) The maximum placement fee qualifying for a credit under this section is \$8,000 per qualified graduate in the year hired. The maximum retention fee qualifying for a credit under this section is \$6,000 per qualified graduate retained as an employee per year. Only retention fees paid in the second and third years after the qualified graduate is hired qualify for the credit.

(c) A credit is allowed only up to the dollar amount of certificates, issued under subdivision 4, and provided by the job training program to the taxpayer.

Subd. 2. [QUALIFIED JOB TRAINING PROGRAM.] (a) To qualify for credits under this section, a job training program must satisfy the following requirements:

(1) It must be operated by a nonprofit corporation that qualifies under section 501(c)(3) of the Internal Revenue Code.

(2) The organization must spend at least \$5,000 per graduate of the program.

(3) The program must provide education and training in:

(i) basic skills, such as reading, writing, mathematics, and communications;

(ii) thinking skills, such as reasoning, creative thinking, decision making, and problem solving; and

(iii) personal qualities, such as responsibility, self-esteem, self-management, honesty, and integrity.

(4) The program must provide income supplements, when needed, to participants for housing, counseling, tuition, and other basic needs.

(5) The education and training course must last for at least six months.

(6) Individuals served by the program must:

(i) be 18 years old or older;

(ii) have had federal adjusted gross income of no more than \$10,000 per year in the last two years;

(iii) have assets of no more than \$5,000, excluding the value of a homestead; and

(iv) not have been claimed as a dependent on the federal tax return of another person in the previous taxable year.

(7) The program must charge placement and retention fees that exceed the amount of credit certificates provided to the employer by at least 20 percent.

(b) The program must be certified by the commissioner of children, families, and learning as meeting the requirements of this subdivision.

Subd. 3. [QUALIFIED GRADUATE.] A qualified graduate is a graduate of a job training program qualifying under subdivision 1, who is placed in a job in Minnesota that pays at least \$9 per hour or its equivalent. To qualify for a credit under this section for a retention fee, a job in which the graduate is retained must pay at least \$10 per hour at the end for the first and second years of employment. A business, other than the business that originally hired the graduate, may pay a retention fee for the graduate and qualify for the credit.

Subd. 4. [DUTIES OF PROGRAM.] (a) Each program certified by the commissioner under subdivision 2 must comply with the requirements of this subdivision.

(b) Each program must maintain records for each graduate for which the program provides a credit certificate to an employer. These records must include information sufficient to verify the graduate's eligibility under this section, identify the employer, describe the job including its compensation rate and benefits, and determine the amount of placement and retention fees received.

(c) Each program must report to the commissioner of revenue by January 1, 1999, and by January 1, 2001, on its use of the credit. Each report must include, at least, information on:

- (1) the number of graduates placed;
  - (2) demographic information on the graduates;
  - (3) the types of position in which each graduate is placed, including compensation information;
  - (4) the tenure of each graduate at the placed position or in other jobs;
  - (5) the amount of employer fees paid to the program;
  - (6) the amount of money raised by the program from other sources; and
  - (7) the types and sizes of employers with which graduates have been placed and retained.
- (d) The commissioner shall compile and summarize this information and report to the legislature by February 15, 1999, and February 15, 2001.

Subd. 5. [ISSUANCE OF CREDIT CERTIFICATES.] (a) The total amount of credits under this section is limited to \$1,200,000 for taxable years beginning after December 31, 1996, and before January 1, 2002. The commissioner may issue under paragraph (b) no more than the specified amount of certificates for taxable years beginning during each calendar year:

<u>1997</u>	<u>\$100,000</u>
<u>1998</u>	<u>\$200,000</u>
<u>1999</u>	<u>\$300,000</u>
<u>2000</u>	<u>\$300,000</u>
<u>2001</u>	<u>\$300,000</u>

Unused certificates for a taxable year carry over and may be used for a later taxable year, regardless of when issued by the commissioner.

(b) Upon application, the commissioner of children, families, and learning shall issue certificates to job training programs, certified under subdivision 2, up to the dollar amount available for the taxable year. The certificates must be in a dollar amount that is no greater than the dollar amount applied for, and reflects the commissioner's estimate of the job training program's projected fees for placements and retentions of qualifying graduates. The commissioner shall issue the certificates in the order in which applications are received until the available authority has been issued.

(c) To the extent available, the job training program must provide to employers of its qualified graduates certificates issued by the commissioner of children, families, and learning under this subdivision.

Subd. 6. [NONREFUNDABLE.] The taxpayer must use the tax credit for the taxable year in which the certificate is issued to the employer. The credit for the taxable year may not exceed the liability for tax under section 290.06, subdivision 1, for the taxable year, before reduction by the nonrefundable credits allowed under this chapter.

Subd. 7. [MANNER OF CLAIMING.] The commissioner shall prescribe the manner in which the credit may be claimed. This may include allowing the credit only as a separately processed claim for a refund.

Subd. 8. [EXPIRATION.] This section expires effective for taxable years beginning after December 31, 2001.

Sec. 9. Minnesota Statutes 1996, 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 in response to orders received by United States mail or, 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.

Sec. 10. Minnesota Statutes 1996, section 290.92, is amended by adding a subdivision to read:

Subd. 30. [REGISTRATION; THIRD-PARTY BULK FILER.] (a) For purposes of this subdivision, the following terms have the meanings given:

(1) Notwithstanding section 290.01, "person" means an individual, fiduciary, partnership, corporation, limited liability company, association, or other entity organized under the laws of this state or any other jurisdiction.

(2) "Third-party bulk filer" means a person that collects withholding taxes from more than one employer for the purpose of filing returns and depositing the withheld taxes with the commissioner.

(b) A person shall not act as a third-party bulk filer unless the person is registered with the commissioner under this subdivision.

(c) A person may apply to the commissioner, on a form prescribed by the commissioner, for registration as a third-party bulk filer under this subdivision, and the commissioner shall grant the application if the application indicates that the person will comply with this subdivision.

(d) A third-party bulk filer must:

(1) keep client funds held for payment of federal or state withholding taxes or other client obligations in an account separate from the third-party bulk filer's own funds;

(2) permit the commissioner to conduct scheduled or unscheduled audits of the third-party bulk filer's books and records relating to compliance with this subdivision and fully cooperate with the audits or, at the discretion of the commissioner, submit an audit conducted by a certified public accountant;

(3) file returns electronically and make deposits electronically with the commissioner in compliance with the commissioner's requirements for electronic filing and depositing;

(4) provide to the commissioner at least monthly, in the form requested by the commissioner, an updated client list that includes at least the name, address, tax identification number, and federal deposit frequency of each client. The address listed for the client must be the client's actual street or post office box address and not the third-party bulk filer's address;

(5) disclose in writing to prospective clients that:

(i) the third-party bulk filer may invest client funds prior to depositing them with the commissioner and with the Internal Revenue Service and that earnings from those investments will be the property of the third-party bulk filer;

(ii) if the third-party bulk filer incurs losses on those investments or uses the client's funds for other purposes, the third-party bulk filer will still be liable to the client for the amounts withheld but will be able to make required tax deposits on behalf of the client only by using the third-party bulk filer's own funds or other assets to replace the funds lost through the investments or used for other purposes; and



(iii) no state or federal agency monitors or assumes any responsibility for the financial solvency of third-party bulk filers;

(6) timely file all returns and timely make all tax deposits required under its contracts with its clients;

(7) upon request, provide to the commissioner, within the time specified in the request, a copy of any contract with a client; and

(8) comply with all other requirements of this section or of rules adopted under this section.

(e) When the commissioner sends an order of assessment issued under section 289A.37, in either paper or electronic form, to a third-party bulk filer regarding a client, the commissioner shall also send a paper copy of the order of assessment to the client.

(f) If the commissioner determines that a required deposit appears not to have been made, the commissioner shall send a written notice of the delinquency, in electronic or paper form, to the third-party bulk filer, and a copy to the client as required under paragraph (e).

(g) If the commissioner determines that a required deposit has not been made, and that continued operation of the third-party bulk filer would present a risk of loss to its clients, the commissioner may, upon ten business days' written notice by certified mail to the third-party bulk filer, suspend the registration of the third-party bulk filer for an indefinite period, and notify the third-party bulk filer's clients that the registration has been suspended. A registration may not be suspended if the failure to make a deposit was caused by the client's failure to deposit funds or provide the information necessary to calculate appropriate tax withholding payments. The commissioner shall, upon request, provide the third-party bulk filer with the opportunity for an administrative appeal under section 289A.65, subdivisions 1, 4, and 10, prior to suspension; the hearing, if any, on the administrative appeal must occur within the ten-day period unless the commissioner, in the commissioner's sole discretion, agrees to delay the suspension to permit a later hearing. The 60-day period specified in section 289A.65, subdivision 4, does not apply to a proceeding under this paragraph. Within 30 days after the beginning of a suspension under this paragraph, the commissioner may commence a proceeding to suspend or revoke under paragraph (h); if the commissioner fails to do so, the suspension under this paragraph terminates.

(h) If the commissioner determines, in compliance with paragraph (i), that a third-party bulk filer has violated this section without reasonable cause or is no longer eligible for registration under this subdivision, the commissioner may suspend or revoke the third-party bulk filer's registration or may assess a civil penalty upon the third-party bulk filer, not to exceed \$5,000 per violation. A suspension of registration may be for any period of less than six months and may include conditions for reinstatement. If the commissioner revokes the registration, the third-party bulk filer may not apply for reregistration for six months after the revocation. If the commissioner suspends or revokes a registration, the commissioner shall notify the former registrant's clients that the registration has been suspended or revoked. If the commissioner assesses a civil penalty, the commissioner shall not notify the third-party bulk filer's clients of the assessment.

(i) Prior to a suspension, revocation, or assessment of a civil penalty under paragraph (h), the commissioner shall first provide 30 days' written notice to the third-party bulk filer, specifying the violations and informing the third-party bulk filer that the commissioner intends, based upon those violations, to take action against the third-party bulk filer as permitted under this paragraph and paragraph (h). The notice shall advise the third-party bulk filer of the right to contest the suspension, revocation, or assessment of a civil penalty and of the general procedures for a contested case hearing under chapter 14. The notice may be served personally or by mail in the manner prescribed for service of an order of assessment issued under section 289A.37. A suspension or revocation of registration under this paragraph is effective when the commissioner serves a notice of suspension or revocation upon the third-party bulk filer after 30 days have passed following the date of the notice of intent to suspend or revoke without the third-party bulk filer requesting a hearing. If a hearing is timely requested and held, the suspension or revocation is effective upon service by the commissioner of an order of suspension or revocation under section 14.62, subdivision 1.

(j) A third-party bulk filer may terminate its registration by written notice to the commissioner, but the termination does not affect the commissioner's authority to begin or continue a proceeding to take action permitted under paragraph (h). The commissioner shall notify the third-party bulk filer's clients of a termination of registration under this paragraph.

(k) The commissioner shall remind employers at least annually, through the department's regular informational publications that it sends to employers, that employers may telephone the department to determine whether a required filing or deposit has been made by a third-party bulk filer.

Sec. 11. Minnesota Statutes 1996, section 290A.03, subdivision 7, is amended to read:

Subd. 7. [DEPENDENT.] "Dependent" means any person who is considered a dependent under sections 151 and 152 of the Internal Revenue Code. In the case of a son, stepson, daughter, or stepdaughter of the claimant, amounts received as an aid to families with dependent children grant, allowance to or on behalf of the child, or as a grant or allowance to or on behalf of the child under the successor program pursuant to Public Law Number 104-193, surplus food, or other relief in kind supplied by a governmental agency must not be taken into account in determining whether the child received more than half of the child's support from the claimant.

Sec. 12. Minnesota Statutes 1996, section 290A.03, subdivision 11, is amended to read:

Subd. 11. [RENT CONSTITUTING PROPERTY TAXES.] "Rent constituting property taxes" means ~~the amount of gross rent actually paid in cash, or its equivalent, which is attributable (a) to the property tax paid on the unit or (b) to the amount 18 percent of the gross rent actually paid in cash, or its equivalent, or the portion of rent paid in lieu of property taxes, in any calendar year by a claimant for the right of occupancy of the claimant's Minnesota homestead in the calendar year, and which rent constitutes the basis, in the succeeding calendar year of a claim for relief under this chapter by the claimant. The amount of rent attributable to property taxes paid or payments in lieu made on the unit shall be determined by multiplying the gross rent paid by the claimant for the calendar year for the unit by a fraction, the numerator of which is the net tax on the property where the unit is located and the denominator of which is the total scheduled rent. In no case may the rent constituting property taxes exceed 50 percent of the gross rent paid by the claimant during that calendar year. In the case of a claimant who resides in a unit for which (1) a rent subsidy is paid to, or for, the claimant based on the income of the claimant or the claimant's family, or (2) a subsidy is paid to a public housing authority that owns or operates the claimant's rental unit, pursuant to United States Code, title 42, section 1437c, 20 percent of gross rent actually paid in cash or its equivalent shall be the claimant's "rent constituting property taxes paid." For purposes of this subdivision, "rent subsidy" does not include any housing assistance received under aid to families with dependent children, general assistance, Minnesota supplemental assistance, supplemental security income, or similar income maintenance programs.~~

Sec. 13. Minnesota Statutes 1996, section 290A.03, subdivision 13, is amended to read:

Subd. 13. [PROPERTY TAXES PAYABLE.] "Property taxes payable" means the property tax exclusive of special assessments, penalties, and interest payable on a claimant's homestead before reductions made under section 273.13 but after deductions made under sections 273.135, 273.1391, 273.42, subdivision 2, and any other state paid property tax credits in any calendar year. In the case of a claimant who makes ground lease payments, "property taxes payable" includes the amount of the payments directly attributable to the property taxes assessed against the parcel on which the house is located. No apportionment or reduction of the "property taxes payable" shall be required for the use of a portion of the claimant's homestead for a business purpose if the claimant does not deduct any business depreciation expenses for the use of a portion of the homestead in the determination of federal adjusted gross income. For homesteads which are manufactured homes as defined in section 273.125, subdivision 8, and for homesteads which are park trailers taxed as manufactured homes under section 168.012, subdivision 9, "property taxes payable" shall also include ~~the amount 18 percent of the gross rent paid in the preceding year for the site on which the homestead is located, which is attributable to the net tax paid on the site. The amount attributable to property taxes shall be determined by multiplying the net tax on the parcel by a fraction, the numerator of which is the gross rent paid for the calendar year for the site and the~~

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

In the case of a claim relating to "property taxes payable," the claimant must have owned and occupied the homestead on January 2 of the year in which the tax is payable and (i) the property must have been classified as homestead property pursuant to section 273.13, subdivision 22 or 23 273.124, on or before December 15 of the assessment year to which the "property taxes payable" relate; or (ii) the claimant must provide documentation from the local assessor that application for homestead classification has been made on or before December 15 of the year in which the "property taxes payable" were payable and that the assessor has approved the application.

Sec. 14. Minnesota Statutes 1996, section 290A.04, is amended by adding a subdivision to read:

Subd. 2j. [SEASONAL RESIDENTIAL RECREATIONAL CREDIT.] If the net property taxes payable on a seasonal residential recreational property not used for commercial purposes, classified under section 273.13, subdivision 25, increase more than ten percent over its net property taxes payable in the previous year, and if the amount of the increase is \$100 or more, a claimant who is an owner of the property in both years is allowed a credit under section 290.06, subdivision 26, equal to 75 percent of the first \$300 of the excess of the increase over ten percent. This subdivision does not apply to the portion of an increase in taxes payable that are attributable to improvements to the property.

In addition to the other proofs required by this chapter, each claimant under this subdivision shall file with the application a copy of the property tax statement for property taxes payable in the current year and the previous year and any other documents required by the commissioner.

For purposes of this subdivision, "net property taxes payable" means property taxes payable minus credit amounts for which a claimant qualify's under this subdivision for the previous year.

The credit under this subdivision is effective for property taxes payable in 1998, for credits under section 290.06, subdivision 26, for tax year 1998, income tax returns filed in 1999; and for property taxes payable in 1999, for credits under section 290.06, subdivision 26, for tax year 1999, income tax returns filed in 2000.

Sec. 15. Minnesota Statutes 1996, section 290A.19, is amended to read:

290A.19 [OWNER OR MANAGING AGENT TO FURNISH RENT CERTIFICATE.]

(a) The owner or managing agent of any property for which rent is paid for occupancy as a homestead must furnish a certificate of rent ~~constituting property tax paid~~ to a person who is a renter on December 31, in the form prescribed by the commissioner. If the renter moves before December 31, the owner or managing agent may give the certificate to the renter at the time of moving, or mail the certificate to the forwarding address if an address has been provided by the renter. The certificate must be made available to the renter before February 1 of the year following the year in which the rent was paid. The owner or managing agent must retain a duplicate of each certificate or an equivalent record showing the same information for a period of three years. The duplicate or other record must be made available to the commissioner upon request. For the purposes of this section, "owner" includes a park owner as defined under section 327C.01, subdivision 6, and "property" includes a lot as defined under section 327C.01, subdivision 3.

~~(b) The certificate of rent constituting property taxes must include the address of the property, including the county, and the property tax parcel identification number and any additional information that the commissioner determines is appropriate.~~

~~(c) If the owner or managing agent fails to provide the renter with a certificate of rent constituting property taxes, the commissioner shall allocate the net tax on the building to the unit~~

on a square footage basis or other appropriate basis as the commissioner determines. The renter shall supply the commissioner with a statement from the county treasurer that gives the amount of property tax on the parcel, the address and property tax parcel identification number of the property, and the number of units in the building.

(d) ~~By January 31 of the year following the year in which the rent was collected, each owner or managing agent shall report to the commissioner on a form prescribed by the commissioner the net tax pertaining to the rental residential part of the property, the total scheduled rent, and the fraction computed under section 290A.03, subdivision 11. A copy of the property tax statement for taxes payable in that year must be attached.~~

Sec. 16. Laws 1995, chapter 255, article 3, section 2, subdivision 1, as amended by Laws 1996, chapter 464, article 4, section 1, is amended to read:

Subdivision 1. [URBAN REVITALIZATION AND STABILIZATION ZONES.] (a) By September 1, 1995, the metropolitan council shall designate one or more urban revitalization and stabilization zones in the metropolitan area, as defined in section 473.121, subdivision 2. The designated zones must contain no more than 1,000 single family homes in total. In designating urban revitalization and stabilization zones, the council shall choose areas that are in transition toward blight and poverty. The council shall use indicators that evidence increasing neighborhood distress such as declining residential property values, declining resident incomes, declining rates of owner-occupancy, and other indicators of blight and poverty in determining which areas are to be urban revitalization and stabilization zones.

(b) An urban revitalization and stabilization zone is created in the geographic area composed entirely of parcels that are in whole or in part located within the 1996 65Ldn contour surrounding the Minneapolis-St. Paul International Airport, or within one mile of the boundaries of the 1996 65Ldn contour. For residents of the zone created under this paragraph, eligibility for the program as provided in subdivision 2 is limited to persons buying and occupying a residence in the zone after June 1, 1996, who have entered into purchase agreements related to those homes before July 1, 1997.

Sec. 17. Laws 1997, chapter 34, section 2, is amended to read:

Sec. 2. [EFFECTIVE DATE.]

Section 1 is effective the day following final enactment for time limitations which expire or due dates specified in Minnesota Statutes, section 289A.20, which fall in the period between March 31, 1997, and May 30, 1997.

Sec. 18. [LEGISLATIVE TAX STUDIES.]

Subdivision 1. [COMMISSION RESPONSIBILITIES.] (a) The legislative coordinating commission shall prepare studies of business taxation and the taxation of telecommunications services during the 1997-98 legislative session, as provided by this section. The commission is responsible for managing any contracts under this section and for preparing the studies. It may delegate any or all of its responsibilities under this section to the legislative commission on planning and fiscal policy.

(b) For the business tax study under subdivision 2, the commission may appoint a formal or informal bipartisan working group of house and senate members to oversee and coordinate the study.

(c) For the study of the taxation of telecommunications services under subdivision 4, the commission shall appoint a bipartisan working group that includes house and senate members and members of the public, at least two of whom are representatives of Internet service businesses who are knowledgeable about the technologies and practices of the Internet and at least two of whom are the representatives of businesses that conduct commerce on the Internet.

Subd. 2. [BUSINESS TAX STUDY.] The study of business taxes must analyze the following taxes paid by businesses:

- (1) the corporate franchise tax;
- (2) the sales tax on capital or other business inputs;
- (3) the personal property tax on utility property;
- (4) the real property tax on commercial and industrial property.

The study must consider the impact of alternative methods of taxing business and the impact of doing so on the fairness, efficiency, simplicity, elasticity, and stability of revenues, and competitiveness of Minnesota's taxation of business.

Subd. 3. [APPROPRIATION.] \$50,000 is appropriated from the general fund for fiscal years 1998 and 1999 to the legislative coordinating commission to study alternative methods of taxing businesses. This appropriation may be used to hire a consultant or consultants to prepare all or part of the study and is fully available in either fiscal year.

Subd. 4. [TELECOMMUNICATIONS STUDY.] The commission and the working group shall:

(1) study existing and emerging tax policies, both federally and nationally, that apply to telecommunications and computer industries and identify any inequities which may exist in the current system of taxation as it applies to those industries;

(2) identify potential for erosion of the sales tax base as a result of evolving technologies in the telecommunications and computer industries;

(3) consider methods of addressing potential impediments to extension of state taxes to emerging technologies;

(4) suggest options for changing the tax system to maintain or broaden the sales tax base and to provide equitable tax treatment for users of existing and emerging technologies.

Subd. 5. [STAFFING.] The department of revenue shall provide administrative and staff assistance when requested by the commissions or working groups.

Sec. 19. [REPEALER.]

Minnesota Statutes 1996, section 290A.03, subdivisions 12a and 14, are repealed.

Sec. 20. [EFFECTIVE DATE.]

Sections 1, 5, 6, 11, 16, and 18 are effective the day following final enactment.

Sections 2 to 4, and 9 are effective for taxable years beginning after December 31, 1996.

Section 7 is effective for taxable years beginning after December 31, 1998.

Section 8 is effective for tax credit certificates issued after December 31, 1996, and used in taxable years beginning after December 31, 1996.

Section 10 is effective January 1, 1998.

Sections 12, 13, 15, and 19 are effective beginning for property tax refunds based on rent paid after December 31, 1996.

Section 17 is effective April 16, 1997.

## ARTICLE 6 FEDERAL UPDATE

Section 1. Minnesota Statutes 1996, 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 ~~March 22~~ December 31, 1996, and includes the provisions of section 1(a) and (b) of Public Law Number 104-117.

Sec. 2. Minnesota Statutes 1996, 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(h) of the Internal Revenue Code, federal taxable income means investment company taxable income as defined in section 852(b)(2) of the Internal Revenue Code, except that:

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

(2) the deduction for dividends paid under section 852(b)(2)(D) of the Internal Revenue Code must be applied by allowing a deduction for capital gain dividends and exempt-interest dividends as defined in sections 852(b)(3)(C) and 852(b)(5) of the Internal Revenue Code; 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 Internal Revenue Code of 1986, as amended through December 31, 1986, shall be in effect for taxable years beginning after December 31, 1986. The provisions of sections 10104, 10202, 10203, 10204, 10206, 10212, 10221, 10222, 10223, 10226, 10227, 10228, 10611, 10631, 10632, and 10711 of the Omnibus Budget Reconciliation Act of 1987, Public Law Number 100-203, the provisions of sections 1001, 1002, 1003, 1004, 1005, 1006, 1008, 1009, 1010, 1011, 1011A, 1011B, 1012, 1013, 1014, 1015, 1018, 2004, 3041, 4009, 6007, 6026, 6032, 6137, 6277, and 6282 of the Technical and Miscellaneous Revenue Act of 1988, Public Law Number 100-647, ~~and~~ the provisions of sections 7811, 7816, and 7831 of the Omnibus Budget Reconciliation Act of 1989, Public Law Number 101-239, and the provisions of sections 1305, 1704(r), and 1704(e)(1) of the Small Business Job Protection Act, Public Law Number 104-188, shall be effective at the time they become effective for federal income tax purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1987, shall be in effect for taxable years beginning after December 31, 1987. The provisions of sections 4001, 4002, 4011, 5021, 5041, 5053, 5075, 6003, 6008, 6011, 6030, 6031, 6033, 6057, 6064, 6066, 6079, 6130, 6176, 6180, 6182, 6280, and 6281 of the Technical and Miscellaneous Revenue Act of 1988, Public Law Number 100-647, the provisions of sections 7815 and 7821 of the Omnibus Budget Reconciliation Act of 1989, Public Law Number 101-239, and the provisions of section 11702 of the Revenue Reconciliation Act of 1990, Public Law Number 101-508, shall become effective at the time they become effective for federal tax purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1988, shall be in effect for taxable years beginning after December 31, 1988. The provisions of sections 7101, 7102, 7104, 7105, 7201, 7202, 7203, 7204, 7205, 7206, 7207, 7210, 7211, 7301, 7302, 7303, 7304, 7601, 7621, 7622, 7641, 7642, 7645, 7647, 7651, and 7652 of the Omnibus Budget Reconciliation

Act of 1989, Public Law Number 101-239, the provision of section 1401 of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, Public Law Number 101-73, and the provisions of sections 11701 and 11703 of the Revenue Reconciliation Act of 1990, Public Law Number 101-508, and the provisions of sections 1702(g) and 1704(f)(2)(A) and (B) of the Small Business Job Protection Act, Public Law Number 104-188, shall become effective at the time they become effective for federal tax purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1989, shall be in effect for taxable years beginning after December 31, 1989. The provisions of sections 11321, 11322, 11324, 11325, 11403, 11404, 11410, and 11521 of the Revenue Reconciliation Act of 1990, Public Law Number 101-508, and the provisions of sections 13224 and 13261 of the Omnibus Budget Reconciliation Act of 1993, Public Law Number 103-66, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1990, shall be in effect for taxable years beginning after December 31, 1990.

The provisions of section 13431 of the Omnibus Budget Reconciliation Act of 1993, Public Law Number 103-66, shall become effective at the time they became effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1991, shall be in effect for taxable years beginning after December 31, 1991.

The provisions of sections 1936 and 1937 of the Comprehensive National Energy Policy Act of 1992, Public Law Number 102-486, and the provisions of sections 13101, 13114, 13122, 13141, 13150, 13151, 13174, 13239, 13301, and 13442 of the Omnibus Budget Reconciliation Act of 1993, Public Law Number 103-66, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1992, shall be in effect for taxable years beginning after December 31, 1992.

The provisions of sections 13116, 13121, 13206, 13210, 13222, 13223, 13231, 13232, 13233, 13239, 13262, and 13321 of the Omnibus Budget Reconciliation Act of 1993, Public Law Number 103-66, and the provisions of sections 1703(a), 1703(d), 1703(i), 1703(l), and 1703(m) of the Small Business Job Protection Act, Public Law Number 104-188, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1993, shall be in effect for taxable years beginning after December 31, 1993.

The provision of section 741 of Legislation to Implement Uruguay Round of General Agreement on Tariffs and Trade, Public Law Number 103-465, and the provisions of sections 1, 2, and 3, of the Self-Employed Health Insurance Act of 1995, Public Law Number 104-7, the provision of section 501(b)(2) of the Health Insurance Portability and Accountability Act, Public Law Number 104-191, and the provisions of sections 1604 and 1704(p)(1) and (2) of the Small Business Job Protection Act, Public Law Number 104-188, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through December 31, 1994, shall be in effect for taxable years beginning after December 31, 1994.

The provisions of sections 1119(a), 1120, 1121, 1202(a), 1444, 1449(b), 1602(a), 1610(a), 1613, and 1805 of the Small Business Job Protection Act, Public Law Number 104-188, and the provision of section 511 of the Health Insurance Portability and Accountability Act, Public Law Number 104-191, shall become effective at the time they become effective for federal purposes.

The Internal Revenue Code of 1986, as amended through March 22, 1996, is in effect for taxable years beginning after December 31, 1995.

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, and the provisions of Public Law Number 104-117 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.

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.

Sec. 3. Minnesota Statutes 1996, 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(h) 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; and

(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 loss or expense included in federal taxable income under section 1366 of the Internal Revenue Code flowing from a corporation that has a valid election in effect for the taxable year under section 1362 of the Internal Revenue Code, but which is not allowed to be an "S" corporation under section 290.9725; and

(6) the amount of any distributions in cash or property made to a shareholder during the taxable year by a corporation that has a valid election in effect for the taxable year under section 1362 of the Internal Revenue code, but which is not allowed to be an "S" corporation under section 290.9725 to the extent not already included in federal taxable income under section 1368 of the Internal Revenue Code.



Sec. 4. Minnesota Statutes 1996, 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 not to exceed \$650 for each dependent in grades kindergarten to 6 and \$1,000 for each dependent in grades 7 to 12, for tuition, textbooks, and transportation of each dependent in attending an elementary or secondary school situated in Minnesota, North Dakota, South Dakota, Iowa, or Wisconsin, wherein a resident of this state may legally fulfill the state's compulsory attendance laws, which is not operated for profit, and which adheres to the provisions of the Civil Rights Act of 1964 and chapter 363. As used in this clause, "textbooks" includes books and other instructional materials and equipment used in elementary and secondary schools in teaching only those subjects legally and commonly taught in public elementary and secondary schools in this state. "Textbooks" does not include instructional books and materials used in the teaching of religious tenets, doctrines, or worship, the purpose of which is to instill such tenets, doctrines, or worship, nor does it include books or materials for, or transportation to, extracurricular activities including sporting events, musical or dramatic events, speech activities, driver's education, or similar programs. In order to qualify for the subtraction under this clause the taxpayer must elect to itemize deductions under section 63(e) of the Internal Revenue Code;

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

(5) income as provided under section 290.0802;

(6) the amount of unrecovered accelerated cost recovery system deductions allowed under subdivision 19g;

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

(8) to the extent not deducted in determining federal taxable income, the amount paid for health insurance of self-employed individuals as determined under section 162(l) of the Internal Revenue Code, except that the 25 percent limit does not apply. If the taxpayer 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(1) of the Internal Revenue Code or excluded from income or (B) the total amount deductible for medical care under section 213(a); and

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

(10) the amount of income or gain included in federal taxable income under section 1366 of the Internal Revenue Code flowing from a corporation that has a valid election in effect for the taxable year under section 1362 of the Internal Revenue Code which is not allowed to be an "S" corporation under section 290.9725.

Sec. 5. Minnesota Statutes 1996, section 290.01, subdivision 19f, is amended to read:

Subd. 19f. [BASIS MODIFICATIONS AFFECTING GAIN OR LOSS ON DISPOSITION OF PROPERTY.] (a) For individuals, estates, and trusts, the basis of property is its adjusted basis for federal income tax purposes except as set forth in paragraphs (f) and (g) and (m). For corporations, the basis of property is its adjusted basis for federal income tax purposes, without regard to the time when the property became subject to tax under this chapter or to whether out-of-state losses or items of tax preference with respect to the property were not deductible under this chapter, except that the modifications to the basis for federal income tax purposes set forth in paragraphs (b) to (j) are allowed to corporations, and the resulting modifications to federal taxable income must be made in the year in which gain or loss on the sale or other disposition of property is recognized.

(b) The basis of property shall not be reduced to reflect federal investment tax credit.

(c) The basis of property subject to the accelerated cost recovery system under section 168 of the Internal Revenue Code shall be modified to reflect the modifications in depreciation with respect to the property provided for in subdivision 19e. For certified pollution control facilities for which amortization deductions were elected under section 169 of the Internal Revenue Code of 1954, the basis of the property must be increased by the amount of the amortization deduction not previously allowed under this chapter.

(d) For property acquired before January 1, 1933, the basis for computing a gain is the fair market value of the property as of that date. The basis for determining a loss is the cost of the property to the taxpayer less any depreciation, amortization, or depletion, actually sustained before that date. If the adjusted cost exceeds the fair market value of the property, then the basis is the adjusted cost regardless of whether there is a gain or loss.

(e) The basis is reduced by the allowance for amortization of bond premium if an election to amortize was made pursuant to Minnesota Statutes 1986, section 290.09, subdivision 13, and the allowance could have been deducted by the taxpayer under this chapter during the period of the taxpayer's ownership of the property.

(f) For assets placed in service before January 1, 1987, corporations, partnerships, or individuals engaged in the business of mining ores other than iron ore or taconite concentrates subject to the occupation tax under chapter 298 must use the occupation tax basis of property used in that business.

(g) For assets placed in service before January 1, 1990, corporations, partnerships, or individuals engaged in the business of mining iron ore or taconite concentrates subject to the occupation tax under chapter 298 must use the occupation tax basis of property used in that business.

(h) In applying the provisions of sections 301(c)(3)(B), 312(f) and (g), and 316(a)(1) of the Internal Revenue Code, the dates December 31, 1932, and January 1, 1933, shall be substituted for February 28, 1913, and March 1, 1913, respectively.

(i) In applying the provisions of section 362(a) and (c) of the Internal Revenue Code, the date December 31, 1956, shall be substituted for June 22, 1954.

(j) The basis of property shall be increased by the amount of intangible drilling costs not previously allowed due to differences between this chapter and the Internal Revenue Code.

(k) The adjusted basis of any corporate partner's interest in a partnership is the same as the adjusted basis for federal income tax purposes modified as required to reflect the basis modifications set forth in paragraphs (b) to (j). The adjusted basis of a partnership in which the

partner is an individual, estate, or trust is the same as the adjusted basis for federal income tax purposes modified as required to reflect the basis modifications set forth in paragraphs (f) and (g).

(l) The modifications contained in paragraphs (b) to (j) also apply to the basis of property that is determined by reference to the basis of the same property in the hands of a different taxpayer or by reference to the basis of different property.

(m) If a corporation has a valid election in effect for the taxable year under section 1362 of the Internal Revenue Code, but is not allowed to be an "S" corporation under section 290.9725, and the corporation is liquidated or the individual shareholder disposes of the stock and there is no capital loss reflected in federal adjusted gross income because of the fact that corporate losses have exhausted the shareholders' basis for federal purposes, the shareholders shall be entitled to a capital loss commensurate to their Minnesota basis for the stock.

Sec. 6. Minnesota Statutes 1996, section 290.01, subdivision 19g, is amended to read:

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

(b) In the event of a sale or exchange of the property, a deduction is allowed equal to the lesser of (1) the remaining amount that would be allowed as a deduction under paragraph (a) or (2) the amount of capital gain recognized and the amount of cost recovery deductions that were subject to recapture under sections 1245 and 1250 of the Internal Revenue Code of 1986 for the taxable year.

~~(c) In the case of a corporation electing S corporation status under section 1362 of the Internal Revenue Code treated as an "S" corporation under section 290.9725, the amount of the corporation's cost recovery allowances that have been deducted in computing federal tax, but have been added to federal taxable income or not deducted in computing tax under this chapter as a result of the application of subdivision 19e, paragraphs (a) and (c) or Minnesota Statutes 1986, section 290.09, subdivision 7, is allowed as a deduction to the shareholders under the provisions of paragraph (a).~~

Sec. 7. Minnesota Statutes 1996, 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 ~~March 22~~ December 31, 1996, and includes the provisions of section 1(a) and (b) of Public Law Number 104-117.

Sec. 8. Minnesota Statutes 1996, section 290.014, subdivision 2, is amended to read:

Subd. 2. [NONRESIDENT INDIVIDUALS.] Except as provided in section 290.015, a nonresident individual is subject to the return filing requirements and to tax as provided in this chapter to the extent that the income of the nonresident individual is:

(1) allocable to this state under section 290.17, 290.191, or 290.20;

(2) taxed to the individual under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in the individual's capacity as a beneficiary of an estate with income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 662(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the individual directly from the source from which realized by the estate;

(3) taxed to the individual under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character that is taxable under this chapter) in the individual's capacity as a beneficiary or grantor or other person treated as a substantial owner of a trust with income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 652(b), 662(b), or 664(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the individual directly from the source from which realized by the trust;

(4) taxed to the individual under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in the individual's capacity as a limited or general partner in a partnership with income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 702(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the individual directly from the source from which realized by the partnership; or

(5) taxed to the individual under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in the individual's capacity as a shareholder of a corporation ~~having a valid election in effect under section 1362 of the Internal Revenue Code~~ treated as an "S" corporation under section 290.9725, and income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 1366(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the individual directly from the source from which realized by the corporation.

Sec. 9. Minnesota Statutes 1996, section 290.014, subdivision 3, is amended to read:

Subd. 3. [TRUSTS AND ESTATES.] Except as provided in section 290.015, a trust or estate, whether resident or nonresident, is subject to the return filing requirements and to tax as provided in this chapter to the extent that the income of the trust or estate is:

(1) allocable to this state under section 290.17, 290.191, or 290.20;

(2) taxed to the trust or estate under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in its capacity as a beneficiary of a trust or estate with income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 662(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the trust or beneficiary estate directly from the source from which realized by the distributing estate;

(3) taxed to the trust or estate under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in its capacity as a beneficiary or grantor or other person treated as a substantial owner of a trust with income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 652(b), 662(b), or 664(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the beneficiary trust or estate directly from the source from which realized by the distributing trust;

(4) taxed to the trust or estate under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in its capacity as a limited or general partner in a partnership with income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 702(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the trust or estate directly from the source from which realized by the partnership; or

(5) taxed to the trust or estate under the Internal Revenue Code (or not taxed under the Internal Revenue Code by reason of its character but of a character which is taxable under this chapter) in

its capacity as a shareholder of a corporation ~~having a valid election in effect under section 1362 of the Internal Revenue Code~~ treated as an "S" corporation under section 290.9725, and income allocable to this state under section 290.17, 290.191, or 290.20 and the income, taking into account the income character provisions of section 1366(b) of the Internal Revenue Code, would be allocable to this state under section 290.17, 290.191, or 290.20 if realized by the trust or estate directly from the source from which realized by the corporation.

Sec. 10. Minnesota Statutes 1996, section 290.015, subdivision 3, is amended to read:

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

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

(1) an interest in a real estate mortgage investment conduit, a real estate investment trust, a financial asset securitization investment trust, or a regulated investment company or a fund of a regulated investment company, as those terms are defined in the Internal Revenue Code;

(2) an interest in money market instruments or securities as defined in section 290.191, subdivision 6, paragraphs (c) and (d);

(3) an interest in a loan-backed, mortgage-backed, or receivable-backed security representing either: (i) ownership in a pool of promissory notes, mortgages, or receivables or certificates of interest or participation in such notes, mortgages, or receivables, or (ii) debt obligations or equity interests which provide for payments in relation to payments or reasonable projections of payments on the notes, mortgages, or receivables;

(4) an interest acquired from a person in assets described in section 290.191, subdivision 11, paragraphs (e) to (l), subject to the provisions of paragraph (c), clause (2)(A);

(5) an interest acquired from a person in the right to service, or collect income from any assets described in section 290.191, subdivision 11, paragraphs (e) to (l), subject to the provisions of paragraph (c), clause (2)(A);

(6) an interest acquired from a person in a funded or unfunded agreement to extend or guarantee credit whether conditional, mandatory, temporary, standby, secured, or otherwise, subject to the provisions of paragraph (c), clause (2)(A);

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

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

(c)(1) For purposes of paragraph (b), clauses (4) to (6), an interest in the type of assets or credit agreements described is deemed to exist at the time the owner becomes legally obligated, conditionally or unconditionally, to fund, acquire, renew, extend, amend, or otherwise enter into the credit arrangement.

(2)(A) An owner has acquired an interest from a person in paragraph (b), clauses (4) to (6), assets if:

(i) the owner at the time of the acquisition of the asset does not own, directly or indirectly, 15 percent or more of the outstanding stock or in the case of a partnership 15 percent or more of the capital or profit interests of the person from whom it acquired the asset;

(ii) the person from whom the owner acquired the asset regularly sells, assigns, or transfers interests in paragraph (b), clauses (4) to (6), assets during the 12 calendar months immediately preceding the month of acquisition to three or more persons; and

(iii) the person from whom the owner acquired the asset does not sell, assign, or transfer 75 percent or more of its paragraph (b), clauses (4) to (6), assets during the 12 calendar months immediately preceding the month of acquisition to the owner.

For purposes of determining indirect ownership under item (i), the owner is deemed to own all stock, capital, or profit interests owned by another person if the owner directly owns 15 percent or more of the stock, capital, or profit interests in the other person. The owner is also deemed to own through any intermediary parties all stock, capital, and profit interests directly owned by a person to the extent there exists a 15 percent or more chain of ownership of stock, capital, or profit interests between the owner, intermediary parties and the person.

(B) If the owner of the asset is a member of the unitary group, paragraph (b), clauses (4) to (8), do not apply to an interest acquired from another member of the unitary group. If the interest in the asset was originally acquired from a nonunitary member and at that time qualified as a section 290.015, subdivision 3, paragraph (b), asset, the foregoing limitation does not apply.

Sec. 11. Minnesota Statutes 1996, section 290.015, subdivision 5, is amended to read:

Subd. 5. [DETERMINATION AT ENTITY LEVEL.] Determinations under this section with respect to trades or businesses conducted by a partnership, trust, estate, or corporation ~~with an election in effect under section 1362 of the Internal Revenue Code~~ treated as an "S" corporation under section 290.9725, or any other entity, the income of which is or may be taxed to its owners or beneficiaries must be made with respect to the entity carrying on the trade or business and not with respect to owners or beneficiaries of the trade or business, the taxability of which under this chapter must be determined under section 290.014.

Sec. 12. Minnesota Statutes 1996, section 290.06, subdivision 22, is amended to read:

Subd. 22. [CREDIT FOR TAXES PAID TO ANOTHER STATE.] (a) A taxpayer who is liable for taxes on or measured by net income to another state or province or territory of Canada, as provided in paragraphs (b) through (f), upon income allocated or apportioned to Minnesota, is entitled to a credit for the tax paid to another state or province or territory of Canada if the tax is actually paid in the taxable year or a subsequent taxable year. A taxpayer who is a resident of this state pursuant to section 290.01, subdivision 7, clause (2), and who is subject to income tax as a resident in the state of the individual's domicile is not allowed this credit unless the state of domicile does not allow a similar credit.

(b) For an individual, estate, or trust, the credit is determined by multiplying the tax payable under this chapter by the ratio derived by dividing the income subject to tax in the other state or province or territory of Canada that is also subject to tax in Minnesota while a resident of Minnesota by the taxpayer's federal adjusted gross income, as defined in section 62 of the Internal Revenue Code, modified by the addition required by section 290.01, subdivision 19a, clause (1), and the subtraction allowed by section 290.01, subdivision 19b, clause (1), to the extent the income is allocated or assigned to Minnesota under sections 290.081 and 290.17.

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

(d) The credit determined under paragraph (b) or (c) shall not exceed the amount of tax so paid to the other state or province or territory of Canada on the gross income earned within the other

state or province or territory of Canada subject to tax under this chapter, nor shall the allowance of the credit reduce the taxes paid under this chapter to an amount less than what would be assessed if such income amount was excluded from taxable net income.

(e) In the case of the tax assessed on a lump sum distribution under section 290.032, the credit allowed under paragraph (a) is the tax assessed by the other state or province or territory of Canada on the lump sum distribution that is also subject to tax under section 290.032, and shall not exceed the tax assessed under section 290.032. To the extent the total lump sum distribution defined in section 290.032, subdivision 1, includes lump sum distributions received in prior years or is all or in part an annuity contract, the reduction to the tax on the lump sum distribution allowed under section 290.032, subdivision 2, includes tax paid to another state that is properly apportioned to that distribution.

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

(g) For the purposes of this subdivision, a resident shareholder of a corporation ~~having a valid election in effect under section 1362 of the Internal Revenue Code~~ treated as an "S" corporation under section 290.9725, must be considered to have paid a tax imposed on the shareholder in an amount equal to the shareholder's pro rata share of any net income tax paid by the S corporation to another state. For the purposes of the preceding sentence, the term "net income tax" means any tax imposed on or measured by a corporation's net income.

(h) For the purposes of this subdivision, a resident member of a limited liability company taxed as a partnership under the Internal Revenue Code must be considered to have paid a tax imposed on the member in an amount equal to the member's pro rata share of any net income tax paid by the limited liability company to a state that does not measure the income of the member of the limited liability company by reference to the income of the limited liability company. For purposes of the preceding sentence, the term "net income" tax means any tax imposed on or measured by a limited liability company's net income.

Sec. 13. Minnesota Statutes 1996, section 290.068, subdivision 1, is amended to read:

Subdivision 1. [CREDIT ALLOWED.] A corporation, other than a corporation ~~with a valid election in effect under section 1362 of the Internal Revenue Code~~ treated as an "S" corporation under section 290.9725, is allowed a credit against the portion of the franchise tax computed under section 290.06, subdivision 1, for the taxable year equal to:

- (a) 5 percent of the first \$2 million of the excess (if any) of
  - (1) the qualified research expenses for the taxable year, over
  - (2) the base amount; and
- (b) 2.5 percent on all of such excess expenses over \$2 million.

Sec. 14. Minnesota Statutes 1996, section 290.0922, subdivision 1, is amended to read:

Subdivision 1. [IMPOSITION.] (a) In addition to the tax imposed by this chapter without regard to this section, the franchise tax imposed on a corporation required to file under section 289A.08, subdivision 3, other than a corporation ~~having a valid election in effect under section 1362 of the Internal Revenue Code~~ treated as an "S" corporation under section 290.9725 for the taxable year includes a tax equal to the following amounts:

If the sum of the corporation's  
Minnesota property, payrolls, and sales  
or receipts is:

the tax equals:

less than \$500,000	\$0
\$ 500,000 to \$ 999,999	\$100
\$ 1,000,000 to \$ 4,999,999	\$300
\$ 5,000,000 to \$ 9,999,999	\$1,000
\$10,000,000 to \$19,999,999	\$2,000
\$20,000,000 or more	\$5,000

(b) A tax is imposed for each taxable year on a corporation required to file a return under section 289A.12, subdivision 3, that ~~has a valid election in effect for the taxable year under section 1362 of the Internal Revenue Code~~ is treated as an "S" corporation under section 290.9725 and on a partnership required to file a return under section 289A.12, subdivision 3, other than a partnership that derives over 80 percent of its income from farming. The tax imposed under this paragraph is due on or before the due date of the return for the taxpayer due under section 289A.18, subdivision 1. The commissioner shall prescribe the return to be used for payment of this tax. The tax under this paragraph is equal to the following amounts:

If the sum of the S corporation's or partnership's Minnesota property, payrolls, and sales or receipts is:

less than \$500,000	\$0
\$ 500,000 to \$ 999,999	\$100
\$ 1,000,000 to \$ 4,999,999	\$300
\$ 5,000,000 to \$ 9,999,999	\$1,000
\$10,000,000 to \$19,999,999	\$2,000
\$20,000,000 or more	\$5,000

the tax equals:

Sec. 15. Minnesota Statutes 1996, section 290.17, subdivision 1, is amended to read:

Subdivision 1. [SCOPE OF ALLOCATION RULES.] (a) The income of resident individuals is not subject to allocation outside this state. The allocation rules apply to nonresident individuals, estates, trusts, nonresident partners of partnerships, nonresident shareholders of corporations ~~having a valid election in effect under section 1362 of the Internal Revenue Code~~ treated as "S" corporations under section 290.9725, and all corporations not having such an election in effect. If a partnership or corporation would not otherwise be subject to the allocation rules, but conducts a trade or business that is part of a unitary business involving another legal entity that is subject to the allocation rules, the partnership or corporation is subject to the allocation rules.

(b) Expenses, losses, and other deductions (referred to collectively in this paragraph as "deductions") must be allocated along with the item or class of gross income to which they are definitely related for purposes of assignment under this section or apportionment under section 290.191, 290.20, 290.35, or 290.36. Deductions not definitely related to any item or class of gross income are assigned to the taxpayer's domicile.

(c) In the case of an individual who is a resident for only part of a taxable year, the individual's income, gains, losses, and deductions from the distributive share of a partnership, S corporation, trust, or estate are not subject to allocation outside this state to the extent of the distributive share multiplied by a ratio, the numerator of which is the number of days the individual was a resident of this state during the tax year of the partnership, S corporation, trust, or estate, and the denominator of which is the number of days in the taxable year of the partnership, S corporation, trust, or estate.

Sec. 16. Minnesota Statutes 1996, section 290.371, subdivision 2, is amended to read:

Subd. 2. [EXEMPTIONS.] A corporation is not required to file a notice of business activities report if:

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



(2) a timely return has been filed under section 289A.08;

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

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

(5) the corporation ~~has a valid election in effect under section 1362 of the Internal Revenue Code~~ is an "S" corporation under section 290.9725.

Sec. 17. Minnesota Statutes 1996, section 290.9725, is amended to read:

290.9725 [S CORPORATION.]

For purposes of this chapter, the term "S corporation" means any corporation having a valid election in effect for the taxable year under section 1362 of the Internal Revenue Code, except that a corporation which either:

(1) is a financial institution to which either section 585 or section 593 of the Internal Revenue Code applies; or

(2) has a wholly owned subsidiary which is a financial institution as described above is not an "S" corporation for the purposes of this chapter. An S corporation shall not be subject to the taxes imposed by this chapter, except the taxes imposed under sections 290.0922, 290.92, 290.9727, 290.9728, and 290.9729.

Sec. 18. Minnesota Statutes 1996, section 290.9727, subdivision 1, is amended to read:

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

Sec. 19. Minnesota Statutes 1996, section 290.9728, subdivision 1, is amended to read:

Subdivision 1. [TAX IMPOSED.] There is imposed a tax on the taxable income of a an "S" corporation that has:

(1) elected S corporation status pursuant to section 1362 of the Internal Revenue Code of 1986, as amended through December 31, 1986, before January 1, 1987;

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

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

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

Sec. 20. [290.9743] [ELECTION BY FASIT.]

An entity having a valid election as a financial asset securitization investment trust in effect for a taxable year under section 860L(a) of the Internal Revenue Code shall not be subject to the taxes imposed by this chapter, except the tax imposed under section 290.92.

Sec. 21. [290.9744] [FASIT INCOME TAXABLE TO HOLDERS OF INTERESTS.]

The income of a financial asset securitization investment trust is taxable to the holders of interests in the financial asset securitization investment trust as provided in sections 860H to 860L of the Internal Revenue Code. The income of the holders must be computed under the provisions of this chapter.

Sec. 22. Minnesota Statutes 1996, 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 (b) including therein any property omitted from the federal gross estate which is 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 ~~March 22~~ December 31, 1996, and includes the provisions of section 1(a)(4) of Public Law Number 104-117.

Sec. 23. [FEDERAL CHANGES.]

The changes made by sections 1118(a), 1305, 1603, 1702(e), and 1702(f) of the Small Business Job Protection Act, Public Law Number 104-188, sections 451(a), 451(b), 909, and 910 of the Personal Responsibility and Work Opportunity Reconciliation Act, Public Law Number 104-193, and the federal changes to taxable income of section 2 of this article which affect the Minnesota definition of wages under Minnesota Statutes, section 290.92, subdivision 1, S corporation status under Minnesota Statutes, section 290.9725, unrelated business income tax under Minnesota Statutes, section 290.05, subdivision 3, corporate alternative minimum tax under Minnesota Statutes, section 290.0921, subdivision 3, estate tax under Minnesota Statutes, sections 291.005 and 291.03, the Minnesota working family credit under Minnesota Statutes, section 290.0671,

subdivision 1, and the definition of income under Minnesota Statutes, section 290A.03, subdivision 3, shall become effective at the same time the changes become effective for federal purposes.

Sec. 24. [INSTRUCTION TO REVISOR.]

In the next edition of Minnesota Statutes, the revisor of statutes shall substitute the phrase "Internal Revenue Code of 1986, as amended through December 31, 1996," for the words "Internal Revenue Code of 1986, as amended through April 15, 1995," wherever the phrase occurs in chapters 290A, 297, 298, and 469.

Sec. 25. [EFFECTIVE DATE.]

Sections 3 to 5, 7 to 20 and the provision of section 2 dealing with regulated investment companies are effective for tax years beginning after December 31, 1996. The remainder of this article is effective at the same time and for the same years as the federal changes made in 1996 were effective for federal purposes.

## ARTICLE 7

### SALES AND SPECIAL TAXES

Section 1. Minnesota Statutes 1996, section 289A.56, subdivision 4, is amended to read:

Subd. 4. [CAPITAL EQUIPMENT REFUNDS; REFUNDS TO PURCHASERS.] Notwithstanding subdivision 3, for refunds payable under sections section 297A.15, subdivision 5, and 289A.50, subdivision 2a, interest is computed from the date the refund claim is filed with the commissioner. For refunds payable under section 289A.50, subdivision 2a, interest is computed from the 20th day of the month following the month of the invoice date for the purchase which is the subject of the refund.

Sec. 2. Minnesota Statutes 1996, section 296.141, subdivision 4, is amended to read:

Subd. 4. [CREDIT OR REFUND OF TAX PAID.] The commissioner shall allow the distributor credit or refund of the tax paid on gasoline and special fuel:

(1) exported or sold for export from the state, other than in the supply tank of a motor vehicle or of an aircraft;

(2) sold to the United States government to be used exclusively in performing its governmental functions and activities or to any "cost plus a fixed fee" contractor employed by the United States government on any national defense project;

(3) if the fuel is placed in a tank used exclusively for residential heating;

(4) destroyed by accident while in the possession of the distributor;

(5) in error;

(6) in the case of gasoline only, sold for storage in an on-farm bulk storage tank, if the tax was not collected on the sale; and

~~(6)~~ (7) in such other cases as the commissioner may permit, not inconsistent with the provisions of this chapter and other laws relating to the gasoline and special fuel excise taxes.

Sec. 3. Minnesota Statutes 1996, section 296.18, subdivision 1, is amended to read:

Subdivision 1. [CLAIM; FUEL USED IN OTHER VEHICLES.] Any person who shall buy and use gasoline for a qualifying purpose other than use in motor vehicles, snowmobiles except as provided in clause (2), or motorboats, or special fuel for a qualifying purpose other than use in licensed motor vehicles, and who shall have paid the Minnesota excise tax directly or indirectly through the amount of the tax being included in the price of the gasoline or special fuel, or otherwise, shall be reimbursed and repaid the amount of the tax paid upon filing with the

commissioner a claim in the form and manner prescribed by the commissioner, and containing the information the commissioner shall require. By signing any such claim which is false or fraudulent, the applicant shall be subject to the penalties provided in this section for knowingly making a false claim. The claim shall set forth the total amount of the gasoline so purchased and used by the applicant other than in motor vehicles, or special fuel so purchased and used by the applicant other than in licensed motor vehicles, and shall state when and for what purpose it was used. When a claim contains an error in computation or preparation, the commissioner is authorized to adjust the claim in accordance with the evidence shown on the claim or other information available to the commissioner. The commissioner, on being satisfied that the claimant is entitled to the payments, shall approve the claim and transmit it to the commissioner of finance. No repayment shall be made unless the claim and invoice shall be filed with the commissioner within one year from the date of the purchase. The postmark on the envelope in which a written claim is mailed shall determine its date of filing. The words "gasoline" or "special fuel" as used in this subdivision do not include aviation gasoline or special fuel for aircraft. Gasoline or special fuel bought and used for a "qualifying purpose" means:

(1) Gasoline or special fuel used in carrying on a trade or business, used on a farm situated in Minnesota, and used for a farming purpose. "Farm" and "farming purpose" have the meanings given them in section 6420(c)(2), (3), and (4) of the Internal Revenue Code of 1986, as amended through December 31, 1988.

(2) Gasoline or special fuel used for off-highway business use. "Off-highway business use" means any use off the public highway by a person in that person's trade, business, or activity for the production of income. "Off-highway business use" includes:

(a) use of a passenger snowmobile off the public highways as part of the operations of a resort as defined in section 157.15.; and

(b) use of gasoline or special fuel to operate a power takeoff unit on a vehicle, but not including fuel consumed during idling time.

"Off-highway business use" does not include use as a fuel in a motor vehicle which, at the time of use, is registered or is required to be registered for highway use under the laws of any state or foreign country.

(3) Gasoline or special fuel placed in the fuel tanks of new motor vehicles, manufactured in Minnesota, and shipped by interstate carrier to destinations in other states or foreign countries.

By July 1, 1998, the commissioner shall adopt rules that determine the rates and percentages necessary to develop formulas for calculating and administering the refund under clause (2)(b).

Sec. 4. Minnesota Statutes 1996, section 297A.01, subdivision 3, is amended to read:

Subd. 3. A "sale" and a "purchase" includes, but is not limited to, each of the following transactions:

(a) Any transfer of title or possession, or both, of tangible personal property, whether absolutely or conditionally, and the leasing of or the granting of a license to use or consume tangible personal property other than manufactured homes used for residential purposes for a continuous period of 30 days or more, for a consideration in money or by exchange or barter;

(b) The production, fabrication, printing, or processing of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the production, fabrication, printing, or processing;

(c) The furnishing, preparing, or serving for a consideration of food, meals, or drinks. "Sale" or "purchase" does not include:

(1) meals or drinks served to patients, inmates, or persons residing at hospitals, sanitariums, nursing homes, senior citizens homes, and correctional, detention, and detoxification facilities;

(2) meals or drinks purchased for and served exclusively to individuals who are 60 years of age or over and their spouses or to the handicapped and their spouses by governmental agencies, nonprofit organizations, agencies, or churches or pursuant to any program funded in whole or part through 42 USCA sections 3001 through 3045, wherever delivered, prepared or served; or

(3) meals and lunches served at public and private schools, universities, or colleges.

Notwithstanding section 297A.25, subdivision 2, taxable food or meals include, but are not limited to, the following:

(i) heated food or drinks; prepared by the retailer for immediate consumption either on or off the retailer's premises. For purposes of this subdivision, "food or drinks prepared for immediate consumption" includes any food product upon which an act of preparation including, but not limited to, cooking, mixing, sandwich making, blending, heating, or pouring has been performed by the retailer so the food product may be immediately consumed by the purchaser. For purposes of this subdivision, "premises" means the total space and facilities, including buildings, grounds, and parking lots that are made available or that are available for use by the retailer or customer for the purpose of sale or consumption of prepared food and drinks. Food and drinks sold within a building or grounds which require an admission charge for entrance are presumed to be sold for consumption on the premises. The premises of a caterer is the place where the catered food or drinks are served;

~~(ii) sandwiches prepared by the retailer;~~

~~(iii) single sales of prepackaged ice cream or ice milk novelties prepared by the retailer;~~

~~(iv) hand prepared or dispensed ice cream or ice milk ice cream, ice milk, or frozen yogurt products including novelties, cones, sundaes, and snow cones, sold in single or individual servings. For purposes of this subdivision, "single or individual servings" does not include products prepackaged and sold in bulk containers or packaging;~~

~~(v) (iii) soft drinks and other beverages prepared or served by the retailer; including all carbonated and noncarbonated beverages or drinks sold in liquid form except beverages or drinks which contain milk or milk products, beverages or drinks containing 15 or more percent fruit juice, or noncarbonated and noneffervescent bottled water sold in individual containers of one-half gallon or more in size;~~

~~(vi) (iv) gum, candy, and candy products, except when sold for fundraising purposes by a nonprofit organization that provides educational and social activities primarily for young people 18 years of age and under;~~

~~(vii) (v) ice;~~

~~(viii) (vi) all food sold in from vending machines, pushcarts, lunch carts, motor vehicles, or any other form of vehicle except home delivery vehicles;~~

~~(ix) (vii) party trays prepared by the retailers; and~~

~~(x) (viii) all meals and single servings of packaged snack food, single cans or bottles of pop, sold in restaurants and bars; and~~

(ix) bakery products prepared by the retailer for consumption on the retailer's premises;

(d) The granting of the privilege of admission to places of amusement, recreational areas, or athletic events, except a world championship football game sponsored by the national football league, and the privilege of having access to and the use of amusement devices, tanning facilities, reducing salons, steam baths, turkish baths, health clubs, and spas or athletic facilities;

(e) The furnishing for a consideration of lodging and related services by a hotel, rooming house, tourist court, motel or trailer camp and of the granting of any similar license to use real property other than the renting or leasing thereof for a continuous period of 30 days or more;

(f) The furnishing for a consideration of electricity, gas, water, or steam for use or consumption within this state, or local exchange telephone service, intrastate toll service, and interstate toll service, if that service originates from and is charged to a telephone located in this state. Telephone service does not include services purchased with prepaid telephone calling cards. Telephone service includes paging services and private communication service, as defined in United States Code, title 26, section 4252(d), as amended through December 31, 1991, except for private communication service purchased by an agent acting on behalf of the state lottery. The furnishing for a consideration of access to telephone services by a hotel to its guests is a sale under this clause. Sales by municipal corporations in a proprietary capacity are included in the provisions of this clause. The furnishing of water and sewer services for residential use shall not be considered a sale. The sale of natural gas to be used as a fuel in vehicles propelled by natural gas shall not be considered a sale for the purposes of this section;

(g) The furnishing for a consideration of cable television services, including charges for basic service, charges for premium service, and any other charges for any other pay-per-view, monthly, or similar television services;

(h) The furnishing for a consideration of parking services, whether on a contractual, hourly, or other periodic basis, except for parking at a meter;

(i) The furnishing for a consideration of services listed in this paragraph:

(i) laundry and dry cleaning services including cleaning, pressing, repairing, altering, and storing clothes, linen services and supply, cleaning and blocking hats, and carpet, drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not include services provided by coin operated facilities operated by the customer;

(ii) motor vehicle washing, waxing, and cleaning services, including services provided by coin-operated facilities operated by the customer, and rustproofing, undercoating, and towing of motor vehicles;

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

(iv) detective services, security services, 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) mixed municipal solid waste management services as described in section 297A.45;

(viii) 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

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

The services listed in this paragraph are taxable under section 297A.02 if the service is performed wholly within Minnesota or if the service is performed partly within and partly without Minnesota and the greater proportion of the service is performed in Minnesota, based on the cost of performance. In applying the provisions of this chapter, the terms "tangible personal property" and

"sales at retail" include taxable services and the provision of taxable services, unless specifically provided otherwise. Services performed by an employee for an employer are not taxable under this paragraph. Services performed by a partnership or association for another partnership or association are not taxable under this paragraph if one of the entities owns or controls more than 80 percent of the voting power of the equity interest in the other entity. Services performed between members of an affiliated group of corporations are not taxable. For purposes of this section, "affiliated group of corporations" includes those entities that would be classified as a member of an affiliated group under United States Code, title 26, section 1504, as amended through December 31, 1987, and who are eligible to file a consolidated tax return for federal income tax purposes;

(j) A "sale" and a "purchase" includes the transfer of computer software, meaning information and directions that dictate the function performed by data processing equipment. A "sale" and a "purchase" does not include the design, development, writing, translation, fabrication, lease, or transfer for a consideration of title or possession of a custom computer program; and

(k) The granting of membership in a club, association, or other organization if:

(1) the club, association, or other organization makes available for the use of its members sports and athletic facilities (without regard to whether a separate charge is assessed for use of the facilities); and

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

Granting of membership includes both one-time initiation fees and periodic membership dues. Sports and athletic facilities include golf courses, tennis, racquetball, handball and squash courts, basketball and volleyball facilities, running tracks, exercise equipment, swimming pools, and other similar athletic or sports facilities. The provisions of this paragraph do not apply to camps or other recreation facilities owned and operated by an exempt organization under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1992, for educational and social activities for young people primarily age 18 and under.

Sec. 5. Minnesota Statutes 1996, section 297A.01, subdivision 4, is amended to read:

Subd. 4. (a) A "retail sale" or "sale at retail" means a sale for any purpose other than resale in the regular course of business.

(b) Property utilized by the owner only by leasing such property to others or by holding it in an effort to so lease it, and which is put to no use by the owner other than resale after such lease or effort to lease, shall be considered property purchased for resale.

(c) Master computer software programs that are purchased and used to make copies for sale or lease are considered property purchased for resale.

(d) Sales of building materials, supplies and equipment to owners, contractors, subcontractors or builders for the erection of buildings or the alteration, repair or improvement of real property are "retail sales" or "sales at retail" in whatever quantity sold and whether or not for purpose of resale in the form of real property or otherwise.

(e) A sale of carpeting, linoleum, or other similar floor covering which includes installation of the carpeting, linoleum, or other similar floor covering is a contract for the improvement of real property.

(f) A sale of shrubbery, plants, sod, trees, and similar items that includes installation of the shrubbery, plants, sod, trees, and similar items is a contract for the improvement of real property.

(g) Aircraft and parts for the repair thereof purchased by a nonprofit, incorporated flying club or association utilized solely by the corporation by leasing such aircraft to shareholders of the corporation shall be considered property purchased for resale. The leasing of the aircraft to the

shareholders by the flying club or association shall be considered a sale. Leasing of aircraft utilized by a lessee for the purpose of leasing to others, whether or not the lessee also utilizes the aircraft for flight instruction where no separate charge is made for aircraft rental or for charter service, shall be considered a purchase for resale; provided, however, that a proportionate share of the lease payment reflecting use for flight instruction or charter service is subject to tax pursuant to section 297A.14.

(h) Tangible personal property that is awarded as prizes shall not be considered property purchased for resale.

(i) Tangible personal property that is utilized or employed in the furnishing or providing of services under section 297A.01, subdivision 3, paragraph (d), or in conducting lawful gambling under chapter 349 or the state lottery under chapter 349A, including property given as promotional items, shall not be considered property purchased for resale. Machines, equipment, or devices that are used to furnish, provide, or dispense goods or services, including coin-operated devices, shall not be considered property purchased for resale.

Sec. 6. Minnesota Statutes 1996, section 297A.01, subdivision 7, is amended to read:

Subd. 7. "Storage" and "use" do not include the keeping, ~~or retaining or exercising of any right or power over~~ in a public warehouse of tangible personal property or tickets or admissions to places of amusement or athletic events when shipped or brought into Minnesota by common carrier, for the purpose of subsequently being transported outside Minnesota and thereafter used solely outside Minnesota, except in the course of interstate commerce, or for the purpose of being processed, fabricated or manufactured into, attached to or incorporated into other tangible personal property to be transported outside Minnesota and not thereafter returned to a point within Minnesota, except in the course of interstate commerce.

Sec. 7. Minnesota Statutes 1996, section 297A.01, subdivision 11, is amended to read:

Subd. 11. "Tangible personal property" means corporeal personal property of any kind whatsoever, including property which is to become real property as a result of incorporation, attachment, or installation following its acquisition.

Personal property does not include:

- (a) large ponderous machinery and equipment used in a business or production activity which at common law would be considered to be real property;
- (b) property which is subject to an ad valorem property tax;
- (c) property described in section 272.02, subdivision 1, clause (8), paragraphs (a) to (d);
- (d) property described in section 272.03, subdivision 2, clauses (3) and (5).

Tangible personal property includes computer software, whether contained on tape, discs, cards, or other devices. Tangible personal property also includes prepaid telephone calling cards.

Sec. 8. Minnesota Statutes 1996, section 297A.01, subdivision 16, is amended to read:

Subd. 16. [CAPITAL EQUIPMENT.] (a) Capital equipment means machinery and equipment purchased or leased for use in this state and used by the purchaser or lessee primarily for manufacturing, fabricating, mining, or refining tangible personal property to be sold ultimately at retail and for electronically transmitting results retrieved by a customer of an on-line computerized data retrieval system.

(b) Capital equipment includes all machinery and equipment that is essential to the integrated production process. Capital equipment includes, but is not limited to:

- (1) machinery and equipment used or required to operate, control, or regulate the production equipment;



(2) machinery and equipment used for research and development, design, quality control, and testing activities;

(3) environmental control devices that are used to maintain conditions such as temperature, humidity, light, or air pressure when those conditions are essential to and are part of the production process; or

(4) materials and supplies necessary to construct and install machinery or equipment;

(5) repair and replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications to machinery or equipment;

(6) materials used for foundations that support machinery or equipment; or

(7) materials used to construct and install special purpose buildings used in the production process.

(c) Capital equipment does not include the following:

~~(1) repair or replacement parts, including accessories, whether purchased as spare parts, repair parts, or as upgrades or modifications, and whether purchased before or after the machinery or equipment is placed into service. Parts or accessories are treated as capital equipment only to the extent that they are a part of and are essential to the operation of the machinery or equipment as initially purchased;~~

~~(2) motor vehicles taxed under chapter 297B;~~

~~(3) (2) machinery or equipment used to receive or store raw materials;~~

~~(4) (3) building materials;~~

~~(5) (4) machinery or equipment used for nonproduction purposes, including, but not limited to, the following: machinery and equipment used for plant security, fire prevention, first aid, and hospital stations; machinery and equipment used in support operations or for administrative purposes; machinery and equipment used solely for pollution control, prevention, or abatement; and machinery and equipment used in plant cleaning, disposal of scrap and waste, plant communications, space heating, lighting, or safety;~~

~~(6) (5) "farm machinery" as defined by subdivision 15, and "aquaculture production equipment" as defined by subdivision 19, and "replacement capital equipment" as defined by subdivision 20; or~~

~~(7) (6) any other item that is not essential to the integrated process of manufacturing, fabricating, mining, or refining.~~

(d) For purposes of this subdivision:

(1) "Equipment" means independent devices or tools separate from machinery but essential to an integrated production process, including computers and software, used in operating, controlling, or regulating machinery and equipment; and any subunit or assembly comprising a component of any machinery or accessory or attachment parts of machinery, such as tools, dies, jigs, patterns, and molds.

(2) "Fabricating" means to make, build, create, produce, or assemble components or property to work in a new or different manner.

(3) "Machinery" means mechanical, electronic, or electrical devices, including computers and software, that are purchased or constructed to be used for the activities set forth in paragraph (a), beginning with the removal of raw materials from inventory through the completion of the product, including packaging of the product.

(4) "Manufacturing" means an operation or series of operations where raw materials are

changed in form, composition, or condition by machinery and equipment and which results in the production of a new article of tangible personal property. For purposes of this subdivision, "manufacturing" includes the generation of electricity or steam to be sold at retail.

(5) "Mining" means the extraction of minerals, ores, stone, and peat.

(6) "On-line data retrieval system" means a system whose cumulation of information is equally available and accessible to all its customers.

(7) "Pollution control equipment" means machinery and equipment used to eliminate, prevent, or reduce pollution resulting from an activity described in paragraph (a).

(8) "Primarily" means machinery and equipment used 50 percent or more of the time in an activity described in paragraph (a).

(9) "Refining" means the process of converting a natural resource to a product, including the treatment of water to be sold at retail.

(e) For purposes of this subdivision the requirement that the machinery or equipment "must be used by the purchaser or lessee" means that the person who purchases or leases the machinery or equipment must be the one who uses it for the qualifying purpose. When a contractor buys and installs machinery or equipment as part of an improvement to real property, only the contractor is considered the purchaser.

~~(f) Notwithstanding prior provisions of this subdivision, machinery and equipment purchased or leased to replace machinery and equipment used in the mining or production of taconite shall qualify as capital equipment.~~

Sec. 9. Minnesota Statutes 1996, section 297A.09, is amended to read:

297A.09 [PRESUMPTION OF TAX; BURDEN OF PROOF.]

For the purpose of the proper administration of sections 297A.01 to 297A.44 and to prevent evasion of the tax, it shall be presumed that all gross receipts are subject to the tax until the contrary is established. The burden of proving that a sale is not a sale at retail is upon the person who makes the sale, but that person may take from the purchaser, at the time the exempt purchase occurs, an exemption certificate to the effect that the property purchased is for resale or that the sale is otherwise exempt from the application of the tax imposed by sections 297A.01 to 297A.44. A person asserting a claim that certain sales are exempt, who does not have the required exemption certificates in their possession, shall acquire the certificates within 60 days after receiving written notice from the commissioner that the certificates are required. If the certificates are not obtained within the 60-day period, the sales are deemed taxable sales under this chapter.

Sec. 10. Minnesota Statutes 1996, section 297A.15, subdivision 7, is amended to read:

Subd. 7. [REFUND; APPROPRIATION; ADULT AND JUVENILE CORRECTIONAL FACILITIES.] ~~(a)~~ If construction materials and supplies described in ~~paragraph (b)~~ section 297A.25, subdivision 63, are purchased by a contractor, subcontractor, or builder as part of a lump-sum contract or similar type of contract with a price covering both labor and materials for use in the project, a refund equal to 20 percent of the taxes paid by the contractor, subcontractor, or builder must be paid to the governmental subdivision. The tax must be imposed and collected as if the sales were taxable and the rate under section 297A.02, subdivision 1, applied. An application for refund must be submitted by the governmental subdivision and must include sufficient information to permit the commissioner to verify the sales taxes paid for the project. The contractor, subcontractor, or builder must furnish to the governmental subdivision a statement of the cost of the construction materials and supplies and the sales taxes paid on them. The amount required to make the refunds is annually appropriated to the commissioner. Interest must be paid on the refund at the rate in section 270.76 from 60 days after the date the refund claim is filed with the commissioner.

~~(b) Construction materials and supplies qualify for the refund under this section if: (1) the~~

~~materials and supplies are for use in a project to construct or improve an adult or juvenile correctional facility in a county, home rule charter city, or statutory city, and (2) the project is mandated by state or federal law, rule, or regulation. The refund applies regardless of whether the materials and supplies are purchased by the city or county, or by a contractor, subcontractor, or builder under a contract with the city or county.~~

Sec. 11. Minnesota Statutes 1996, section 297A.211, subdivision 1, is amended to read:

Subdivision 1. Every person, as defined in this chapter, who is engaged in interstate for-hire transportation of tangible personal property or passengers by motor vehicle may at their option, under rules prescribed by the commissioner, register as retailers and pay the taxes imposed by this chapter in accordance with this section. Any taxes paid under this section are deemed use taxes, except local sales taxes when no corresponding local use tax is imposed. Persons referred to herein are: (1) persons possessing a certificate or permit or having completed a registration process that authorizes for-hire transportation of property or passengers from the United States Department of Transportation, the transportation regulation board, or the department of transportation; or (2) persons transporting commodities defined as "exempt" in for-hire transportation in interstate commerce; or (3) persons who, pursuant to contracts with persons described in clause (1) or (2) above, transport tangible personal property in interstate commerce. Persons qualifying under clauses (2) and (3) must maintain on a current basis the same type of mileage records that are required by persons specified in clause (1) by the United States Department of Transportation. Persons who in the course of their business are transporting solely their own goods in interstate commerce may also register as retailers pursuant to rules prescribed by the commissioner and pay the taxes imposed by this chapter in accordance with this section.

Sec. 12. [297A.213] [DIRECT PAYMENT BY PURCHASERS PERMITTED.]

The commissioner may permit purchasers to pay taxes imposed by this chapter directly to the commissioner. Any taxes paid by purchasers under this section are deemed use taxes, except local sales taxes when no corresponding local use tax is imposed.

Sec. 13. Minnesota Statutes 1996, section 297A.25, subdivision 2, is amended to read:

Subd. 2. [FOOD PRODUCTS.] The gross receipts from the sale of food products including but not limited to cereal and cereal products, butter, cheese, milk and milk products, oleomargarine, meat and meat products, fish and fish products, eggs and egg products, vegetables and vegetable products, fruit and fruit products, spices and salt, sugar and sugar products, coffee and coffee substitutes, tea, cocoa and cocoa products, and food products which are not taxable pursuant to section 297A.01, subdivision 3, clause (c) are exempt. ~~This exemption does not include the following:~~

~~(1) candy and candy products, except when sold for fundraising purposes by a nonprofit organization that provides educational and social activities for young people primarily aged 18 and under;~~

~~(2) carbonated beverages, beverages commonly referred to as soft drinks containing less than 15 percent fruit juice, or bottled water other than noncarbonated and noneffervescent bottled water sold in individual containers of one-half gallon or more in size.~~

Sec. 14. Minnesota Statutes 1996, section 297A.25, subdivision 3, is amended to read:

Subd. 3. [MEDICINES; MEDICAL DEVICES.] The gross receipts from the sale of prescribed drugs, prescribed medicine and insulin, intended for use, internal or external, in the cure, mitigation, treatment or prevention of illness or disease in human beings are exempt, together with prescription glasses, fever thermometers, therapeutic, and prosthetic devices. "Prescribed drugs" or "prescribed medicine" includes over-the-counter drugs or medicine prescribed by a licensed physician. "Therapeutic devices" includes reusable finger pricking devices for the extraction of blood, blood glucose monitoring machines, and other diagnostic agents used in diagnosing, monitoring, or treating diabetes. Nonprescription analgesics consisting principally (determined by the weight of all ingredients) of acetaminophen, acetylsalicylic acid, ibuprofen, ketoprofen,

naproxen, and other nonprescription analgesics that are approved by the United States Food and Drug Administration for internal use by human beings, or a combination thereof, are exempt.

Sec. 15. Minnesota Statutes 1996, section 297A.25, subdivision 5, is amended to read:

Subd. 5. [OUTSTATE TRANSPORT OR DELIVERY.] The gross receipts from the following sales of, and storage, use, or consumption of, tangible personal property are exempt:

(1) property which, without intermediate use, is shipped or transported outside Minnesota by the purchaser and thereafter used in a trade or business or is stored, processed, fabricated or manufactured into, attached to or incorporated into other tangible personal property transported or shipped outside Minnesota and thereafter used in a trade or business outside Minnesota, and which is not thereafter returned to a point within Minnesota, except in the course of interstate commerce (storage shall not constitute intermediate use); provided that the property is not subject to tax in that state or country to which it is transported for storage or use and provided further that sales of tangible personal property to be used in other states or countries as part of a maintenance contract shall be specifically exempt; or

(2) property which the seller delivers to a common carrier for delivery outside Minnesota, places in the United States mail or parcel post directed to the purchaser outside Minnesota, or delivers to the purchaser outside Minnesota by means of the seller's own delivery vehicles, and which is not thereafter returned to a point within Minnesota, except in the course of interstate commerce.

Sec. 16. Minnesota Statutes 1996, section 297A.25, subdivision 7, is amended to read:

Subd. 7. [PETROLEUM PRODUCTS.] The gross receipts from the sale of and storage, use or consumption of the following petroleum products are exempt:

(1) products upon which a tax has been imposed and paid under the provisions of chapter 296, and no refund has been or will be allowed because the buyer used the fuel for nonhighway use;

(2) products which are used in the improvement of agricultural land by constructing, maintaining, and repairing drainage ditches, tile drainage systems, grass waterways, water impoundment, and other erosion control structures;

(3) products purchased by a transit system receiving financial assistance under section 174.24 or 473.384; or

(4) products used in a passenger snowmobile, as defined in section 296.01, subdivision 27a, for off-highway business use as part of the operations of a resort as provided under section 296.18, subdivision 1, clause (2); or

(5) products purchased by a state or a political subdivision of a state for use in motor vehicles exempt from registration under section 168.012, subdivision 1, paragraph (b).

Sec. 17. Minnesota Statutes 1996, section 297A.25, subdivision 56, is amended to read:

Subd. 56. [FIREFIGHTERS PERSONAL PROTECTIVE EQUIPMENT.] The gross receipts from the sale of and storage, use, or consumption of firefighters personal protective equipment are exempt if purchased by, or when 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. For purposes of this subdivision, "personal protective equipment" includes: 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 apparatuses, 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.

Sec. 18. Minnesota Statutes 1996, section 297A.25, subdivision 59, is amended to read:

Subd. 59. [FARM MACHINERY.] ~~From July 1, 1994, until June 30, 1997,~~ The gross receipts from the sale of used farm machinery are exempt.

Sec. 19. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 62. [MATERIALS USED IN PROVIDING TAXABLE SERVICES.] (a) The gross receipts from the sale of and the storage, use, or consumption of all materials used or consumed in providing a taxable service 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, used or consumed in providing the taxable service;

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

(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.

(c) This exemption does not include:

(1) machinery, equipment, implements, tools, accessories, appliances, contrivances, furniture, and fixtures used in providing the taxable service; and

(2) fuel, electricity, gas, and steam used for space heating or lighting.

(d) For purposes of this subdivision, "taxable services" means the services listed in section 297A.01, subdivision 3, paragraph (i).

Sec. 20. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 63. [HOSPITALS.] The gross receipts from the sale of tangible personal property to, and the storage, use, or consumption of such property by, a hospital are exempt, if the property purchased is to be used in providing hospital services to human beings. For purposes of this subdivision, "hospital" means a hospital organized and operated for charitable purposes within the meaning of section 501(c)(3) of the Internal Revenue Code of 1986, as amended, and licensed under chapter 144 or by any other jurisdiction. For purposes of this subdivision, "hospital services" are services authorized or required to be performed by a "hospital" under chapter 144 and regulations thereunder or under the applicable licensure law of any other jurisdiction. This exemption does not apply to purchases made by a clinic, physician's office, or any other medical facility not operating as a hospital, even though the clinic, office, or facility may be owned and operated by a hospital. Sales exempted by this subdivision do not include sales under section 297A.01, subdivision 3, paragraphs (c) and (e). This exemption does not apply to building, construction, or reconstruction materials purchased by a contractor or a subcontractor as a part of a lump-sum contract or similar type of contract with a guaranteed maximum price covering both labor and materials for use in the construction, alteration, or repair of a hospital. This exemption does not apply to construction materials to be used in constructing buildings or facilities which will not be used principally by a hospital. This exemption does not apply to the leasing of a motor vehicle as defined in section 297B.01, subdivision 5.

Sec. 21. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 64. [COPIES OF COURT REPORTER DOCUMENTS.] The gross receipts from sales of, and use, storage, or consumption of, transcripts or copies of transcripts of verbatim testimony produced and sold by court reporters or other transcribers of legal proceedings to individuals or entities that are parties to or representatives of parties to the proceeding to which the transcript relates, are exempt.

Sec. 22. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 65. [CONSTRUCTION MATERIALS FOR CORRECTIONAL FACILITIES.] The gross receipts from the sale of and storage, use, or consumption of construction materials and supplies are exempt from the tax imposed under this chapter if purchased for use in a project to construct or improve an adult or juvenile correctional facility in a county, home rule charter city, or statutory city, and if the project is mandated by state or federal law, rule, or regulation. The exemption applies regardless of whether the materials and supplies are purchased by the city or county, or by a contractor, subcontractor, or builder under a contract with the city or county.

Sec. 23. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 66. [CONSTRUCTION MATERIALS; LAKE SUPERIOR CENTER.] Construction materials and supplies are exempt from the tax imposed under this chapter, regardless of whether purchased by the owner, a contractor, subcontractor, or builder, provided the materials and supplies are used or consumed in constructing the Lake Superior Center.

Sec. 24. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 67. [CONSTRUCTION MATERIALS; SCIENCE MUSEUM.] Construction materials and supplies are exempt from the tax imposed under this chapter, regardless of whether purchased by the owner, a contractor, subcontractor, or builder, provided the materials and supplies are used or consumed in constructing the Science Museum of Minnesota.

Sec. 25. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 68. [CONSTRUCTION MATERIALS; BUSINESS INCUBATOR AND INDUSTRIAL PARK FACILITY.] Materials and supplies used or consumed in constructing, or incorporated into the construction of, an exempted facility as defined in this subdivision are exempt from the taxes imposed under this chapter and from any sales and use tax imposed by a local unit of government, notwithstanding any ordinance or city charter provision.

As used in this subdivision, an "exempted facility" is a facility that includes a business incubator and industrial park that:

(1) is owned and operated by a nonprofit charitable organization that qualifies for tax exemption under section 501(c)(3) of the Internal Revenue Code;

(2) is used for the development of nonretail businesses, offering access to equipment, space, services, and advice to the tenant businesses, for the purpose of encouraging economic development and job creation in the area served by the organization, and emphasizes development of businesses that manufacture products from materials found in the waste stream, or manufacture alternative energy and conservation systems, or make use of emerging environmental technologies;

(3) includes in its structure systems of material and energy exchanges that use waste products from one industrial process as sources of energy and material for other processes; and

(4) makes use of solar and wind energy technology and incorporates salvaged materials in its construction.

Sec. 26. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 69. [REGIONWIDE PUBLIC SAFETY RADIO COMMUNICATION SYSTEM; PRODUCTS AND SERVICES.] The gross receipts from the sale of, and the storage, use, or consumption of, products and services including end user equipment used for construction,

ownership, operation, maintenance, and enhancement of the backbone system of the regionwide public safety radio communication system established under sections 473.891 to 473.905, are exempt. For purposes of this subdivision, backbone system is defined in section 473.891, subdivision 9.

Sec. 27. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 70. [ALFALFA PROCESSING FACILITIES CONSTRUCTION MATERIALS.] Purchases of construction materials and supplies are exempt from the sales and use taxes imposed under this chapter, regardless of whether purchased by the owner or a contractor, subcontractor, or builder, if:

(1) the materials and supplies are used or consumed in constructing a facility which either (i) develops market-value agricultural products made from alfalfa leaf material, or (ii) produces biomass energy fuel or electricity from alfalfa stems in accordance with the biomass mandate imposed under section 216B.2424; and

(2) the total capital investment made in the value-added agricultural products and biomass electric generation facilities is at least \$50,000,000; or

(3) the materials and supplies are used or consumed in constructing, equipping or modifying a district heating and cooling system cogeneration facility that:

(i) utilizes wood waste as a primary fuel source; and

(ii) satisfies the requirements of the biomass mandate in section 216B.2424, subdivision 5.

Sec. 28. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 71. [FIREWOOD.] The gross receipts from the sale of and the storage, use, or consumption of wood used for fires for heating, cooking, or any other purpose, except for the generation of electricity, steam, or heat to be sold at retail, are exempt.

Sec. 29. Minnesota Statutes 1996, section 297A.25, is amended by adding a subdivision to read:

Subd. 72. [WIND ENERGY CONVERSION SYSTEMS.] The gross receipts from the sale of and the storage, use, or consumption of wind energy conversion systems, as defined in section 216C.06, subdivision 12, and the materials used to manufacture, install, construct, repair, or replace them are exempt if the systems are used as an electric power source.

Sec. 30. [297A.48] [LOCAL SALES TAX RULES.]

Subdivision 1. [AUTHORIZATION; SCOPE.] (a) A political subdivision of this state may impose a general sales tax if permitted by special law or if the subdivision enacted and imposed the tax before the effective date of section 477A.016 and its predecessor provision.

(b) This section governs the imposition of a general sales tax by the political subdivision. The provisions of this section preempt the provisions of any special law:

(1) enacted before its effective date, or

(2) enacted after its effective date that does not explicitly exempt the special law provision from this section's rules by reference.

(c) This section does not apply to or preempt a sales tax on motor vehicles or a special excise tax on motor vehicles.

Subd. 2. [TAX BASE.] (a) The tax applies to sales taxable under this chapter that occur within the political subdivision.

(b) Taxable services are subject to a political subdivision's sales tax, if they are performed either:

(1) within the political subdivision, or

(2) partly within and partly without the political subdivision and more of the service is performed within the political subdivision, based on the cost of performance.

Subd. 3. [TAX RATE.] (a) The tax rate is as specified in the special law authorization and as imposed by the political subdivision.

(b) The full political subdivision rate applies to any sales that are taxed at a state rate less than or more than the state general sales and use tax rate.

Subd. 4. [USE TAX.] A compensating use tax applies, at the same rate as the sales tax, on the use, storage, distribution, or consumption of tangible personal property or taxable services.

Subd. 5. [EXEMPTIONS.] (a) All goods or services that are otherwise exempt from taxation under this chapter are exempt from a political subdivision's tax.

(b) The gross receipts from the sale of tangible personal property that meets the requirement of section 297A.25, subdivision 5, are exempt, except the qualification test applies based on the boundaries of the political subdivision instead of the state of Minnesota.

(c) All mobile transportation equipment, and parts and accessories attached to or to be attached to the equipment are exempt, if purchased by a holder of a motor carrier direct pay permit under section 297A.211.

Subd. 6. [CREDIT FOR OTHER LOCAL TAXES.] If a person paid sales or use tax to another political subdivision on tangible personal property or another item subject to tax under this section, a credit applies against the tax imposed under this section. The credit equals the tax the person paid to the other political subdivision for the item.

Subd. 7. [ENFORCEMENT; COLLECTION; AND ADMINISTRATION.] (a) The commissioner of revenue shall collect the taxes subject to this section. The commissioner may collect the tax with the state sales and use tax. All taxes under this section are subject to the same penalties, interest, and enforcement provisions as apply to the state sales and use tax.

(b) A request for a refund of state sales tax paid in excess of the amount of tax legally due includes a request for a refund of the political subdivision taxes paid on the goods or services. The commissioner must refund to the taxpayer the full amount of the political subdivision taxes paid on exempt sales or use.

(c) A political subdivision that is collecting and administering its own sales and use tax before January 1, 1998, may elect to be exempt from this subdivision and subdivision 8.

Subd. 8. [REVENUES; COST OF COLLECTION.] The commissioner shall remit the proceeds of the tax, less refunds and a proportionate share of the cost of collection, at least quarterly, to the political subdivision. The commissioner shall deduct from the proceeds remitted an amount that equals

(1) the direct and indirect costs of the department to administer, audit, and collect the political subdivision's tax, plus

(2) the political subdivision's proportionate share of the indirect cost of administering all taxes under this section.

Subd. 9. [EFFECTIVE DATES; NOTIFICATION.] (a) A political subdivision may impose a tax under this section starting only on the first day of a calendar quarter. A political subdivision may repeal a tax under this section stopping only on the last day of a calendar quarter.

(b) The political subdivision must notify the commissioner of revenue at least 90 days before imposing or repealing a tax under this section.



Subd. 10. [APPLICATION.] This section applies to all local sales taxes authorized on or after the day of enactment of this act. Starting January 1, 2000, this section applies to all local sales tax that were authorized before the day of enactment of this act.

Sec. 31. Minnesota Statutes 1996, section 297B.01, subdivision 7, is amended to read:

Subd. 7. [SALE, SELLS, SELLING, PURCHASE, PURCHASED, OR ACQUIRED.] "Sale," "sells," "selling," "purchase," "purchased," or "acquired" means any transfer of title of any motor vehicle, whether absolutely or conditionally, for a consideration in money or by exchange or barter for any purpose other than resale in the regular course of business. Any motor vehicle utilized by the owner only by leasing such vehicle to others or by holding it in an effort to so lease it, and which is put to no other use by the owner other than resale after such lease or effort to lease, shall be considered property purchased for resale. The terms also shall include any transfer of title or ownership of a motor vehicle by way of gift or by any other manner or by any other means whatsoever, for or without consideration, except that these terms shall not include:

(a) the acquisition of a motor vehicle by inheritance from or by bequest of, a decedent who owned it;

(b) the transfer of a motor vehicle which was previously licensed in the names of two or more joint tenants and subsequently transferred without monetary consideration to one or more of the joint tenants;

(c) the transfer of a motor vehicle by way of gift between a husband and wife or parent and child; or

(d) the voluntary or involuntary transfer of a motor vehicle between a husband and wife in a divorce proceeding; or

(e) the transfer of a motor vehicle by way of a gift to an organization that is exempt from federal income taxation under section 501(c)(3) of the Internal Revenue Code, as amended through December 31, 1996, when the motor vehicle will be used exclusively for religious, charitable, or educational purposes.

Sec. 32. Minnesota Statutes 1996, section 297B.01, subdivision 8, is amended to read:

Subd. 8. [PURCHASE PRICE.] "Purchase price" means the total consideration valued in money for a sale, whether paid in money or otherwise. The purchase price excludes the amount of a manufacturer's rebate paid or payable to the purchaser. If a motor vehicle is taken in trade as a credit or as part payment on a motor vehicle taxable under this chapter, the credit or trade-in value allowed by the person selling the motor vehicle shall be deducted from the total selling price to establish the purchase price of the vehicle being sold and the trade-in allowance allowed by the seller shall constitute the purchase price of the motor vehicle accepted as a trade-in. The purchase price in those instances where the motor vehicle is acquired by gift or by any other transfer for a nominal or no monetary consideration shall also include the average value of similar motor vehicles, established by standards and guides as determined by the motor vehicle registrar. The purchase price in those instances where a motor vehicle is manufactured by a person who registers it under the laws of this state shall mean the manufactured cost of such motor vehicle and manufactured cost shall mean the amount expended for materials, labor and other properly allocable costs of manufacture, except that in the absence of actual expenditures for the manufacture of a part or all of the motor vehicle, manufactured costs shall mean the reasonable value of the completed motor vehicle.

The term "purchase price" shall not include the portion of the value of a motor vehicle due solely to modifications necessary to make the motor vehicle handicapped accessible. The term "purchase price" shall not include the transfer of a motor vehicle by way of gift between a husband and wife or parent and child, or to a nonprofit organization as provided under section 297B.01, paragraph (e), nor shall it include the transfer of a motor vehicle by a guardian to a ward when there is no monetary consideration and the title to such vehicle was registered in the name of the guardian, as guardian, only because the ward was a minor. There shall not be included in

"purchase price" the amount of any tax imposed by the United States upon or with respect to retail sales whether imposed upon the retailer or the consumer.

The term "purchase price" shall not include the transfer of a motor vehicle as a gift between a foster parent and foster child. For purposes of this subdivision, a foster relationship exists, regardless of the age of the child, if (1) a foster parent's home is or was licensed as a foster family home under Minnesota Rules, parts 9545.0010 to 9545.0260, and (2) the county verifies that the child was a state ward or in permanent foster care.

Sec. 33. Minnesota Statutes 1996, section 349.154, subdivision 2, is amended to read:

Subd. 2. [NET PROFIT REPORTS.] (a) Each licensed organization must report monthly to the board on a form prescribed by the board each expenditure and contribution of net profits from lawful gambling. The reports must provide for each expenditure or contribution:

- (1) the name, address, and telephone number of the recipient of the expenditure or contribution;
- (2) the date the contribution was approved by the organization;
- (3) the date, amount, and check number of the expenditure or contribution;
- (4) a brief description of how the expenditure or contribution meets one or more of the purposes in section 349.12, subdivision 25; and
- (5) in the case of expenditures authorized under section 349.12, subdivision 25, paragraph (a), clause (7), whether the expenditure is for a facility or activity that primarily benefits male or female participants.

(b) The board shall make available to the commissioners of revenue and public safety copies of reports received under this subdivision and requested by them.

(c) The report required under this subdivision must provide for a separate accounting for all expenditures made from the reporting organization's tax refund and or credit account authorized under section 297E.02, subdivision 4, paragraph (d).

Sec. 34. Minnesota Statutes 1996, section 349.19, subdivision 2a, is amended to read:

Subd. 2a. [TAX REFUND AND OR CREDIT ACCOUNT.] (a) Each organization that receives a refund or credit under section 297E.02, subdivision 4, paragraph (d), ~~must establish a separate account designated as the tax and credit refund account. The organization must (1) within four business days of receiving a refund under that paragraph deposit the refund in the organization's gambling account, and (2) within four business days of filing a tax return that claims a credit under that paragraph, transfer from the separate account established under subdivision 2 to the tax refund and credit account an amount equal to the tax credit.~~

~~(b) The name and address of the bank, the account number for the tax refund and credit account, and the names of organization members authorized as signatories on the account must be provided to the board within 30 days of the date when the organization establishes the account. Changes in the information must be submitted to the board at least ten days before the change is made.~~

~~(c) (b) The organization may expend money in the account the tax refund or credit issued under section 297E.02, subdivision 4, paragraph (d), only for lawful purposes, other than lawful purposes described in section 349.012, subdivision 25, paragraph (a), clauses (8), (9), and (12). Amounts in the account received as refunds or allowed as credits must be spent for qualifying lawful purposes no later than one year after the refund or credit is deposited received.~~

Sec. 35. Minnesota Statutes 1996, section 349.191, subdivision 1b, is amended to read:

Subd. 1b. [CREDIT AND SALES TO DELINQUENT DISTRIBUTORS.] (a) If a manufacturer does not receive payment in full from a distributor within ~~30~~ 35 days of the delivery of gambling equipment, the manufacturer must notify the board in writing of the delinquency.

(b) If a manufacturer who has notified the board under paragraph (a) has not received payment in full from the distributor within 60 days of the notification under paragraph (a), the manufacturer must notify the board of the continuing delinquency.

(c) On receipt of a notice under paragraph (a), the board shall order all manufacturers that until further notice from the board, they may sell gambling equipment to the delinquent distributor only on a cash basis with no credit extended. On receipt of a notice under paragraph (b), the board shall order all manufacturers not to sell any gambling equipment to the delinquent distributor.

(d) No manufacturer may extend credit or sell gambling equipment to a distributor in violation of an order under paragraph (c) until the board has authorized such credit or sale.

Sec. 36. Laws 1993, chapter 375, article 9, section 45, subdivision 2, is amended to read:

Subd. 2. [USE OF REVENUES.] (a) Revenues received from taxes authorized by subdivision 1 shall be used by Cook county to pay the cost of collecting the tax and to pay all or a portion of the costs of expanding and improving the health care facility located in the county and known as North Shore hospital. Authorized costs include, but are not limited to, securing or paying debt service on bonds or other obligations issued to finance the expansion and improvement of North Shore hospital. The total capital expenditures payable from bond proceeds, excluding investment earnings on bond proceeds and tax revenues, shall not exceed \$4,000,000.

(b) Additional revenues received from taxes authorized by subdivision 1 may be used by Cook county to pay all or a portion of the costs of betterment of North Shore care center and providing additional improvements to North Shore hospital. Authorized costs include, but are not limited to, securing or paying debt service on bonds or other obligations issued to finance the remodeling of North Shore care center and additional improvements to North Shore hospital. The total capital expenditures payable from bond proceeds, excluding investment earnings on bond proceeds and tax revenues, shall not exceed \$2,200,000.

Sec. 37. Laws 1993, chapter 375, article 9, section 45, subdivision 3, is amended to read:

Subd. 3. [EXPIRATION OF TAXING AUTHORITY AND EXPENDITURE LIMITATION.] The authority granted by subdivision 1 to Cook county to impose a sales tax shall expire when the principal and interest on any bonds or obligations issued under subdivision 4, paragraph (a), to finance the expansion and improvement of North Shore hospital described in subdivision 2, paragraph (a), have been paid, or at an earlier time as the county shall, by resolution, determine. Any funds remaining after completion of the improvements and retirement or redemption of the bonds may be placed in the general fund of the county.

Sec. 38. Laws 1993, chapter 375, article 9, section 45, subdivision 4, is amended to read:

Subd. 4. [BONDS.] (a) Cook county may issue general obligation bonds in an amount not to exceed \$4,000,000 for the expansion and improvement of North Shore hospital.

(b) Additionally, Cook county may issue general obligation bonds in an amount not to exceed \$2,200,000 for the betterment of North Shore care center and additional improvements to North Shore hospital.

(c) The bonds may be issued without election under Minnesota Statutes, chapter 475, on the question of issuance of the bonds or a property tax to pay them. The debt represented by the bonds issued for the expansion and improvement of North Shore hospital shall not be included in computing any debt limitations applicable to Cook county, and the levy of taxes required by Minnesota Statutes, section 475.61, to pay principal of and interest on the bonds shall not be subject to any levy limitation or be included in computing or applying any levy limitation applicable to the county.

Sec. 39. Laws 1993, chapter 375, article 9, section 45, is amended by adding a subdivision to read:

Subd. 5a. [REFERENDUM.] If the governing body of Cook county intends to use the sales tax

proceeds as authorized by subdivision 2, paragraph (b), it shall conduct a referendum on the issue. The question of so using the tax proceeds must be submitted to the voters at a special or general election. The tax proceeds may not be used as provided in subdivision 2, paragraph (b), unless a majority of votes cast on the question are in the affirmative. The commissioner of revenue shall prepare a suggested form of question to be presented at the election. The referendum must be held at a special or general election before December 1, 1997.

Sec. 40. Laws 1993, chapter 375, article 9, section 46, subdivision 2, is amended to read:

Subd. 2. [USE OF REVENUES.] Revenues received from the tax authorized by subdivision 1 may only be used by the city to pay the cost of collecting the tax, and to pay for the following projects or to secure or pay any principal, premium, or interest on bonds issued in accordance with subdivision 3 for the following projects.

(a) To pay all or a portion of the capital expenses of construction, equipment and acquisition costs for the expansion and remodeling of the St. Paul Civic Center complex.

(b) The remainder of the funds must be spent for:

(1) capital projects to further residential, cultural, commercial, and economic development in both downtown St. Paul and St. Paul neighborhoods; and

(2) the operating expenses of cultural organizations in the city, provided that the amount spent under this clause may not exceed ten percent of the total amount spent under this paragraph.

By January 15 of each odd-numbered year, the mayor and the city council must report to the legislature on the use of sales tax revenues during the preceding two-year period.

Sec. 41. [CITY OF WILLMAR; TAXES.]

Subdivision 1. [SALES AND USE TAX AUTHORIZED.] Pursuant to the approval of the city voters at the general election held on November 5, 1996, the city of Willmar may, by ordinance, impose, for the purposes specified in subdivision 3, a sales and use tax of up to one-half of one percent. The provisions of Minnesota Statutes, section 297A.48, govern the imposition, administration, collection, and enforcement of the tax authorized under this subdivision.

Subd. 2. [EXCISE TAX AUTHORIZED.] Notwithstanding Minnesota Statutes, section 477A.016, or any other contrary provision of law, ordinance, or city charter, the city of Willmar may, by ordinance, impose, for the purposes specified in subdivision 3, an excise tax of up to \$20 per motor vehicle, as defined by ordinance, purchased or acquired from any person engaged within the city in the business of selling motor vehicles at retail.

Subd. 3. [USE OF REVENUES.] Revenues received from taxes authorized by subdivisions 1 and 2 must be used to pay the costs of collecting the taxes, and to pay all or a part of the capital and administrative costs of the acquisition, construction, and improvement of public library facilities, including securing or paying debt service on bonds issued for the project under subdivision 4. The total capital and administrative expenditures payable from bond proceeds and revenues received from the taxes authorized by subdivisions 1 and 2, excluding investment earnings thereon, must not exceed \$4,500,000.

Subd. 4. [BONDS.] The city of Willmar, pursuant to the approval of the city voters at the general election held on November 5, 1996, may issue without additional election general obligation bonds of the city in an amount not to exceed \$4,500,000 to pay capital and administrative expenses for the acquisition, construction, and improvement of public library facilities. The debt represented by the bonds must not be included in computing any debt limitations applicable to the city, and the levy of taxes required by Minnesota Statutes, section 475.61, to pay the principal of and interest on the bonds must not be subject to any levy limitation or be included in computing or applying any levy limitation applicable to the city.

Subd. 5. [TERMINATION OF TAXES.] The taxes imposed under subdivisions 1 and 2 expire when the city council determines that sufficient funds have been received from the taxes to finance

the capital and administrative costs for the acquisition, construction, and improvement of public library facilities and to prepay or retire at maturity the principal, interest, and premium due on any bonds issued for the project under subdivision 4. Any funds remaining after completion of the project and retirement or redemption of the bonds may be placed in the general fund of the city. The taxes imposed under subdivisions 1 and 2 may expire at an earlier time if the city so determines by ordinance.

Subd. 6. [EFFECTIVE DATE.] This section is effective August 1, 1997, upon compliance by the governing body of the city of Willmar with Minnesota Statutes, section 645.021, subdivision 3.

Sec. 42. [STATEMENT OF PURPOSE.]

The purpose of section 5, paragraph (i), is to confirm and clarify the original intent of the legislature in enacting an exemption from the sales tax for property to be resold in the normal course of business. Section 5, paragraph (i), ratifies the existing state interpretation that a resale requires the transfer of title to the property or the complete transfer of possession and control over the property. This section does not apply to litigation currently pending before the Minnesota Supreme Court.

Sec. 43. [RECODIFICATION.]

In coordination with legislative staff, the revisor of statutes shall prepare a bill for introduction in the 1998 session of the legislature that clarifies and recodifies chapter 297A. The department of revenue shall assist in the preparation of the legislation as requested by the revisor. The revisor may consult professional groups and other interested persons in preparing the legislation.

Sec. 44. [EXPIRATION.]

Minnesota Statutes, section 297A.24, subdivision 3, as added by Laws 1997, chapter 84, article 3, section 5, expires January 1, 2000.

Sec. 45. [APPLICATION.]

Section 26 applies in the counties of Anoka, Carver, Dakota, Hennepin, Ramsey, Scott, and Washington.

Sec. 46. [REPEALER.]

Minnesota Statutes 1996, sections 297A.01, subdivision 20; and 297A.02, subdivision 5, are repealed.

Sec. 47. [EFFECTIVE DATES.]

Section 1 is effective for refund claims filed after June 30, 1997.

Sections 2, 6, 7, 9, 13, 15, 16, 17, 18, 20, 21, 25, 31, and 32 are effective for purchases, sales, storage, use, or consumption occurring after June 30, 1997.

Section 3 is effective on July 1, 1997, or upon adoption of the corresponding rules, whichever occurs earlier.

Section 4, paragraph (i), clause (iv), is effective for purchases and sales occurring after September 30, 1987; the remainder of section 4 is effective for purchases and sales occurring after June 30, 1997.

Section 5, paragraph (h), is effective for purchases and sales occurring after June 30, 1997, and paragraph (i) is effective for purchases and sales occurring after December 31, 1992.

Sections 8 and 46 are effective July 1, 1998.

Sections 10 and 22 are effective for purchases, sales, storage, use, or consumption occurring after August 31, 1996.

Sections 11, 12, 33, 34, and 35 are effective July 1, 1997.

Sections 14 and 19 are effective for purchases and sales after June 30, 1999.

Section 23 is effective January 1, 1997.

Section 24 is effective for purchases, sales, storage, use, or consumption occurring after April 30, 1997.

Sections 26 and 45 are effective for purchases, sales, storage, use, or consumption occurring after July 31, 1997, and before August 1, 2003.

Section 27 is effective for purchases, sales, storage, use, or consumption occurring after May 31, 1997.

Section 28 is effective for sales made after December 31, 1989, and before January 1, 1997. The provisions of Minnesota Statutes, section 289A.50, apply to refunds claimed under section 28. Refunds claimed under section 28 must be filed by the later of December 31, 1997, or the time limit under Minnesota Statutes, section 289A.40, subdivision 1.

Section 29 is effective for sales or first use after May 31, 1997, and before June 1, 1998.

Sections 30, 42, and 43 are effective the day following final enactment.

Sections 36 to 39 are effective the day after compliance by the governing body of Cook county with Minnesota Statutes, section 645.021, subdivision 3.

Section 40 is effective for STAR funds collected after June 30, 1997.

## ARTICLE 8 MINERALS TAXES

Section 1. Minnesota Statutes 1996, section 93.41, is amended to read:

93.41 [STATE-OWNED IRON-BEARING MATERIALS.]

Subdivision 1. [USE FOR ROAD CONSTRUCTION AND OTHER PURPOSES.] In case the commissioner of natural resources shall determine that any paint rock, taconite, or other iron-bearing material belonging to the state ~~and containing not more than 45 percent dried iron by analysis~~ is needed and suitable for use in the construction or maintenance of any road, tailings basin, settling basin, dike, dam, bank fill, or other works on public or private property, and that such use would be in the best interests of the public, the commissioner may authorize the disposal of such material therefor as hereinafter provided.

Subd. 2. [MATERIALS SUBJECT TO STATE IRON ORE MINING LEASE.] If such material is subject to an existing state iron ore mining lease ~~or located on property subject to an existing state iron ore mining lease~~, the commissioner, by written agreement with the holder of the lease, may authorize the use of the material for any purpose specified in subdivision 1 that will facilitate the mining and disposal of the iron ore therein on such terms as the commissioner may prescribe consistent with the interests of the state, or may authorize the holder of the lease to dispose of the material otherwise for any purpose specified in subdivision 1 upon payment of an amount therefor equivalent to the royalty that would be payable under the terms of the lease if the material were shipped or otherwise disposed of as iron ore, but not less than the applicable minimum rate prescribed by section 93.20.

Subd. 3. [ISSUANCE OF LEASES, ROYALTIES.] If such material, whether in the ground or in stockpile, is not subject to an existing lease, the commissioner may issue leases for the taking and removal thereof for the purposes specified in subdivision 1 in like manner as provided by section 92.50 for leases for the taking and removal of sand, gravel, and other materials specified in said section, and subject to all the provisions thereof, so far as applicable; ~~provided, that the amount payable for such material shall be at least equivalent to the minimum royalty that would be payable therefor under the provisions of section 93.20.~~

Subd. 4. [SALE OF STOCKPILED IRON-BEARING MATERIAL IN PLACE.] If such material is in stockpile and is not subject to an existing lease, the commissioner may sell stockpiled iron-bearing material in place. The sale must be to a person holding an interest in the surface of the property upon which the stockpile is located or to a person holding an interest in publicly or privately owned stockpiled iron-bearing material located in the same stockpile.

Sec. 2. Minnesota Statutes 1996, section 273.11, subdivision 1, is amended to read:

Subdivision 1. [GENERALLY.] Except as provided in this section or section 273.17, subdivision 1, all property shall be valued at its market value. The market value as determined pursuant to this section shall be stated such that any amount under \$100 is rounded up to \$100 and any amount exceeding \$100 shall be rounded to the nearest \$100. In estimating and determining such value, the assessor shall not adopt a lower or different standard of value because the same is to serve as a basis of taxation, nor shall the assessor adopt as a criterion of value the price for which such property would sell at a forced sale, or in the aggregate with all the property in the town or district; but the assessor shall value each article or description of property by itself, and at such sum or price as the assessor believes the same to be fairly worth in money. The assessor shall take into account the effect on the market value of property of environmental factors in the vicinity of the property. In assessing any tract or lot of real property, the value of the land, exclusive of structures and improvements, shall be determined, and also the value of all structures and improvements thereon, and the aggregate value of the property, including all structures and improvements, excluding the value of crops growing upon cultivated land. In valuing real property upon which there is a mine or quarry, it shall be valued at such price as such property, including the mine or quarry, would sell for at a fair, voluntary sale, for cash, if the material being mined or quarried is not subject to taxation under section 298.015 and the mine or quarry is not exempt from the general property tax under section 298.25. In valuing real property which is vacant, platted property shall be assessed as provided in subdivision 14. All property, or the use thereof, which is taxable under section 272.01, subdivision 2, or 273.19, shall be valued at the market value of such property and not at the value of a leasehold estate in such property, or at some lesser value than its market value.

Sec. 3. Minnesota Statutes 1996, section 273.12, is amended to read:

273.12 [ASSESSMENT OF REAL PROPERTY.]

It shall be the duty of every assessor and board, in estimating and determining the value of lands for the purpose of taxation, to consider and give due weight to every element and factor affecting the market value thereof, including its location with reference to roads and streets and the location of roads and streets thereon or over the same, and to take into consideration a reduction in the acreage of each tract or lot sufficient to cover the amount of land actually used for any improved public highway and the reduction in area of land caused thereby. It shall be the duty of every assessor and board, in estimating and determining the value of lands for the purpose of taxation, to consider and give due weight to lands which are comparable in character, quality, and location, to the end that all lands similarly located and improved will be assessed upon a uniform basis and without discrimination and, for agricultural lands, to consider and give recognition to its earning potential as measured by its free market rental rate.

When mineral, clay, or gravel deposits exist on a property, and their extent, quality, and costs of extraction are sufficiently well known so as to influence market value, such deposits shall be recognized in valuing the property; except for mineral and energy-resource deposits which are subject to taxation under section 298.015, and except for taconite and iron-sulphide deposits which are exempt from the general property tax under section 298.25.

Sec. 4. [273.1651] [TAXATION AND FORFEITURE OF STOCKPILED METALLIC MINERALS MATERIAL.]

Subdivision 1. [DEFINITION.] "Stockpiled metallic minerals material" for purposes of this section, means surface overburden, rock, lean ore, tailings, or other material that has been removed from the ground and deposited elsewhere on the surface in the process of iron ore, taconite, or other metallic minerals mining, or in the process of beneficiation. Stockpiled metallic

minerals material does not include processed metallic minerals concentrates in the form of pellets, chips, briquettes, fines, or other form which have been prepared for or are in the process of shipment.

Subd. 2. [PURPOSE.] The purpose of this section is to clarify the ownership of stockpiled metallic minerals material in this state. Depending on the intent of the person who extracted the material from the ground, stockpiled metallic minerals material may or may not be owned separately and apart from the fee title to the surface of the real property. The legislature finds that the uncertainty of ownership of stockpiled metallic minerals material located on real property that becomes tax forfeited has created a burden on the public owner of the surface of the real property and an impediment to productive management or use of a public resource.

Subd. 3. [TAXATION AND FORFEITURE.] From and after the effective date of this section, for purposes of taxation, the definition of "real property," as contained in section 272.03, subdivision 1, includes stockpiled metallic minerals material. Nothing in this subdivision shall be construed to subject stockpiled metallic minerals material to the general property tax when the stockpiled metallic minerals material is exempt from the general property tax pursuant to section 298.015 or 298.25. If the surface of the real property forfeits for delinquent taxes, stockpiled metallic minerals material located on the real property forfeits with the surface of the property.

Subd. 4. [PRIOR FORFEITURE.] Stockpiled metallic minerals material located on real property that forfeited prior to the effective date of this section or forfeits due to a judgment for delinquent taxes issued prior to the effective date of this section shall be assessed and taxed as real property. The tax applies only to stockpiled metallic minerals material located on real property that remains in the ownership of the state or a political subdivision of the state. The tax shall be based on the market value of the rental of the property for storage of stockpiled metallic minerals material.

Subd. 5. [EXCEPTIONS; TAX LAWS.] (a) The tax imposed pursuant to this section shall not be imposed on the following:

(1) stockpiled metallic minerals material valued and taxed under other laws relating to the taxation of minerals, gas, coal, oil, or other similar interests;

(2) stockpiled metallic minerals material that is exempt from taxation pursuant to constitutional or related statutory provisions; or

(3) stockpiled metallic minerals material that is owned by the state.

(b) All laws for the enforcement of taxes on real property shall apply to the tax imposed pursuant to this section on stockpiled metallic minerals material.

Subd. 6. [FEE OWNER.] For purposes of section 276.041, the owner of stockpiled metallic minerals material is a fee owner.

Sec. 5. Minnesota Statutes 1996, section 282.01, subdivision 8, is amended to read:

Subd. 8. [MINERALS IN TAX-FORFEITED LAND AND TAX-FORFEITED STOCKPILED METALLIC MINERALS MATERIAL SUBJECT TO MINING; PROCEDURES.] In case the commissioner of natural resources shall notify the county auditor of any county in writing that the minerals in any tax-forfeited land or tax-forfeited stockpiled metallic minerals material located on tax-forfeited land in such county have been designated as a mining unit as provided by law, or that such minerals or tax-forfeited stockpiled metallic minerals material are subject to a mining permit or lease issued therefor as provided by law, the surface of such tax-forfeited land shall be subject to disposal and use for mining purposes pursuant to such designation, permit, or lease, and shall be withheld from sale or lease by the county auditor until the commissioner shall notify the county auditor that such land has been removed from the list of mining units or that any mining permit or lease theretofore issued thereon is no longer in force; provided, that the surface of such tax-forfeited land may be leased by the county auditor as provided by law, with the written approval of the commissioner, subject to disposal and use for mining purposes as herein provided and to any special conditions relating thereto that the commissioner may prescribe, also subject to



cancellation for mining purposes on three months written notice from the commissioner to the county auditor.

Sec. 6. Minnesota Statutes 1996, section 282.04, subdivision 1, is amended to read:

Subdivision 1. [TIMBER SALES; LAND LEASES AND USES.] (a) The county auditor may sell timber upon any tract that may be approved by the natural resources commissioner. Such sale of timber shall be made for cash at not less than the appraised value determined by the county board to the highest bidder after not less than one week's published notice in an official paper within the county. Any timber offered at such public sale and not sold may thereafter be sold at private sale by the county auditor at not less than the appraised value thereof, until such time as the county board may withdraw such timber from sale. The appraised value of the timber and the forestry practices to be followed in the cutting of said timber shall be approved by the commissioner of natural resources.

(b) Payment of the full sale price of all timber sold on tax-forfeited lands shall be made in cash at the time of the timber sale, except in the case of oral or sealed bid auction sales, the down payment shall be no less than 15 percent of the appraised value, and the balance shall be paid prior to entry. In the case of auction sales that are partitioned and sold as a single sale with predetermined cutting blocks, the down payment shall be no less than 15 percent of the appraised price of the entire timber sale which may be held until the satisfactory completion of the sale or applied in whole or in part to the final cutting block. The value of each separate block must be paid in full before any cutting may begin in that block. With the permission of the county administrator the purchaser may enter unpaid blocks and cut necessary timber incidental to developing logging roads as may be needed to log other blocks provided that no timber may be removed from an unpaid block until separately scaled and paid for.

(c) The county board may require final settlement on the basis of a scale of cut products. Any parcels of land from which timber is to be sold by scale of cut products shall be so designated in the published notice of sale above mentioned, in which case the notice shall contain a description of such parcels, a statement of the estimated quantity of each species of timber thereon and the appraised price of each specie of timber for 1,000 feet, per cord or per piece, as the case may be. In such cases any bids offered over and above the appraised prices shall be by percentage, the percent bid to be added to the appraised price of each of the different species of timber advertised on the land. The purchaser of timber from such parcels shall pay in cash at the time of sale at the rate bid for all of the timber shown in the notice of sale as estimated to be standing on the land, and in addition shall pay at the same rate for any additional amounts which the final scale shows to have been cut or was available for cutting on the land at the time of sale under the terms of such sale. Where the final scale of cut products shows that less timber was cut or was available for cutting under terms of such sale than was originally paid for, the excess payment shall be refunded from the forfeited tax sale fund upon the claim of the purchaser, to be audited and allowed by the county board as in case of other claims against the county. No timber, except hardwood pulpwood, may be removed from such parcels of land or other designated landings until scaled by a person or persons designated by the county board and approved by the commissioner of natural resources. Landings other than the parcel of land from which timber is cut may be designated for scaling by the county board by written agreement with the purchaser of the timber. The county board may, by written agreement with the purchaser and with a consumer designated by the purchaser when the timber is sold by the county auditor, and with the approval of the commissioner of natural resources, accept the consumer's scale of cut products delivered at the consumer's landing. No timber shall be removed until fully paid for in cash. Small amounts of timber not exceeding \$3,000 in appraised valuation may be sold for not less than the full appraised value at private sale to individual persons without first publishing notice of sale or calling for bids, provided that in case of such sale involving a total appraised value of more than \$200 the sale shall be made subject to final settlement on the basis of a scale of cut products in the manner above provided and not more than two such sales, directly or indirectly to any individual shall be in effect at one time.

(d) As directed by the county board, the county auditor may lease tax-forfeited land to individuals, corporations or organized subdivisions of the state at public or private vendue, and at such prices and under such terms as the county board may prescribe, for use as cottage and camp

sites and for agricultural purposes and for the purpose of taking and removing of hay, stumpage, sand, gravel, clay, rock, marl, and black dirt therefrom, and for garden sites and other temporary uses provided that no leases shall be for a period to exceed ten years; provided, further that any leases involving a consideration of more than \$1,500 per year, except to an organized subdivision of the state shall first be offered at public sale in the manner provided herein for sale of timber. Upon the sale of any such leased land, it shall remain subject to the lease for not to exceed one year from the beginning of the term of the lease. Any rent paid by the lessee for the portion of the term cut off by such cancellation shall be refunded from the forfeited tax sale fund upon the claim of the lessee, to be audited and allowed by the county board as in case of other claims against the county.

(e) As directed by the county board, the county auditor may lease tax-forfeited land to individuals, corporations, or organized subdivisions of the state at public or private vendue, at such prices and under such terms as the county board may prescribe, for the purpose of taking and removing for use for road construction and other purposes tax-forfeited stockpiled iron-bearing material. The county auditor must determine that the material is needed and suitable for use in the construction or maintenance of a road, tailings basin, settling basin, dike, dam, bank fill, or other works on public or private property, and that the use would be in the best interests of the public. No lease shall exceed ten years. The use of a stockpile for these purposes must first be approved by the commissioner of natural resources. The request shall be deemed approved unless the requesting county is notified to the contrary by the commissioner of natural resources within six months after receipt of a request for approval for use of a stockpile. Once use of a stockpile has been approved, the county may continue to lease it for these purposes until approval is withdrawn by the commissioner of natural resources.

(f) The county auditor, with the approval of the county board is authorized to grant permits, licenses, and leases to tax-forfeited lands for the depositing of stripping, lean ores, tailings, or waste products from mines or ore milling plants, upon such conditions and for such consideration and for such period of time, not exceeding 15 years, as the county board may determine; said permits, licenses, or leases to be subject to approval by the commissioner of natural resources.

(g) Any person who removes any timber from tax-forfeited land before said timber has been scaled and fully paid for as provided in this subdivision is guilty of a misdemeanor.

(h) The county auditor may, with the approval of the county board, and without first offering at public sale, grant leases, for a term not exceeding 25 years, for the removal of peat from tax-forfeited lands upon such terms and conditions as the county board may prescribe. Any lease for the removal of peat from tax-forfeited lands must first be reviewed and approved by the commissioner of natural resources if the lease covers 320 or more acres. No lease for the removal of peat shall be made by the county auditor pursuant to this section without first holding a public hearing on the auditor's intention to lease. One printed notice in a legal newspaper in the county at least ten days before the hearing, and posted notice in the courthouse at least 20 days before the hearing shall be given of the hearing.

Sec. 7. Minnesota Statutes 1996, section 298.24, subdivision 1, is amended to read:

Subdivision 1. (a) For concentrate produced in 1992, 1993, 1994, and 1995 there is imposed upon taconite and iron sulphides, and upon the mining and quarrying thereof, and upon the production of iron ore concentrate therefrom, and upon the concentrate so produced, a tax of \$2.054 per gross ton of merchantable iron ore concentrate produced therefrom.

(b) On concentrates produced in 1997 and thereafter, an additional tax is imposed equal to three cents per gross ton of merchantable iron ore concentrate for each one percent that the iron content of the product exceeds 72 percent, when dried at 212 degrees Fahrenheit.

(c) For concentrates produced in 1996 and subsequent years, the tax rate shall be equal to the preceding year's tax rate plus an amount equal to the preceding year's tax rate multiplied by the percentage increase in the implicit price deflator from the fourth quarter of the second preceding year to the fourth quarter of the preceding year, provided that, for concentrates produced in 1996 only, the increase in the rate of tax imposed under this section over the rate imposed for the

previous year may not exceed four cents per ton. "Implicit price deflator" for the gross national product means the implicit price deflator prepared by the bureau of economic analysis of the United States Department of Commerce.

(e) (d) The tax shall be imposed on the average of the production for the current year and the previous two years. The rate of the tax imposed will be the current year's tax rate. This clause shall not apply in the case of the closing of a taconite facility if the property taxes on the facility would be higher if this clause and section 298.25 were not applicable.

(d) (e) If the tax or any part of the tax imposed by this subdivision is held to be unconstitutional, a tax of \$2.054 per gross ton of merchantable iron ore concentrate produced shall be imposed.

(e) (f) Consistent with the intent of this subdivision to impose a tax based upon the weight of merchantable iron ore concentrate, the commissioner of revenue may indirectly determine the weight of merchantable iron ore concentrate included in fluxed pellets by subtracting the weight of the limestone, dolomite, or olivine derivatives or other basic flux additives included in the pellets from the weight of the pellets. For purposes of this paragraph, "fluxed pellets" are pellets produced in a process in which limestone, dolomite, olivine, or other basic flux additives are combined with merchantable iron ore concentrate. No subtraction from the weight of the pellets shall be allowed for binders, mineral and chemical additives other than basic flux additives, or moisture.

(f) (g) (1) Notwithstanding any other provision of this subdivision, for the first five years of a plant's production of direct reduced ore, the rate of the tax on direct reduced ore is determined under this paragraph two years of a plant's production of direct reduced ore, no tax is imposed under this section. As used in this paragraph, "direct reduced ore" is ore that results in a product that has an iron content of at least 75 percent. For the third year of a plant's production of direct reduced ore, the rate to be applied to direct reduced ore is 25 percent of the rate otherwise determined under this subdivision for the first 500,000 of taxable tons for the production year, and 50 percent of the rate otherwise determined for any remainder. If the taxpayer had no production in the two years prior to the current production year, the tonnage eligible to be taxed at 25 percent of the rate otherwise determined under this subdivision is the first 166,667 tons. If the taxpayer had some production in the year prior to the current production year but no production in the second prior year, the tonnage eligible to be taxed at 25 percent of the rate otherwise determined under this subdivision is the first 333,333 tons. For the fourth such production year, the rate is 50 percent of the rate otherwise determined under this subdivision; for the fifth such production year, the rate is 75 percent of the rate otherwise determined under this subdivision; and for all subsequent production years, the full rate is imposed.

(2) Subject to clause (1), production of direct reduced ore in this state is subject to the tax imposed by this section, but if that production is not produced by a producer of taconite or iron sulfides, the production of taconite or iron sulfides consumed in the production of direct reduced iron in this state is not subject to the tax imposed by this section on taconite or iron sulfides.

Sec. 8. Minnesota Statutes 1996, section 298.28, subdivision 9a, is amended to read:

Subd. 9a. [TACONITE ECONOMIC DEVELOPMENT FUND.] (a) 15.4 cents per ton for distributions in 1996, 1998, and 1999 and 20.4 cents per ton for distributions in 1997, 1998, and 1999 shall be paid to the taconite economic development fund. No distribution shall be made under this paragraph in any year in which total industry production falls below 30 million tons.

(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. 9. Minnesota Statutes 1996, section 298.28, is amended by adding a subdivision to read:

Subd. 9b. [TACONITE ENVIRONMENTAL FUND.] Five cents per ton for distributions in

1998 and 1999 shall 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.

Sec. 10. Minnesota Statutes 1996, section 298.296, subdivision 4, is amended to read:

Subd. 4. [TEMPORARY LOAN AUTHORITY.] (a) The board may recommend that up to ~~\$10,000,000~~ \$7,500,000 from the corpus of the trust may be used for loans as provided in this subdivision. The money would be available for loans for construction and equipping of facilities constituting (1) a value added iron products plant, which may be either a new plant or a facility incorporated into an existing plant that produces iron upgraded to a minimum of 75 percent iron content or any iron alloy with a total minimum metallic content of 90 percent; or (2) a new mine or minerals processing plant for any mineral subject to the net proceeds tax imposed under section 298.015. A loan under this paragraph may not exceed \$5,000,000 for any facility.

(b) Additionally, the board must reserve the first \$2,000,000 of the net interest, dividends, and earnings arising from the investment of the trust after June 30, 1996, to be used for additional grants for the purposes set forth in paragraph (a). This amount must be reserved until it is used for the grants or until June 30, 1998, whichever is earlier.

(c) Additionally, the board may recommend that up to ~~\$3,000,000~~ \$5,500,000 from the corpus of the trust may be used for additional grants for the purposes set forth in paragraph (a).

(d) The board may require that it receive an equity percentage in any project to which it contributes under this section.

(e) The authority to make loans and grants under this subdivision terminates June 30, 1998.

Sec. 11. Minnesota Statutes 1996, section 298.2961, subdivision 1, is amended to read:

Subdivision 1. [APPROPRIATION.] (a) \$10,000,000 is appropriated from the northeast Minnesota economic protection trust fund to a special account in the taconite area environmental protection fund for grants or loans to producers on a project-by-project basis as provided in this section.

(b) The proceeds of the tax designated under section 298.28, subdivision 9b, are appropriated for grants and loans to producers on a project-by-project basis as provided in this section.

Sec. 12. Minnesota Statutes 1996, section 298.75, subdivision 1, is amended to read:

Subdivision 1. [DEFINITIONS.] Except as may otherwise be provided, the following words, when used in this section, shall have the meanings herein ascribed to them.

(1) "Aggregate material" shall mean nonmetallic natural mineral aggregate including, but not limited to sand, silica sand, gravel, building stone, crushed rock, limestone, and granite. Aggregate material shall not include dimension stone and dimension granite. Aggregate material must be measured or weighed after it has been extracted from the pit, quarry, or deposit.

(2) "Person" shall mean any individual, firm, partnership, corporation, organization, trustee, association, or other entity.

(3) "Operator" shall mean any person engaged in the business of removing aggregate material from the surface or subsurface of the soil, for the purpose of sale, either directly or indirectly, through the use of the aggregate material in a marketable product or service.

(4) "Extraction site" shall mean a pit, quarry, or deposit containing aggregate material and any contiguous property to the pit, quarry, or deposit which is used by the operator for stockpiling the aggregate material.

(5) "Importer" shall mean any person who buys aggregate material produced from a county not listed in paragraph (6) or another state and causes the aggregate material to be imported into a county in this state which imposes a tax on aggregate material.

(6) "County" shall mean the counties of Pope, Stearns, Benton, Sherburne, Carver, Scott, Dakota, Le Sueur, Kittson, Marshall, Pennington, Red Lake, Polk, Norman, Mahnommen, Clay, Becker, Carlton, St. Louis, Rock, Murray, Wilkin, Big Stone, Sibley, Hennepin, Washington, Chisago, and Ramsey.

Sec. 13. Minnesota Statutes 1996, section 298.75, subdivision 4, is amended to read:

Subd. 4. If the county auditor has not received the report by the 15th day after the last day of each calendar quarter from the operator or importer as required by subdivision 3 or has received an erroneous report, the county auditor shall estimate the amount of tax due and notify the operator or importer by registered mail of the amount of tax so estimated within the next 14 days. An operator or importer may, within 30 days from the date of mailing the notice, and upon payment of the amount of tax determined to be due, file in the office of the county auditor a written statement of objections to the amount of taxes determined to be due. The statement of objections shall be deemed to be a petition within the meaning of chapter 278, and shall be governed by sections 278.02 to 278.13.

Sec. 14. Minnesota Statutes 1996, section 298.75, is amended by adding a subdivision to read:

Subd. 8. The county auditor or its duly authorized agent may examine records, including computer records, maintained by an importer or operator. The term "record" includes, but is not limited to, all accounts of an importer or operator. The county auditor must have access at all reasonable times to inspect and copy all business records related to an importer's or operator's collection, transportation, and disposal of aggregate to the extent necessary to ensure that all aggregate material production taxes required to be paid have been remitted to the county. The records must be maintained by the importer or operator for no less than six years.

Sec. 15. [ST. LOUIS COUNTY TOWNS.]

Subdivision 1. [TAX MAY BE IMPOSED; CONDITIONS.] If the St. Louis county board does not approve section 12, as provided in section 18, each of the following towns in St. Louis county may impose the aggregate materials tax under Minnesota Statutes, section 298.75: the towns of Alden, Brevator, Canosia, Duluth, Fredenberg, Gnesen, Grand Lake, Industrial, Lakewood, Midway, Normanna, North Star, Rice Lake, and Solway.

Subd. 2. [PROVISIONS THAT APPLY.] For purposes of exercising the powers contained in Minnesota Statutes, section 298.75, the "town" is deemed to be the "county."

In those towns located in St. Louis County that impose the tax under Minnesota Statutes, section 298.75, all provisions in that section shall apply to those towns, except that in lieu of the distribution of the tax proceeds under subdivision 7, all proceeds from this tax shall be retained by each of the towns that impose the tax.

Subd. 3. [APPROVAL.] A tax imposed under this section is effective in the town that approves it the day after compliance by the town with the requirements of Minnesota Statutes, section 645.021, subdivision 3.

Sec. 16. [USE OF PRODUCTION TAX PROCEEDS.]

The amount distributed to the iron range resources and rehabilitation board under Minnesota Statutes, section 298.28, subdivision 7, that is attributable to the tax increase due to the implicit price deflator increase as provided in Minnesota Statutes, section 298.24, subdivision 1, paragraph (c), for concentrates produced in 1997 shall be used by the board to make a grant to the city of Hoyt Lakes to be used for the establishment of an industrial park in the city.

Sec. 17. [SALES OF LANDS BY SCOTT COUNTY; AGGREGATE MATERIALS.]

Minerals subject to reservation by Scott county under Minnesota Statutes, section 373.01, subdivision 1, clause (1), do not include minerals defined as aggregate material by Minnesota Statutes, section 298.75, subdivision 1, that are present in and upon the following described property:

All that part of the East Half of the Southwest Quarter in Section 33, Township 115, Range 23, Scott County MN; which lies westerly of the westerly right of way line of the Chicago, St. Paul, Minneapolis, and Omaha Railway Company (Chicago and NorthWestern Railway),

Together with all that part of the East Half of the Southwest Quarter of Section 33, Township 115, Range 23, Scott County, MN; lying easterly of the easterly right of way line of the Chicago, St. Paul, Minneapolis and Omaha Railway Company (Chicago and NorthWestern Railway); and all that part of the West Half of the Southeast Quarter of said Section 33 lying westerly of the westerly right of way line of the Minneapolis and St. Louis Railroad; excepting therefrom the following described parcel:

EXCEPTION:

Commencing at the Southwest corner of the Southeast Quarter of said Section 33; thence on an assumed bearing of North 87 degrees 25 minutes 08 seconds East along the South line of said Southeast Quarter a distance of 501.49 feet; thence North 02 degrees 24 minutes 52 seconds West a distance of 750.00 feet; thence South 87 degrees 12 minutes 56 seconds East a distance of 750.00 feet; thence South 02 degrees 34 minutes 52 seconds East a distance of 750.00 feet to the South line of said East Half of the Southwest Quarter; thence North 86 degrees 48 minutes 19 seconds East along said South line of the East Half of the Southwest Quarter a distance of 248.52 feet to the point of beginning.

Together with Tract A, Registered Land Survey Number 86; and Tract C, Registered Land Survey Number 136; as filed in the office of the Registrar of Titles, Scott County, Minnesota.

The county may sell, lease, or convey the property and except the aggregate material from the mineral reservation required by Minnesota Statutes, section 373.01, subdivision 1, and it may lease the aggregate material upon conditions different from those prescribed by that subdivision.

Sec. 18. [EFFECTIVE DATE.]

Section 7 is effective for production years beginning after December 31, 1996.

Section 12 is effective for Pope county the day after compliance by Pope county with the requirements of Minnesota Statutes, section 645.021, subdivision 3.

Section 12 is effective for Carlton county the day after compliance by Carlton county with the requirements of Minnesota Statutes, section 645.021, subdivision 3.

Section 12 is effective for St. Louis county the day after compliance by St. Louis county with the requirements of Minnesota Statutes, section 645.021, subdivision 3.

Sections 16 and 17 are effective the day following final enactment.

**ARTICLE 9**

**BUDGET RESERVE**

Section 1. Minnesota Statutes 1996, section 16A.152, subdivision 2, is amended to read:

Subd. 2. [ADDITIONAL REVENUES; PRIORITY.] If on the basis of a forecast of general fund revenues and expenditures after November 1 in an odd-numbered year, the commissioner of finance determines that there will be a positive unrestricted budgetary general fund balance at the close of the biennium, the commissioner of finance must allocate money to the budget reserve until the total amount in the account is \$270,000,000. An amount equal to any additional biennial unrestricted budgetary general fund balance made available as the result of a forecast in an odd-numbered calendar year after November 1 is appropriated in January of the following year to reduce the property tax levy recognition percent under section 121.904, subdivision 4a, to zero before additional money beyond \$270,000,000 is allocated to the budget reserve account. The amount appropriated is the full amount forecast to be available at the end of the biennium and is not limited to the amount forecast to be available at the end of the current fiscal year as follows:

- (a) first, to the budget reserve until the total amount in the account equals \$522,000,000; then
- (b) 60 percent to the property tax reform account established in section 16A.1521; and
- (c) 40 percent is an unrestricted balance in the general fund.

The amounts necessary to meet the requirements of this section are appropriated from the general fund within two weeks after the forecast is released.

Sec. 2. [16A.1521] [PROPERTY TAX REFORM ACCOUNT.]

- (a) A property tax reform account is established in the general fund.
- (b) Amounts in the account are available for and may only be spent to reform the property tax system by:
  - (1) reducing the class rates to the target rates specified in section 273.13, subdivision 32, or to further reduce the ratio of the highest class rate to lowest class rate;
  - (2) increasing state education aids to reduce property taxes;
  - (3) increasing the state share of education funding to 70 percent;
  - (4) increasing the education homestead credit; or
  - (5) increasing the property tax refund.

As provided by section 273.13, subdivision 32, the governor shall recommend to the legislature uses of money in the account to compress class rate ratios, while mitigating the shifting of relative property tax burdens from one class to another through the mechanisms listed in clauses (2) through (5).

(c) The balance in the account does not cancel and remains in the account until appropriated for property tax reform. Investment earnings on the account are credited to the account.

Sec. 3. Minnesota Statutes 1996, section 124.195, subdivision 7, is amended to read:

Subd. 7. [PAYMENTS TO SCHOOL NONOPERATING FUNDS.] Each fiscal year state general fund payments for a district nonoperating fund shall be made at 85 percent of the estimated entitlement during the fiscal year of the entitlement, ~~unless a higher rate has been established according to section 121.904, subdivision 4d.~~ This amount shall be paid in 12 equal monthly installments. The amount of the actual entitlement, after adjustment for actual data, minus the payments made during the fiscal year of the entitlement shall be paid prior to October 31 of the following school year. The commissioner may make advance payments of homestead and agricultural credit aid for a district's debt service fund earlier than would occur under the preceding schedule if the district submits evidence showing a serious cash flow problem in the fund. The commissioner may make earlier payments during the year and, if necessary, increase the percent of the entitlement paid to reduce the cash flow problem.

Sec. 4. Minnesota Statutes 1996, section 124.195, subdivision 10, is amended to read:

Subd. 10. [AID PAYMENT PERCENTAGE.] Except as provided in subdivisions 8, 9, and 11, each fiscal year, all education aids and credits in this chapter and chapters 121, 123, 124A, 124B, 125, 126, 134, and section 273.1392, shall be paid at 90 percent for districts operating a program under section 121.585 for grades 1 to 12 for all students in the district and 85 percent for other districts of the estimated entitlement during the fiscal year of the entitlement, ~~unless a higher rate has been established according to section 121.904, subdivision 4d.~~ Districts operating a program under section 121.585 for grades 1 to 12 for all students in the district shall receive 85 percent of the estimated entitlement plus an additional amount of general education aid equal to five percent of the estimated entitlement. For all districts, the final adjustment payment, according to subdivision 6, shall be the amount of the actual entitlement, after adjustment for actual data, minus the payments made during the fiscal year of the entitlement.

## Sec. 5. [APPROPRIATIONS.]

Subdivision 1. [BUDGET RESERVE.] An amount sufficient to increase the budget reserve to \$522,000,000 on July 1, 1997, is appropriated from the general fund.

Subd. 2. [PROPERTY REFORM ACCOUNT.] \$46,000,000 is appropriated to the property tax reform account from the general fund for fiscal year 2000.

## Sec. 6. [REPEALER.]

Minnesota Statutes 1996, section 121.904, subdivision 4d, is repealed.

## Sec. 7. [EFFECTIVE DATE.]

Sections 1 to 6 are effective July 1, 1997.

## ARTICLE 10

## TAX INCREMENT FINANCING

Section 1. Minnesota Statutes 1996, section 469.174, subdivision 10, is amended to read:

Subd. 10. [REDEVELOPMENT DISTRICT.] (a) "Redevelopment district" means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one of the following conditions, reasonably distributed throughout the district, exists:

(1) parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, or other improvements and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance; or

(2) the property consists of vacant, unused, underused, inappropriately used, or infrequently used railyards, rail storage facilities, or excessive or vacated railroad rights-of-way.

(b) For purposes of this subdivision, "structurally substandard" shall mean containing defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection including adequate egress, layout and condition of interior partitions, or similar factors, which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

(c) A building is not structurally substandard if it is in compliance with the building code applicable to new buildings or could be modified to satisfy the building code at a cost of less than 15 percent of the cost of constructing a new structure of the same square footage and type on the site. The municipality may find that a building is not disqualified as structurally substandard under the preceding sentence on the basis of reasonably available evidence, such as the size, type, and age of the building, the average cost of plumbing, electrical, or structural repairs, or other similar reliable evidence. ~~If the evidence supports a reasonable conclusion that the building is not disqualified as structurally substandard,~~ The municipality may not make such a determination without an interior inspection ~~of~~ of the property, but need not have an independent, expert appraisal prepared of the cost of repair and rehabilitation of the building. An interior inspection of the property is not required, if the municipality finds that (1) the municipality or authority is unable to gain access to the property after using its best efforts to obtain permission from the party that owns or controls the property; and (2) the evidence otherwise supports a reasonable conclusion that the building is structurally substandard. Items of evidence that support such a conclusion include recent fire or police inspections, on-site property tax appraisals or housing inspections, exterior evidence of deterioration, or other similar reliable evidence. Written documentation of the findings and reasons why an interior inspection was not conducted must be made and retained under section 469.175, subdivision 3, clause (1).

(d) A parcel is deemed to be occupied by a structurally substandard building for purposes of the finding under paragraph (a) if all of the following conditions are met:



(1) the parcel was occupied by a substandard building within three years of the filing of the request for certification of the parcel as part of the district with the county auditor;

(2) the substandard building was demolished or removed by the authority or the demolition or removal was financed by the authority or was done by a developer under a development agreement with the authority;

(3) the authority found by resolution before the demolition or removal that the parcel was occupied by a structurally substandard building and that after demolition and clearance the authority intended to include the parcel within a district; and

(4) upon filing the request for certification of the tax capacity of the parcel as part of a district, the authority notifies the county auditor that the original tax capacity of the parcel must be adjusted as provided by section 469.177, subdivision 1, paragraph (h).

(e) For purposes of this subdivision, a parcel is not occupied by buildings, streets, utilities, or other improvements unless 15 percent of the area of the parcel contains improvements.

(f) For districts consisting of two or more noncontiguous areas, each area must qualify as a redevelopment district under paragraph (a) to be included in the district, and the entire area of the district must satisfy paragraph (a).

Sec. 2. Minnesota Statutes 1996, section 469.174, is amended by adding a subdivision to read:

Subd. 25. [INCREMENT.] "Increment," "tax increment," "tax increment revenues," "revenues derived from tax increment," and other similar terms for a district include:

(1) taxes paid by the captured net tax capacity, but excluding any excess taxes, as computed under section 469.177;

(2) the proceeds from the sale or lease of property, tangible or intangible, purchased by the authority with tax increments;

(3) repayments of loans or other advances made by the authority with tax increments; and

(4) interest or other investment earnings on or from tax increments.

Sec. 3. Minnesota Statutes 1996, section 469.174, is amended by adding a subdivision to read:

Subd. 26. [POPULATION.] "Population" means the population established as of December 31 by the most recent of the following:

(1) the federal census;

(2) a special census conducted under contract with the United States Bureau of the Census;

(3) a population estimate made by the metropolitan council; and

(4) a population estimate made by the state demographer under section 4A.02.

The population so established applies to the following calendar year.

Sec. 4. Minnesota Statutes 1996, section 469.174, is amended by adding a subdivision to read:

Subd. 27. [SMALL CITY.] "Small city" means any home rule charter or statutory city that has a population of 5,000 or less and that is located ten miles or more from a home rule charter or statutory city, located in this state, with a population of 10,000 or more. For purposes of this definition, the distance between cities is measured by drawing a straight line from the nearest boundaries of the two cities.

Sec. 5. Minnesota Statutes 1996, section 469.175, subdivision 3, is amended to read:

Subd. 3. [MUNICIPALITY APPROVAL.] A county auditor shall not certify the original net

tax capacity of a tax increment financing district until the tax increment financing plan proposed for that district has been approved by the municipality in which the district is located. If an authority that proposes to establish a tax increment financing district and the municipality are not the same, the authority shall apply to the municipality in which the district is proposed to be located and shall obtain the approval of its tax increment financing plan by the municipality before the authority may use tax increment financing. The municipality shall approve the tax increment financing plan only after a public hearing thereon after published notice in a newspaper of general circulation in the municipality at least once not less than ten days nor more than 30 days prior to the date of the hearing. The published notice must include a map of the area of the district from which increments may be collected and, if the project area includes additional area, a map of the project area in which the increments may be expended. The hearing may be held before or after the approval or creation of the project or it may be held in conjunction with a hearing to approve the project. Before or at the time of approval of the tax increment financing plan, the municipality shall make the following findings, and shall set forth in writing the reasons and supporting facts for each determination:

(1) that the proposed tax increment financing district is a redevelopment district, a renewal or renovation district, a mined underground space development district, a housing district, a soils condition district, or an economic development district; if the proposed district is a redevelopment district or a renewal or renovation district, the reasons and supporting facts for the determination that the district meets the criteria of section 469.174, subdivision 10, paragraph (a), clauses (1) and (2), or subdivision 10a, must be documented in writing and retained and made available to the public by the authority until the district has been terminated.

(2) that the proposed development or redevelopment, in the opinion of the municipality, would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future and that the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by the plan. The requirements of this clause do not apply if the district is a qualified housing district, as defined in section 273.1399, subdivision 1.

(3) that the tax increment financing plan conforms to the general plan for the development or redevelopment of the municipality as a whole.

(4) that the tax increment financing plan will afford maximum opportunity, consistent with the sound needs of the municipality as a whole, for the development or redevelopment of the project by private enterprise.

(5) that the municipality elects the method of tax increment computation set forth in section 469.177, subdivision 3, clause (b), if applicable.

When the municipality and the authority are not the same, the municipality shall approve or disapprove the tax increment financing plan within 60 days of submission by the authority, or the plan shall be deemed approved. When the municipality and the authority are not the same, the municipality may not amend or modify a tax increment financing plan except as proposed by the authority pursuant to subdivision 4. Once approved, the determination of the authority to undertake the project through the use of tax increment financing and the resolution of the governing body shall be conclusive of the findings therein and of the public need for the financing.

Sec. 6. Minnesota Statutes 1996, section 469.176, subdivision 1b, is amended to read:

Subd. 1b. [DURATION LIMITS; TERMS.] (a) No tax increment shall in any event be paid to the authority

(1) after 25 years from date of receipt by the authority of the first tax increment for a mined underground space development district,

(2) after 15 years after receipt by the authority of the first increment for a renewal and renovation district,

(3) after ~~12~~ 20 years from approval of the tax increment financing plan after receipt by the authority of the first increment for a soils condition district,

(4) after nine years from the date of the receipt, or 11 years from approval of the tax increment financing plan, whichever is less, for an economic development district,

(5) for a housing district or a redevelopment district, after 20 years from the date of receipt by the authority of the first tax increment by the authority pursuant to section 469.175, subdivision 1, paragraph (b); or, if no provision is made under section 469.175, subdivision 1, paragraph (b), after 25 years from the date of receipt by the authority of the first increment.

(b) For purposes of determining a duration limit under this subdivision or subdivision 1e that is based on the receipt of an increment, any increments from taxes payable in the year in which the district terminates shall be paid to the authority. This paragraph does not affect a duration limit calculated from the date of approval of the tax increment financing plan or based on the recovery of costs or to a duration limit under subdivision 1c. This paragraph does not supersede the restrictions on payment of delinquent taxes in subdivision 1f.

Sec. 7. Minnesota Statutes 1996, section 469.176, subdivision 4c, is amended to read:

Subd. 4c. [ECONOMIC DEVELOPMENT DISTRICTS.] (a) Revenue derived from tax increment from an economic development district may not be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form to developments consisting of buildings and ancillary facilities, if more than 15 percent of the buildings and facilities (determined on the basis of square footage) are used for a purpose other than:

(1) the manufacturing or production of tangible personal property, including processing resulting in the change in condition of the property;

(2) warehousing, storage, and distribution of tangible personal property, excluding retail sales;

(3) research and development related to the activities listed in clause (1) or (2);

(4) telemarketing if that activity is the exclusive use of the property;

(5) tourism facilities; or

(6) qualified border retail facilities;

(7) space necessary for and related to the activities listed in clauses (1) to (5) (6).

(b) Notwithstanding the provisions of this subdivision, revenue derived from tax increment from an economic development district may be used to pay for site preparation and public improvements, if the following conditions are met:

(1) bedrock soils conditions are present in 80 percent or more of the acreage of the district;

(2) the estimated cost of physical preparation of the site exceeds the fair market value of the land before completion of the preparation; and

(3) revenues from tax increments are expended only for the additional costs of preparing the site because of unstable soils and the bedrock soils condition, the additional cost of installing public improvements because of unstable soils or the bedrock soils condition, and reasonable administrative costs.

(c) Notwithstanding the provisions of this subdivision, revenues derived from tax increment from an economic development district may be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form for up to 15,000 square feet of any separately owned commercial facility located within the municipal jurisdiction of a small city, if the revenues derived from increments are spent only to assist the facility directly or for administrative expenses, the assistance is necessary to develop the facility, and all of the increments, except those for administrative expenses, are spent only for activities within the district.

(d) For purposes of this subdivision, a qualified border retail facility is a development consisting of a shopping center or one or more retail stores, if the authority finds that all of the following conditions are satisfied:

- (1) the district is in a small city located within one mile or less of the border of the state;
- (2) the development is not located in the seven county metropolitan area, as defined in section 473.121, subdivision 2;
- (3) the development will contain new buildings or will substantially rehabilitate existing buildings that together contain at least 25,000 square feet of retail space; and
- (4) without the use of tax increment financing for the development, the development or a similar competing development will instead occur in the bordering state or province.

(e) A city is a small city for purposes of this subdivision if the city was a small city in the year in which the request for certification was made and applies for the rest of the duration of the district, regardless of whether the city qualifies or ceases to qualify as a small city.

Sec. 8. Minnesota Statutes 1996, section 469.176, subdivision 4j, is amended to read:

Subd. 4j. [REDEVELOPMENT DISTRICTS.] At least 90 percent of the revenues derived from tax increments from a redevelopment district or renewal and renovation district must be used to finance the cost of correcting conditions that allow designation of redevelopment and renewal and renovation districts under section 469.174. These costs include, but are not limited to, acquiring properties containing structurally substandard buildings or improvements or hazardous substances, pollution, or contaminants, acquiring adjacent parcels necessary to provide a site of sufficient size to permit development, demolition and rehabilitation of structures, clearing of the land, the removal of hazardous substances or remediation necessary to development of the land, and installation of utilities, roads, sidewalks, and parking facilities for the site. The allocated administrative expenses of the authority, including the cost of preparation of the development action response plan, may be included in the qualifying costs.

Sec. 9. Minnesota Statutes 1996, section 469.176, subdivision 5, is amended to read:

Subd. 5. [REQUIREMENT FOR AGREEMENTS.] No more than 25 percent, by acreage, of the property to be acquired within a project which contains a redevelopment district, or ten percent, by acreage, of the property to be acquired within a project which contains a housing or economic development district, as set forth in the tax increment financing plan, shall at any time be owned by an authority as a result of acquisition with the proceeds of bonds issued pursuant to section 469.178 to which tax increment from the property acquired is pledged unless prior to acquisition in excess of the percentages, the authority has concluded an agreement for the development or redevelopment of the property acquired and which provides recourse for the authority should the development or redevelopment not be completed. This subdivision does not apply to a parcel of a district that is a designated hazardous substance site established under section 469.174, subdivision 16, or part of a hazardous substance subdistrict established under section 469.175, subdivision 7.

Sec. 10. Minnesota Statutes 1996, section 469.177, subdivision 1, is amended to read:

Subdivision 1. [ORIGINAL NET TAX CAPACITY.] (a) Upon or after adoption of a tax increment financing plan, the auditor of any county in which the district is situated shall, upon request of the authority, certify the original net tax capacity of the tax increment financing district and that portion of the district overlying any subdistrict as described in the tax increment financing plan and shall certify in each year thereafter the amount by which the original net tax capacity has increased or decreased as a result of a change in tax exempt status of property within the district and any subdistrict, reduction or enlargement of the district or changes pursuant to subdivision 4.

(b) In the case of a mined underground space development district the county auditor shall certify the original net tax capacity as zero, plus the net tax capacity, if any, previously assigned to any subsurface area included in the mined underground space development district pursuant to section 272.04.

(c) For districts approved under section 469.175, subdivision 3, or parcels added to existing districts after May 1, 1988, if the classification under section 273.13 of property located in a district changes to a classification that has a different assessment ratio, the original net tax capacity of that property must be redetermined at the time when its use is changed as if the property had originally been classified in the same class in which it is classified after its use is changed.

(d) The amount to be added to the original net tax capacity of the district as a result of previously tax exempt real property within the district becoming taxable equals the net tax capacity of the real property as most recently assessed pursuant to section 273.18 or, if that assessment was made more than one year prior to the date of title transfer rendering the property taxable, the net tax capacity assessed by the assessor at the time of the transfer. If substantial taxable improvements were made to a parcel after certification of the district and if the property later becomes tax exempt, in whole or part, as a result of the authority acquiring the property through foreclosure or exercise of remedies under a lease or other revenue agreement or as a result of tax forfeiture, the amount to be added to the original net tax capacity of the district as a result of the property again becoming taxable is the amount of the parcel's value that was included in original net tax capacity when the parcel was first certified. The amount to be added to the original net tax capacity of the district as a result of enlargements equals the net tax capacity of the added real property as most recently certified by the commissioner of revenue as of the date of modification of the tax increment financing plan pursuant to section 469.175, subdivision 4.

(e) For districts approved under section 469.175, subdivision 3, or parcels added to existing districts after May 1, 1988, if the net tax capacity of a property increases because the property no longer qualifies under the Minnesota agricultural property tax law, section 273.111; the Minnesota open space property tax law, section 273.112; or the metropolitan agricultural preserves act, chapter 473H, or because platted, unimproved property is improved or three years pass after approval of the plat under section 273.11, subdivision 1, the increase in net tax capacity must be added to the original net tax capacity.

(f) Each year the auditor shall also add to the original net tax capacity of each economic development district an amount equal to the original net tax capacity for the preceding year multiplied by the average percentage increase in the market value of all property included in the economic development district during the five years prior to certification of the district. In computing the average percentage increase in market value, the auditor shall exclude the market value, as estimated by the assessor, that is attributable to new construction; extension of sewer, water, roads, or other public utilities; or platting of the land.

(g) The amount to be subtracted from the original net tax capacity of the district as a result of previously taxable real property within the district becoming tax exempt, or a reduction in the geographic area of the district, shall be the amount of original net tax capacity initially attributed to the property becoming tax exempt or being removed from the district. If the net tax capacity of property located within the tax increment financing district is reduced by reason of a court-ordered abatement, stipulation agreement, voluntary abatement made by the assessor or auditor or by order of the commissioner of revenue, the reduction shall be applied to the original net tax capacity of the district when the property upon which the abatement is made has not been improved since the date of certification of the district and to the captured net tax capacity of the district in each year thereafter when the abatement relates to improvements made after the date of certification. The county auditor may specify reasonable form and content of the request for certification of the authority and any modification thereof pursuant to section 469.175, subdivision 4.

(h) If a parcel of property contained a substandard building that was demolished or removed and if the authority elects to treat the parcel as occupied by a substandard building under section 469.174, subdivision 10, paragraph (b), the auditor shall certify the original net tax capacity of the parcel using the greater of (1) the current net tax capacity of the parcel, or (2) the estimated market value of the parcel for the year in which the building was demolished or removed, but applying the class rates for the current year.

Sec. 11. Minnesota Statutes 1996, section 469.177, subdivision 3, is amended to read:

Subd. 3. [TAX INCREMENT, RELATIONSHIP TO CHAPTERS 276A AND 473F.] (a)

Unless the governing body elects pursuant to clause (b) the following method of computation shall apply to a district other than an economic development district for which the request for certification was made after June 30, 1997:

(1) The original net tax capacity and the current net tax capacity shall be determined before the application of the fiscal disparity provisions of chapter 276A or 473F. Where the original net tax capacity is equal to or greater than the current net tax capacity, there is no captured net tax capacity and no tax increment determination. Where the original net tax capacity is less than the current net tax capacity, the difference between the original net tax capacity and the current net tax capacity is the captured net tax capacity. This amount less any portion thereof which the authority has designated, in its tax increment financing plan, to share with the local taxing districts is the retained captured net tax capacity of the authority.

(2) The county auditor shall exclude the retained captured net tax capacity of the authority from the net tax capacity of the local taxing districts in determining local taxing district tax rates. The local tax rates so determined are to be extended against the retained captured net tax capacity of the authority as well as the net tax capacity of the local taxing districts. The tax generated by the extension of the lesser of (A) the local taxing district tax rates or (B) the original local tax rate to the retained captured net tax capacity of the authority is the tax increment of the authority.

(b) The following method of computation applies to any economic development district for which the request for certification was made after June 30, 1997, and to any other district for which the governing body may, by resolution approving the tax increment financing plan pursuant to section 469.175, subdivision 3, elect the following method of computation elects:

(1) The original net tax capacity shall be determined before the application of the fiscal disparity provisions of chapter 276A or 473F. The current net tax capacity shall exclude any fiscal disparity commercial-industrial net tax capacity increase between the original year and the current year multiplied by the fiscal disparity ratio determined pursuant to section 276A.06, subdivision 7, or 473F.08, subdivision 6. Where the original net tax capacity is equal to or greater than the current net tax capacity, there is no captured net tax capacity and no tax increment determination. Where the original net tax capacity is less than the current net tax capacity, the difference between the original net tax capacity and the current net tax capacity is the captured net tax capacity. This amount less any portion thereof which the authority has designated, in its tax increment financing plan, to share with the local taxing districts is the retained captured net tax capacity of the authority.

(2) The county auditor shall exclude the retained captured net tax capacity of the authority from the net tax capacity of the local taxing districts in determining local taxing district tax rates. The local tax rates so determined are to be extended against the retained captured net tax capacity of the authority as well as the net tax capacity of the local taxing districts. The tax generated by the extension of the lesser of (A) the local taxing district tax rates or (B) the original local tax rate to the retained captured net tax capacity of the authority is the tax increment of the authority.

(3) An election by the governing body pursuant to paragraph (b) shall be submitted to the county auditor by the authority at the time of the request for certification pursuant to subdivision 1.

(c) The method of computation of tax increment applied to a district pursuant to paragraph (a) or (b) shall remain the same for the duration of the district, except that the governing body may elect to change its election from the method of computation in paragraph (a) to the method in paragraph (b).

Sec. 12. Laws 1995, chapter 264, article 5, section 44, subdivision 4, as amended by Laws 1996, chapter 471, article 7, section 21, is amended to read:

Subd. 4. [AUTHORITY.] For housing replacement projects in the city of Crystal, "authority" means the Crystal economic development authority. For housing replacement projects in the city of Fridley, "authority" means the housing and redevelopment authority in and for the city of Fridley or a successor in interest. For housing replacement projects in the city of Minneapolis, "authority" means the Minneapolis community development agency. For housing replacement

projects in the city of St. Paul, "authority" means the St. Paul housing and redevelopment authority. For housing replacement projects in the city of Duluth, "authority" means the Duluth economic development authority. For housing replacement projects in the city of Richfield, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Richfield. For housing replacement projects in the city of Columbia Heights, "authority" is the authority as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by the governing body of the city of Columbia Heights.

Sec. 13. Laws 1995, chapter 264, article 5, section 45, subdivision 1, as amended by Laws 1996, chapter 471, article 7, section 22, 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, and 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 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. 14. [CITY OF BROOKLYN CENTER; USE OF TAX INCREMENT FINANCING.]

Subdivision 1. [APPLICATION OF TIME LIMIT.] For tax increment financing district number 3, established on December 19, 1994, by Brooklyn Center Resolution No. 94-273, Minnesota Statutes, section 469.1763, subdivision 3, applies to the district by permitting a period of ten years for commencement of activities within the district.

Subd. 2. [EFFECTIVE DATE.] This section is effective upon approval by the governing body of the city of Brooklyn Center and compliance with Minnesota Statutes, section 645.021, subdivision 3.

Sec. 15. [CITY OF BUFFALO LAKE; TAX INCREMENT FINANCING DISTRICT.]

Subdivision 1. [EXTENSION OF TIME FOR CERTIFICATION.] Notwithstanding the provisions of Minnesota Statutes, section 273.1399, subdivision 6, paragraph (b), clause (2), tax increment financing district 1-1 in the city of Buffalo Lake is an exempt district under Minnesota Statutes, section 273.1399, paragraph (b), if the facility is certified by the commissioner of agriculture by December 31, 1998.

Subd. 2. [EFFECTIVE DATE.] This section is effective upon approval by the governing body of the city of Buffalo Lake and compliance with Minnesota Statutes, section 645.021, subdivision 3.

Sec. 16. [GAYLORD.]

Subdivision 1. [TIF DISTRICT EXTENSION AND EXPANSION.]

Notwithstanding the provisions of Minnesota Statutes, section 469.176, subdivision 1c, the city of Gaylord may, by resolution, extend the duration of a tax increment financing district originally certified in 1978. The city may not extend the duration beyond December 31, 2008.

Subd. 2. [EFFECTIVE DATE.] This section is effective upon compliance with the requirements of Minnesota Statutes, sections 469.1782 and 645.021.

Sec. 17. [DEFINITIONS.]

Subdivision 1. [APPLICABILITY.] As used in sections 17 to 19, the terms defined in this section have the meanings given them.

Subd. 2. [AUTHORITY.] "Authority" or "authorities" means the Minneapolis public housing authority and the Minneapolis community development agency if and to the extent that the governing body has delegated to either the powers and duties hereunder pursuant to section 18, subdivision 4, paragraph (b).

Subd. 3. [CAPTURED NET TAX CAPACITY.] "Captured net tax capacity" means the amount by which the current net tax capacity of the housing transition district exceeds the original net tax capacity, including the value of property normally taxable as personal property by reason of its location on or over property owned by a tax exempt entity.

Subd. 4. [CITY.] "City" means the city of Minneapolis, Minnesota.

Subd. 5. [CONSENT DECREE.] "Consent decree" means the order of the United States District Court issued in connection with Hollman et. al. vs. Cisneros et. al., United States District Court, Civil Case 4-92-712, as may be amended from time to time.

Subd. 6. [COUNTY AUDITOR.] "County auditor" means the county auditor of Hennepin county, Minnesota.

Subd. 7. [GOVERNING BODY.] "Governing body" means the city council of the city.

Subd. 8. [HOUSING TRANSITION DISTRICT; DISTRICT.] "Housing transition district" or "district" means a geographic area designated by the governing body within boundaries commencing at the intersection of Humboldt Avenue North and Plymouth Avenue North, thence East along Plymouth Avenue North to Seventh Street North, thence South along Seventh Street North to Lyndale Avenue, thence South along Lyndale Avenue to Glenwood Avenue North, thence West along Glenwood Avenue North to Girard Avenue North, thence North along Girard Avenue North to Girard Terrace, thence North along Girard Terrace to Olson Memorial Highway, thence West along Olson Memorial Highway to Humboldt Avenue North, thence North on Humboldt Avenue North to the point of beginning.

Subd. 9. [NONTAXABLE PARCEL.] "Nontaxable parcel" means a parcel to be included within the housing transition district which at the time of certification is not subject to property taxation by reason of public ownership.

Subd. 10. [ORIGINAL NET TAX CAPACITY.] (a) With respect to nontaxable parcels within the district, "original net tax capacity" means zero.

(b) With respect to taxable parcels within the district, "original net tax capacity" means the net tax capacity of the parcels as certified by the commissioner of revenue for the appropriate assessment year. For purposes of this subdivision, the appropriate assessment year is the previous assessment year, if a request by the authority for certification has been made to the county auditor by June 30. If the request for certification is filed after June 30, the appropriate assessment year is the current assessment year.

Subd. 11. [PARCEL.] "Parcel" means a tract or plat of land established prior to the certification of the district as a single unit for purposes of assessment.

Subd. 12. [PREEXISTING DISTRICT.] "Preexisting district" means any tax increment district within which is located a parcel proposed to be included within the housing transition district.

Subd. 13. [TAXABLE PARCEL.] "Taxable parcel" means a parcel to be included within the housing transition district which is subject to property taxation at the time of certification.



Sec. 18. [ESTABLISHMENT OF HOUSING TRANSITION DISTRICT.]

Subdivision 1. [CREATION.] The governing body may establish a housing transition district within the city. The parcels included within the district need not be contiguous but must all be designated and included at the time the district is initially established. Parcels must not be added to the district after its initial certification.

Subd. 2. [TAX INCREMENT.] (a) Upon request of the authority, the county auditor shall certify the original net tax capacity of the district and shall certify in each year thereafter the amount by which the original net tax capacity increases as a result of the conditions described in Minnesota Statutes, section 469.177, subdivision 4, or decreases as a result of the conditions described in Minnesota Statutes, section 469.177, subdivision 1, paragraph (g). No other changes shall be made in original net tax capacity once certified by the county auditor.

(b) The provisions of Minnesota Statutes, section 469.177, subdivisions 1a and 3 to 10, apply to the computation of tax increment for the housing transition district created under sections 17 to 19.

(c) If an authority request for certification includes nontaxable parcels then within a preexisting district, the county auditor shall remove the parcels from the preexisting district. If an authority request for certification includes taxable parcels then within a preexisting district, the county auditor shall allocate all taxes derived from the captured net tax capacity attributable thereto to the preexisting district.

Subd. 3. [HOUSING TRANSITION DISTRICT PLAN.] To establish a housing transition district, the governing body shall adopt a housing transition district plan which constitutes a tax increment financing plan, as used in those provisions of Minnesota Statutes, sections 469.174 to 469.1781, made applicable by sections 17 to 20, and contains the following:

(1) a general description of the plans for development of the district;

(2) a description of the parcels to be included in the district, including such information regarding each as shall establish that the district meets the conditions described in section 17, subdivision 8;

(3) the most recent net tax capacity of each parcel included in the district;

(4) a budget containing estimated tax increment collections and expenditures as authorized or permitted by sections 17 to 19;

(5) estimates of the sources of revenue, public and private, other than tax increment to pay estimated or budgeted costs;

(6) statements of the alternate estimated impacts of the housing transition district on the net tax capacities of all taxing jurisdictions in which the housing transition district is located in whole or in part. For purposes of one statement, the statement shall assume that the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the housing transition district, and for purposes of the second statement, it shall be assumed that none of the estimated captured net tax capacity would be available to the taxing jurisdictions without creation of the housing transition district.

Subd. 4. [PROCEDURE.] (a) The provisions of Minnesota Statutes, section 469.175, subdivisions 3, 5, 6, and 6a, apply to the establishment and operation of the housing transition district created under sections 17 to 19, except the determinations required by Minnesota Statutes, section 469.175, subdivision 3, clauses (1) and (2), are not required.

(b) Upon approval of the housing transition district plan, the governing body shall delegate to one or both of the authorities the powers and duties regarding the implementation and administration of the housing transition district it determines appropriate.

Sec. 19. [LIMITATIONS.]

Subdivision 1. [DURATION.] Tax increment generated by the district must cease to be paid to the authority after 20 years from the receipt by the authority of the first tax increment from the district.

Subd. 2. [USE.] (a) All tax increment received by the authority from the district must be used in accordance with the housing transition district plan.

(b) Tax increment may be used to pay the costs of:

(1) acquiring title to or an ownership interest in any property within the district;

(2) relocating owners of or tenants in any property within the district;

(3) demolishing all or a part of any structures or other improvements within the district;

(4) site preparation, soil correction, and infrastructure improvements within the district;

(5) rehabilitating or constructing any housing structures or other improvements within the district;

(6) constructing public improvements associated with development within the district;

(7) making loans or grants to public or private entities in order to facilitate development within the district; and

(8) administering the creation and operation of the district or the implementation of the consent decree, including reimbursement for costs previously incurred or advanced and not reimbursed.

(c) The authority may pay the costs authorized by this subdivision, directly, through the issuance and sale of obligations pursuant to Minnesota Statutes, section 469.178, by means of loans or grants to the current or future owners of property within the district, or through the exercise of any authority contained in Minnesota Statutes, sections 469.001 to 469.047.

(d) Minnesota Statutes, section 469.176, subdivision 4g, applies to the district. Minnesota Statutes, section 469.176, subdivision 3, applies to the district, except "15" is substituted for "ten" in paragraph (a) of subdivision 3.

Sec. 20. [APPLICABILITY OF OTHER LAWS.]

Minnesota Statutes, sections 469.174 to 469.179, apply to the housing transition district or tax increment generated pursuant to sections 17 to 19 only to the extent specified in sections 17 to 19. The housing transition district is a redevelopment district for purposes of Minnesota Statutes, section 273.1399. The housing transition district does not have a longer duration than permitted by general law for purposes of Minnesota Statutes, section 469.1782.

Sec. 21. [CITY OF MINNETONKA; HOUSING DEVELOPMENT ACCOUNT.]

Subdivision 1. [DEPOSITS IN ACCOUNT.] The Minnetonka economic development authority may deposit the balance of revenues derived from tax increment from housing tax increment financing district No. 1 in the housing development account of the authority. These increments may be expended for housing activities in accordance with the tax increment financing plan, if before depositing the increments or making any expenditures for housing activities under this section, the authority and city:

(1) elect, by resolution, to decertify housing tax increment financing district No. 1 as of December 31, 1997; and

(2) identify in the plan the housing activities that will be assisted by the housing development account.

The election to decertify and any necessary plan amendment may be approved before or after the effective date of this section.

Subd. 2. [PERMITTED HOUSING ACTIVITIES.] For the purposes of this section, housing activities:

(1) may include rehabilitation, acquisition, demolition, and financing of new or existing single family or multifamily housing and public improvements directly related to such activities, together with other related activities specified in the housing action plan approved by the city or the authority in compliance with Minnesota Statutes, sections 473.25 to 473.254;

(2) may be located anywhere within the city without regard to the boundaries of any tax increment financing district or project area; and

(3) for rental and owner-occupied housing, must meet the income, rent, or sales price limitations established from time to time by the metropolitan council under Minnesota Statutes, sections 473.25 to 473.254.

Subd. 3. [SEPARATE ACCOUNT REQUIRED.] Tax increment to be expended for housing activities under this section must be segregated by the authority into a special housing development account on its official books and records. The account may also receive funds from other public and private sources.

Subd. 4. [EFFECTIVE DATE.] This section is effective upon approval by the governing body of the city of Minnetonka and compliance with Minnesota Statutes, section 645.021, subdivision 3.

#### Sec. 22. [EAST GRAND FORKS]

Subdivision 1. [TIF EXTENSION.] The governing body of the city of East Grand Forks may extend the duration of tax increment financing district No. 2 (Gateway East) by up to five additional years. The district terminates no later than the end of calendar year 2005.

Subd. 2. [EFFECTIVE DATE.] This section is effective upon compliance by the governing body of the city of East Grand Forks with the provisions of Minnesota Statutes, sections 469.1782, subdivision 2; and 645.021.

#### Sec. 23. [TOWN OF WHITE; ECONOMIC DEVELOPMENT.]

Subdivision 1. [AUTHORIZATION.] Notwithstanding the provisions of Minnesota Statutes, section 469.176, subdivision 1b, upon approval of the governing body of the town of White by resolution, the duration of tax increment financing districts numbers 1 and 2 of the joint east range economic development authority may be extended by three additional years beyond the limit that otherwise applies under Minnesota Statutes, section 469.176, subdivision 1, to the districts.

Subd. 2. [SPECIAL RULES.] (a) Tax increment financing districts numbers 1 and 2 of the joint east range economic development authority are subject to Minnesota Statutes, sections 469.174 to 469.179, except as provided in this subdivision.

(b) Minnesota Statutes, sections 273.1399, and 469.1782, subdivision 1, do not apply.

(c) The application of Minnesota Statutes, section 469.1763, is modified to permit the use of increments from either district to be used to pay any promissory notes issued in connection with either district.

Subd. 3. [EFFECTIVE DATE.] This section is effective upon compliance by the governing bodies of the town of White, the county of St. Louis, and independent school district No. 2711 with Minnesota Statutes, sections 469.1782, subdivision 2, and 645.021, subdivision 2.

#### Sec. 24. [TASK FORCE; TIF RECODIFICATION.]

(a) A legislative task force is established on tax increment financing and local economic development powers. The task force consists of 12 members as follows:

(1) six members of the house of representatives, at least two of whom are members of the minority caucus, appointed by the speaker; and

(2) six members of the senate, at least two of whom are members of the minority caucus, appointed by the committee on committees.

(b) The task force shall prepare a bill for the 1998 legislative session that recodifies the Tax Increment Financing Act and combines the statutes providing local economic development powers into one law providing a uniform set of powers relative to the use of tax increment financing.

(c) In preparing the bill under this section, the task force shall consult with and seek comments from and participation by representatives of the affected local governments.

(d) The revisor of statutes and house and senate legislative staff shall staff the task force.

(e) This section expires on March 1, 1998.

Sec. 25. [EFFECTIVE DATE.]

Sections 1, 3 to 6, 7, and 10, are effective for districts for which the requests for certification are made after June 30, 1997.

Section 2, clauses (1) and (4), are effective for districts for which the requests for certification were made after July 31, 1979, and for payments and investment earnings received after July 1, 1997. Section 2, clauses (2) and (3), are effective for districts for which the request for certification was made after June 30, 1982, and proceeds from sales and leases of properties purchased by the authority after June 30, 1997, and repayments of advances and loans that were made after June 30, 1997.

Sections 8 and 9 apply to all tax increment districts, whenever certified, insofar as the underlying law applies to them, and any uses of tax increment expended prior to the date of enactment of this act which are in compliance with the provisions of those sections are deemed valid.

Sections 12 and 13 are effective on the day the chief clerical officer of the city of Columbia Heights complies with Minnesota Statutes, sections 645.021, subdivision 3.

Sections 17 to 20 are effective the day following final enactment and upon compliance by the governing body with Minnesota Statutes, section 645.021, subdivision 3.

Section 24 is effective the day following final enactment.

## ARTICLE 11

### INTERGOVERNMENTAL RELATIONS

Section 1. [3.986] [DEFINITIONS.]

Subdivision 1. [SCOPE.] The terms used in sections 3.986 to 3.989 have the meanings given them in this section.

Subd. 2. [LOCAL FISCAL IMPACT.] (a) "Local fiscal impact" means increased or decreased costs or revenues that a political subdivision would incur as a result of a law enacted after June 30, 1997, or rule proposed after June 30, 1998:

(1) that mandates a new program, eliminates an existing mandated program, requires an increased level of service of an existing program, or permits a decreased level of service in an existing mandated program;

(2) that implements or interprets federal law and, by its implementation or interpretation, increases or decreases program or service levels beyond the level required by the federal law;

(3) that implements or interprets a statute or amendment adopted or enacted pursuant to the approval of a statewide ballot measure by the voters and, by its implementation or interpretation, increases or decreases program or service levels beyond the levels required by the ballot measure;

(4) that removes an option previously available to political subdivisions, or adds an option previously unavailable to political subdivisions, thus requiring higher program or service levels or permitting lower program or service levels, or prohibits a specific activity and so forces political subdivisions to use a more costly alternative to provide a mandated program or service;

(5) that requires that an existing program or service be provided in a shorter time period and thus increases the cost of the program or service, or permits an existing mandated program or service to be provided in a longer time period, thus permitting a decrease in the cost of the program or service;

(6) that adds new requirements to an existing optional program or service and thus increases the cost of the program or service because the political subdivisions have no reasonable alternative other than to continue the optional program;

(7) that affects local revenue collections by changes in property or sales and use tax exemptions;

(8) that requires costs previously incurred at local option that have subsequently been mandated by the state; or

(9) that requires payment of a new fee or increases the amount of an existing fee, or permits the elimination or decrease of an existing fee mandated by the state.

(b) When state law is intended to achieve compliance with federal law or court orders, state mandates shall be determined as follows:

(1) if the federal law or court order is discretionary, the state law is a state mandate;

(2) if the state law exceeds what is required by the federal law or court order, only the provisions of the state law that exceed the federal requirements are a state mandate; and

(3) if the state law does not exceed what is required by the federal statute or regulation or court order, the state law is not a state mandate.

Subd. 3. [MANDATE.] A "mandate" is a requirement imposed upon a political subdivision in a law by a state agency or by judicial authority that, if not complied with, results in:

(1) civil liability;

(2) criminal penalty; or

(3) administrative sanctions such as reduction or loss of funding.

Subd. 4. [POLITICAL SUBDIVISION.] A "political subdivision" is a county, home rule charter or statutory city, town, or other taxing district or municipal corporation.

Subd. 5. [REQUIRING AN INCREASED LEVEL OF SERVICE.] "Requiring an increased level of service" includes requiring that an existing service be provided in a shorter time.

Sec. 2. [3.987] [LOCAL IMPACT TO NOTES FOR STATE-MANDATED ACTIONS.]

Subdivision 1. [LOCAL IMPACT NOTES.] The commissioner of finance shall coordinate the development of a local impact note for any proposed legislation introduced after June 30, 1997, or any rule proposed after June 30, 1998, upon request of the chair or the ranking minority member of either legislative tax committee. The local impact note must be prepared as provided in section 3.98, subdivision 2, and made available to the public upon request. If the action is among the exceptions listed in section 3.988, a local impact note need not be requested nor prepared. The commissioner shall make a reasonable and timely estimate of the local fiscal impact on each type of political subdivision that would result from the proposed legislation. The commissioner of finance may require any political subdivision or the commissioner of an administrative agency of the state to supply in a timely manner any information determined to be necessary to determine local fiscal impact. The political subdivision, its representative association, or commissioner shall

convey the requested information to the commissioner of finance with a signed statement to the effect that the information is accurate and complete to the best of its ability. The political subdivision, its representative association, or commissioner, when requested, shall update its determination of local fiscal impact based on actual cost or revenue figures, improved estimates, or both.

Subd. 2. [MANDATE EXPLANATIONS.] Any bill introduced in the legislature after June 30, 1997, that seeks to impose program or financial mandates on political subdivisions must include an attachment from the author that gives appropriate responses to the following guidelines. It must state and list:

(1) the policy goals that are sought to be attained, the performance standards that are to be imposed, and an explanation why the goals and standards will best be served by requiring compliance by political subdivisions;

(2) performance standards that will allow political subdivisions flexibility and innovation of method in achieving those goals;

(3) the reasons for each prescribed standard and the process by which each standard governs input such as staffing and other administrative aspects of the program;

(4) the sources of additional revenue, in addition to existing funding for similar programs, that are directly linked to imposition of the mandates that will provide adequate and stable funding for their requirements;

(5) what input has been obtained to ensure that the implementing agencies have the capacity to carry out the delegated responsibilities; and

(6) the reasons why less intrusive measures such as financial incentives or voluntary compliance would not yield the equity, efficiency, or desired level of statewide uniformity in the proposed program.

Subd. 3. [LOCAL INVOLVEMENT; LAWS.] Any bill introduced in the legislature after June 30, 1997, that seeks to impose a program or financial mandate on political subdivisions must include an attachment prepared by the author that describes the efforts put forth, if any, to involve political subdivisions in the creation or development of the proposed mandate.

Subd. 4. [NO MANDATE RESTRICTION.] Except as specifically provided by this article, nothing in this article restricts or eliminates the authority of the state to create or impose programs by law upon political subdivisions.

### Sec. 3. [3.988] [EXCEPTIONS TO LOCAL IMPACT NOTES.]

Subdivision 1. [COSTS RESULTING FROM INFLATION.] A local impact note need not be prepared for increases in the cost of providing an existing service if the increases result directly from inflation. "Resulting directly from inflation" means attributable to maintaining an existing level of service rather than increasing the level of service. A cost-of-living increase in welfare benefits is an example of a cost resulting directly from inflation.

Subd. 2. [COSTS NOT THE RESULT OF A NEW PROGRAM OR INCREASED SERVICE.] A local impact note need not be prepared for increased local costs that do not result from a new program or an increased level of service.

Subd. 3. [MISCELLANEOUS EXCEPTIONS.] A local impact note or an attachment as provided in section 3.987, subdivision 2, need not be prepared for the cost of a mandated action if the law, including a rulemaking, containing the mandate:

- (1) accommodates a specific local request;
- (2) results in no new local government duties;
- (3) leads to revenue losses from exemptions to taxes;

- (4) provided only clarifying or conforming, nonsubstantive charges on local government;
- (5) imposes additional net local costs that are minor (less than \$200 for any single local government if the mandate does not apply statewide or less than \$3,000,000 if the mandate is statewide) and do not cause a financial burden on local government;
- (6) is a law or executive order enacted before July 1, 1997, or a rule initially implementing a law enacted before July 1, 1997;
- (7) implements something other than a law or executive order, such as a federal, court, or voter-approved mandate;
- (8) defines a new crime or redefines an existing crime or infraction;
- (9) results in savings that equal or exceed costs;
- (10) requires the holding of elections;
- (11) ensures due process or equal protection;
- (12) provides for the notification and conduct of public meetings;
- (13) establishes the procedures for administrative and judicial review of actions taken by political subdivisions;
- (14) protects the public from malfeasance, misfeasance, or nonfeasance by officials of political subdivisions;
- (15) relates directly to financial administration, including the levy, assessment, and collection of taxes;
- (16) relates directly to the preparation and submission of financial audits necessary to the administration of state laws; or
- (17) requires uniform standards to apply to public and private institutions without differentiation.

Sec. 4. [3.989] [REIMBURSEMENT TO LOCAL POLITICAL SUBDIVISIONS FOR COSTS OF STATE MANDATES.]

Subdivision 1. [DEFINITIONS.] In this section:

- (1) "Class A state mandates" means those laws under which the state mandates to political subdivisions, their participation, the organizational structure of the program, and the procedural regulations under which the law must be administered; and
- (2) "Class B state mandates" means those mandates that allow the political subdivisions to opt for administration of a law with program elements mandated beforehand and with an assured revenue level from the state of at least 90 percent of full program and administrative costs.

Subd. 2. [REPORT.] The commissioner of finance shall prepare by September 1, 1998, and by September 1 of each even-numbered year thereafter, a report by political subdivisions of the costs of class A state mandates established after June 30, 1997.

The commissioner shall annually include the statewide total of the statement of costs of class A mandates as a notation in the state budget for the next fiscal year.

Subd. 3. [CERTAIN POLITICAL SUBDIVISIONS; REPORT.] The political subdivisions that have opted to administer class B state mandates shall report to the commissioner of finance by September 1, 1998, and by September 1 of each year thereafter, identifying each instance when revenue for a class B state mandate has fallen below 85 percent of the total cost of the program and the political subdivision intends to cease administration of the program.

The commissioner shall forward a copy of the report to the chairs of the appropriate funding committees of the senate and the house for proposed inclusion of the shortfall as a line item appropriation in the state budget for the next fiscal year.

The political subdivision may exercise its option to cease administration only if the legislature has failed to include the shortfall as an appropriation in the state budget for the next fiscal year.

Subd. 4. [EXEMPTIONS.] Laws and executive orders enumerated in section 3.988 are exempted from this section.

Sec. 5. [14.431] [PERIODIC REVIEW OF ADMINISTRATIVE RULES.]

Subdivision 1. [DEFINITIONS.] The terms defined in section 3.986, subdivision 1, apply to this section.

Subd. 2. [SIGNIFICANT FINANCIAL IMPACT.] The commissioner of finance shall review, every five years, rules adopted after June 30, 1998, that have significant financial impact upon political subdivisions. In this section, "significant financial impact" means requiring local political subdivisions to expand existing services, employ additional personnel, or increase local expenditures. The commissioner shall determine the costs and benefits of each rulemaking and submit a report to the legislative coordinating commission with its opinion, if any, for the continuation, modification, or elimination of the rules in the rulemaking.

Sec. 6. Minnesota Statutes 1996, section 273.1398, subdivision 8, is amended to read:

Subd. 8. [APPROPRIATION.] (a) An amount sufficient to pay the aids and credits provided under this section for school districts, intermediate school districts, or any group of school districts levying as a single taxing entity, is annually appropriated from the general fund to the commissioner of children, families, and learning. An amount sufficient to pay the aids and credits provided under this section for counties, cities, towns, and special taxing districts is annually appropriated from the general fund to the commissioner of revenue. A jurisdiction's aid amount may be increased or decreased based on any prior year adjustments for homestead credit or other property tax credit or aid programs.

(b) The commissioner of finance shall bill the commissioner of revenue for the cost of preparation of local impact notes as required by section 3.987 only to the extent to which those costs exceed those costs incurred in fiscal year 1997 and for any other new costs attributable to the local impact note function required by section 3.987, not to exceed \$100,000 in fiscal year 1998 and \$200,000 in fiscal year 1999 and thereafter.

The commissioner of revenue shall deduct the amount billed under this paragraph from aid payments to be made to cities and counties under subdivision 2 on a pro rata basis. The amount deducted under this paragraph is appropriated to the commissioner of finance for the preparation of local impact notes.

Sec. 7. Minnesota Statutes 1996, section 477A.05, is amended to read:

477A.05 [LOCAL PERFORMANCE AID.]

Subdivision 1. [QUALIFICATION.] By May 15, 1996, and March 31 25 of each year thereafter, the commissioner shall send a local performance aid qualification form to each county and city in the state. Jurisdictions that are eligible to receive the aid must return the completed form by June 30 in order to receive aid in the following calendar year. For each determinant specified in subdivision 2, the form shall have a space for the jurisdiction to indicate that it has satisfied the conditions of the determinant. For counties, the form must be signed by the chair of the county board. For cities, the form must be signed by the mayor, if the city has a mayor, and a member the chair of the city council. Applications may be filed jointly by jurisdictions planning to spend the aid jointly.

Subd. 2. [ELIGIBILITY DETERMINATOR.] For calendar year 1997 1998 and subsequent calendar years, a jurisdiction is eligible to receive local performance aid if the jurisdiction affirms



that it (1) the aid will result in a reduction in property taxes at least equal to the amount of aid received, and (2) the jurisdiction will spend the aid on programs for which it has developed a system of performance measures for the services provided by the jurisdiction, and that these measures are will allow for the measurement of continuous improvement and will be regularly compiled and presented to the county board or the city council at least once a year. The jurisdiction must identify the program or programs that are to be funded with the aid. A jurisdiction is also eligible for aid under this determinator if it affirms that it is in the process of developing and implementing a system of performance measures for the program or programs for which the aid is being sought; however, eligibility based upon being in the process of development may not be used for more than two consecutive years aid amounts under this section may not be spent on the program or programs until the performance measurement system has been instituted, unless the aid is being used to establish the performance measurement system.

Subd. 3. [DETERMINATION OF AID AMOUNT.] The commissioner shall sum the populations of all jurisdictions that have met the ~~condition~~ conditions specified in subdivision 2. The commissioner shall determine a per capita aid amount by dividing the aggregate aid available under subdivision 5 by the sum of the populations for all qualifying jurisdictions, separately for counties and cities. Each jurisdiction shall then be eligible for aid equal to the jurisdictions' population times the per capita aid amount. For purposes of this subdivision, population means the most recent population established under section 477A.011, subdivision 3, in the year in which the aid is determined.

Subd. 4. [NOTIFICATION AND PAYMENT.] Jurisdictions shall be notified of their aid under this section at the same time as the notification for aid under section 477A.014, subdivision 1. Payments of aid under this section shall be made on the dates prescribed in section 477A.015.

Subd. 5. [APPROPRIATION.] (a) For payments to counties under this section, there is annually appropriated from the general fund to the commissioner of revenue an amount equal to the sum of \$558,625 plus the amount by which county aids were reduced under Laws 1996, chapter 471, article 3, section 49, adjusted for inflation as provided under section 477A.03, subdivision 3. For payments to cities under this section, there is annually appropriated from the general fund to the commissioner of revenue an amount equal to the sum of \$441,735 plus the amount by which city aids were reduced under Laws 1996, chapter 471, article 3, section 49, adjusted for inflation as provided under section 477A.03, subdivision 3.

(b) For aids payable in 1998 under this section, an additional amount of \$560,000 for counties and \$440,000 for cities is appropriated from the general fund to the commissioner of revenue.

Sec. 8. [REPEALER.]

Minnesota Statutes 1996, section 3.982, is repealed.

Sec. 9. [EFFECTIVE DATE.]

Section 7 is effective beginning with aids payable in 1998.

## ARTICLE 12

### REGIONAL DEVELOPMENT COMMISSIONS

Section 1. Minnesota Statutes 1996, section 462.381, is amended to read:

462.381 [TITLE.]

Sections 462.381 to 462.398 may be cited as the "regional development act of 1969."

Sec. 2. Minnesota Statutes 1996, section 462.383, is amended to read:

462.383 [PURPOSE: GOVERNMENT COOPERATION AND COORDINATION.]

Subdivision 1. [LEGISLATIVE FINDINGS.] The legislature finds that problems of growth and development in urban and rural regions of the state so transcend the boundary lines of local

government units that no single unit can plan for their solution without affecting other units in the region; that various multicounty planning activities conducted under various laws of the United States are presently being conducted in an uncoordinated manner that coordination of multijurisdictional activities is essential to the development and implementation of effective policies and programs; that intergovernmental cooperation on a regional basis is an effective means of pooling the resources of local government to approach common problems; and that the assistance of the state is needed to make the most effective use of local, state, federal, and private programs in serving the citizens of such urban and rural regions.

Subd. 2. [BY CREATING REGIONAL COMMISSION.] It is the purpose of sections 462.381 to 462.398 to facilitate intergovernmental cooperation and to insure the orderly and harmonious coordination of state, federal, and local comprehensive planning and development programs for the solution of economic, social, physical, and governmental problems of the state and its citizens by providing for the creation of regional development commissions authorize the establishment of regional development commissions to work with and on behalf of local units of government to develop plans or implement programs to address economic, social, physical, and governmental concerns of each region of the state. The commissions may assist with, develop, or implement plans or programs for individual local units of government.

Sec. 3. Minnesota Statutes 1996, section 462.384, subdivision 5, is amended to read:

Subd. 5. [DEVELOPMENT REGION, REGION.] "Development region" or "region" means a geographic region composed of a grouping of counties embodied in an executive order of the governor or as otherwise established by sections 462.381 to 462.398.

Sec. 4. Minnesota Statutes 1996, section 462.385, subdivision 1, is amended to read:

Subdivision 1. [BY GOVERNOR'S ORDER; HEARINGS.] Development regions for the state shall be those regions so designated by the governor by executive order. The order shall provide for public hearings within each proposed region after which any county may request assignment to a region other than that proposed by the order. If a request for reassignment is unacceptable to the commissioner, the county shall remain in the originally designated region until the next session of the legislature for its review and final assignment. consist of the following counties:

Region 1: Kittson, Roseau, Marshall, Pennington, Red Lake, Polk, and Norman.

Region 2: Lake of the Woods, Beltrami, Mahnomen, Clearwater, and Hubbard.

Region 3: Koochiching, Itasca, St. Louis, Lake, Cook, Aitkin, and Carlton.

Region 4: Clay, Becker, Wilkin, Otter Tail, Grant, Douglas, Traverse, Stevens, and Pope.

Region 5: Cass, Wadena, Crow Wing, Todd, and Morrison.

Region 6E: Kandiyohi, Meeker, Renville, and McLeod.

Region 6W: Big Stone, Swift, Chippewa, Lac Qui Parle, and Yellow Medicine.

Region 7E: Mille Lacs, Kanabec, Pine, Isanti, and Chisago.

Region 7W: Stearns, Benton, Sherburne, and Wright.

Region 8: Lincoln, Lyon, Redwood, Pipestone, Murray, Cottonwood, Rock, Nobles, and Jackson.

Region 9: Sibley, Nicollet, LeSueur, Brown, Blue Earth, Waseca, Watonwan, Martin, and Faribault.

Region 10: Rice, Goodhue, Wabasha, Steele, Dodge, Olmsted, Winona, Freeborn, Mower, Fillmore, and Houston.

Region 11: Anoka, Hennepin, Ramsey, Washington, Carver, Scott, and Dakota.

Sec. 5. Minnesota Statutes 1996, section 462.385, subdivision 3, is amended to read:

Subd. 3. [ONGOING BOUNDARY STUDIES; CHANGES.] ~~The commissioner shall conduct continuous studies and analysis of the boundaries of regions and shall make recommendations for their modification where necessary. Modification of regional boundaries may be initiated by a county, a commission, or by the commissioner and will be accomplished in accordance with this section as in the case of initial designation requesting assignment to a region other than that within which it is designated. If a request for reassignment is unacceptable to the commission whose boundaries would be modified, the county requesting reassignment shall remain in the originally designated region until the legislature determines the final assignment.~~

Sec. 6. Minnesota Statutes 1996, section 462.386, subdivision 1, is amended to read:

Subdivision 1. [EXCEPTION, WORKING AGREEMENTS.] All coordination, planning, and development regions assisted or created by the state of Minnesota or pursuant to federal legislation shall conform to the regions designated by the executive order except where, after review and approval by the ~~commissioner~~ governor or designee, nonconformance is clearly justified. The ~~commissioner~~ governor or designee shall develop working agreements with state and federal departments and agencies to insure conformance with this subdivision.

Sec. 7. Minnesota Statutes 1996, section 462.387, is amended to read:

462.387 [REGIONAL DEVELOPMENT COMMISSIONS; ESTABLISHMENT.]

Subdivision 1. [PETITION.] Any combination of counties or municipalities representing a majority of the population of the region for which a commission is proposed may petition the ~~commissioner~~ governor or designee by formal resolution setting forth its desire to establish, and the need for, the establishment of a regional development commission. For purposes of this section the population of a county does not include the population of a municipality within the county.

Subd. 1a. [OPERATING COMMISSION.] Regional development commissions shall be those organizations operating pursuant to sections 462.381 to 462.398 which were formed by formal resolution of local units of government and those which may petition by formal resolution to establish a regional development commission.

Subd. 3. [ESTABLISHMENT.] Upon receipt of a petition as provided in subdivision 1 a regional development commission shall be established by the ~~commissioner~~ governor or designee and the ~~notification of all local government units within the region for which the commission is proposed shall be notified.~~ The notification shall be made within 60 days of the ~~commissioner's~~ governor's receipt of a petition under subdivision 1.

Subd. 4. [SELECTION OF MEMBERSHIP.] The ~~commissioner~~ governor or designee shall call together each of the membership classifications except citizen groups, defined in section 462.388, within 60 days of the establishment of a regional development commission for the purpose of selecting the commission membership.

Subd. 5. [NAME OF COMMISSION.] The name of the organization shall be determined by formal resolution of the commission.

Sec. 8. Minnesota Statutes 1996, section 462.388, is amended to read:

462.388 [COMMISSION MEMBERSHIP.]

Subdivision 1. [REPRESENTATION OF VARIOUS MEMBERS.] A commission shall consist of the following members:

- (1) one member from each county board of every county in the development region;
- (2) one additional county board member from each county of over 100,000 population;
- (3) the town clerk, town treasurer, or one member of a town board of supervisors from each county containing organized towns;

- (4) one additional member selected by the county board of any county containing no townships;
- (5) one mayor or council member from a municipality of under 10,000 population from each county, selected by the mayors of all such municipalities in the county;
- (6) one mayor or council member from each municipality of over 10,000 in each county;
- (7) two school board members elected by a majority of the chairs of school boards in the development region;
- (8) one member from each council of governments;
- (9) one member appointed by each native American tribal council located in each region; and
- (10) citizens representing public interests within the region including members of minority groups to be selected after adoption of the bylaws of the commission; ~~and~~
- ~~(10) the chair, who shall be selected by the commission.~~

Subd. 2. [TERMS, SELECTION METHOD.] The terms of office and method of selection of members ~~other than the chair~~ shall be provided in the bylaws of the commission ~~which shall not be inconsistent with the provisions of subdivision 1.~~ The commission shall adopt rules setting forth its procedures.

Subd. 5. [PER DIEM; BOARD MEMBERS.] Members of the regional commission may receive a per diem of not over \$35 ~~\$50~~, the amount to be determined by the commission, and shall be reimbursed for their reasonable expenses as determined by the commission. The commission ~~shall~~ may provide for the election of a board of directors, ~~who need not be commission members,~~ and provide, at its discretion, for a per diem of not over \$35 ~~\$50~~ a day for meetings of the board and expenses. A member of the board of directors who is a member of the commission shall receive only the per diem payable to board members when meetings of the board of directors and the commission are held on the same day.

Sec. 9. Minnesota Statutes 1996, section 462.389, subdivision 1, is amended to read:

Subdivision 1. [CHAIR.] The chair of the commission shall have been a resident of the region for at least one year and shall be a person experienced in the field of government affairs. The chair shall preside at the meetings of the commission and board of directors, ~~appoint all employees thereof, subject to the approval of the commission,~~ and be responsible for carrying out all policy decisions of the commission. The chair's expense allowances shall be fixed by the commission. The term of the first chair shall be one year, and the chair shall serve until a successor is selected and qualifies. At the expiration of the term of the first chair, the chair shall be elected from the membership of the commission according to procedures established in its bylaws.

Sec. 10. Minnesota Statutes 1996, section 462.389, subdivision 3, is amended to read:

Subd. 3. [EXECUTIVE DIRECTOR.] ~~Upon the recommendation of the chair,~~ The commission may appoint an executive director to serve as the chief administrative officer. The director may be chosen from among the citizens of the nation at large, and shall be selected on the basis of training and experience in the field of government affairs.

Sec. 11. Minnesota Statutes 1996, section 462.389, subdivision 4, is amended to read:

Subd. 4. [EMPLOYEES.] The commission may ~~prepare, in consultation with the state commissioner of employee relations, and may~~ adopt a merit personnel system for its officers and employees including terms and conditions for the employment, the fixing of compensation, their classification, benefits, and the filing of performance and fidelity bonds, and such policies of insurance as it may deem advisable, the premiums for which, however, shall be paid for by the commission. Officers and employees are public employees within the meaning of chapter 353. The commission shall make the employer's contributions to pension funds of its employees.

Sec. 12. Minnesota Statutes 1996, section 462.39, subdivision 2, is amended to read:

Subd. 2. ~~[FEDERAL REGIONAL PROGRAMS.]~~ The commission is the authorized agency to receive state and federal grants public and private funds for regional purposes from the following programs:

~~(1) Section 403 of the Public Works and Economic Development Act of 1965 (economic development districts);~~

~~(2) Section 701 of the Housing Act of 1954, as amended (multicounty comprehensive planning);~~

~~(3) Omnibus Crime Control Act of 1968;~~

~~and for the following to the extent feasible as determined by the governor:~~

~~(a) Economic Opportunity Act of 1964;~~

~~(b) Comprehensive Health Planning Act of 1965;~~

~~(c) Federal regional manpower planning programs;~~

~~(d) Resource, conservation, and development districts; or~~

~~(e) Any state and federal programs providing funds for including, but not limited to program administration, multicounty planning, coordination, and development purposes. The director shall, where consistent with state and federal statutes and regulations, review applications for all state and federal regional planning and development grants to a commission.~~

Sec. 13. Minnesota Statutes 1996, section 462.39, subdivision 3, is amended to read:

Subd. 3. ~~[PLANNING.]~~ The commission shall ~~may~~ prepare and ~~adopt~~ submit for adoption, after appropriate study and such public hearings as may be necessary, a comprehensive development plan plans for local units of government, individually or collectively, within the region. ~~The plan shall~~ Plans may consist of a compilation of policy statements, goals, standards, programs, and maps prescribing guides for an orderly and economic development, public and private, of the region. The comprehensive development plan within the jurisdiction subject to the plan. The plans shall recognize and incorporate planning principles which encompass physical, social, or economic needs of the region, and those future developments which will have an impact on the entire region including but not limited to such matters as land use, parks and open space land needs, access to direct sunlight for solar energy systems, the necessity for and location of airports, highways, transit facilities, public hospitals, libraries, schools, public and private, housing, and other public buildings. In preparing the development plan plans the commission shall use to the maximum extent feasible the resources studies and data available from other planning agencies within the region, including counties, municipalities, special districts, and subregional planning agencies, and it shall utilize the resources of the director state agencies to the same purpose. No development plan or portion thereof for the region shall be adopted by the commission until it has been submitted to the director for review and comment and a period of 60 days has elapsed after such submission. When a development plan has been adopted, the commission shall distribute it to all local government units within the region.

Sec. 14. Minnesota Statutes 1996, section 462.391, is amended by adding a subdivision to read:

Subd. 1a. [REVIEW OF LOCAL PLANS.] The commission may review and provide comments and recommendations on local plans or development proposals which in the judgment of the commission have a substantial effect on regional development. Local units of government may request that a regional commission review, comment, and provide advisory recommendations on local plans or development proposals.

Sec. 15. Minnesota Statutes 1996, section 462.391, is amended by adding a subdivision to read:

Subd. 2a. [STAFF SERVICES.] To avoid duplication of staff for various regional bodies assisted by federal or state government, the commission may provide basic administrative,

research, and planning services for all regional planning and development bodies. The commissions may contract to obtain or perform services with state agencies, for-profit or nonprofit entities, subdistricts organized as the result of federal or state programs, councils of governments organized under section 471.59, or any other law, and with local governments.

Sec. 16. Minnesota Statutes 1996, section 462.391, is amended by adding a subdivision to read:

Subd. 3a. [DATA AND INFORMATION.] The commission may be designated as a regional data center providing data collection, storage, analysis, and dissemination to be used by it and other governmental and private users, and may accept gifts or grants to provide this service.

Sec. 17. Minnesota Statutes 1996, section 462.391, subdivision 5, is amended to read:

Subd. 5. [~~URBAN AND RURAL RESEARCH.~~] Where studies have not been otherwise authorized by law the commission may study the feasibility of programs relating including, but not limited to, water, land use, economic development, ~~minority problems~~ housing, demographics, cultural issues, governmental ~~problems~~ issues, human ~~and~~ services, natural resources, communication, technology, transportation, and other subjects of concern to the citizens of the region, may institute demonstration projects in connection therewith, and may enter into contracts or accept gifts or grants for such purposes as otherwise authorized in sections 462.381 to 462.398.

Sec. 18. Minnesota Statutes 1996, section 462.391, is amended by adding a subdivision to read:

Subd. 11. [PROGRAM OPERATION.] Upon approval of the appropriate authority from local, state, and federal government units, commissions may be regarded as general purpose units of government to receive funds and operate programs on a regional or subregional basis to provide economies of scale or to enhance program efficiency.

Sec. 19. Minnesota Statutes 1996, section 462.391, is amended by adding a subdivision to read:

Subd. 12. [PROPERTY OWNERSHIP.] A commission may buy, lease, acquire, own, hold, improve, and use real or personal property or an interest in property, wherever located in the state for purposes of housing the administrative office of the regional commission.

Sec. 20. Minnesota Statutes 1996, section 462.391, is amended by adding a subdivision to read:

Subd. 13. [PROPERTY DISPOSITION.] A commission may sell, convey, mortgage, create a security interest in, lease, exchange, transfer, or dispose of all or part of its real or personal property or an interest in property, wherever located in the state.

Sec. 21. Minnesota Statutes 1996, section 462.393, is amended to read:

462.393 [ANNUAL REPORT TO UNITS, PUBLIC, GOVERNOR, LEGISLATURE.]

Subdivision 1. [CONTENTS.] On or before ~~August~~ September 1 of each year, the commission shall prepare a report for the governmental units, the public within the region, the legislature and the governor. The report shall include:

(1) A statement of the commission's receipts and expenditures by category since the preceding report;

(2) A detailed budget for the year in which the report is filed and a tentative budget for the following year including an outline of its program for such period;

(3) A description of any comprehensive plan adopted in whole or in part for the region;

(4) Summaries of any studies and the recommendations resulting therefrom made for the region;

(5) A listing of all applications for federal grants or loans made by governmental units within the region together with the action taken by the commission in relation thereto summary of significant accomplishments;

(6) A listing of plans of local governmental units submitted to the region, and actions taken in relationship thereto;

(7) Recommendations of the commission regarding federal and state programs, cooperation, funding, and legislative needs; and

(8) A summary of any audit report made during the previous year ~~by the state auditor~~ relative to the commission.

Subd. 2. [ASSESSMENT EVERY 5 YEARS.] In 1981 ~~2001~~ and every five years thereafter the commission shall review its activities and issue a report assessing its performance in fulfilling the purposes of the regional development act of ~~1969~~. The report shall state address whether the existence of the commission is in the public welfare and interest. ~~The report shall be included in the report required by subdivision 1.~~

Sec. 22. Minnesota Statutes 1996, section 462.394, is amended to read:

462.394 [CITIZEN PARTICIPATION AND ADVISORY COMMITTEES.]

The commission may appoint advisory committees of interested and affected citizens to assist in the review of plans, programs, and other matters referred for review by the commission. Whenever a special advisory committee is required by any federal or state regional program the commission ~~chair~~ shall, as far as practical, appoint such committees as advisory groups to the commission. Members of the advisory committees shall serve without compensation but shall be reimbursed for their reasonable expenses as determined by the commission.

Sec. 23. Minnesota Statutes 1996, section 462.396, subdivision 1, is amended to read:

Subdivision 1. [GRANTMAKING, TAX LEVY.] The ~~director~~ governor and the legislature shall determine the amount of state assistance and designate an agency to make grants to any commission created under sections 462.381 to 462.398 from appropriations made available for those purposes, ~~provided a work program is submitted acceptable to the director~~. Any regional commission may levy a tax on all taxable property in the region to provide money for the purposes of sections 462.381 to 462.398.

Sec. 24. Minnesota Statutes 1996, section 462.396, subdivision 3, is amended to read:

Subd. 3. [GIFTS, GRANTS, LOANS.] The commission is a special purpose unit of government which may accept gifts, apply for and use grants or loans of money or other property from the United States, the state, or any person, local or governmental body for any commission purpose and may enter into agreements required in connection therewith and may hold, use, and dispose of such moneys or property in accordance with the terms of the gift, grant, loan, agreement, or contract relating thereto.

For purposes of receipt of state or federal funds for community and economic development, regional commissions shall be considered general purpose units of government.

Sec. 25. Minnesota Statutes 1996, section 462.396, subdivision 4, is amended to read:

Subd. 4. [ACCOUNTING; CHECKS; ANNUAL AUDIT.] The commission shall keep an accurate account of its receipts and disbursement. Disbursements of funds of the commission shall be made by check signed by the chair or vice-chair or secretary of the commission and countersigned by the executive director or an authorized deputy thereof after such auditing and approval of the expenditure as may be provided by rules of the commission. The state auditor ~~shall~~ may audit the books and accounts of the commission once each year, or as often as funds and personnel of the state auditor permit. The commission shall pay to the state the total cost and expenses of such examination, including the salaries paid to the auditors while actually engaged in making such examination. The general fund shall be credited with all collections made for any such examination. In lieu of an annual audit by the state auditor, the commission ~~may~~ shall contract with a certified public accountant for the annual audit of the books and accounts of the commission. If a certified public accountant performs the audit, the commission shall send a copy of the audit to the state auditor.

Sec. 26. Minnesota Statutes 1996, section 462.398, is amended to read:

462.398 [TERMINATION OF COMMISSION.]

Subdivision 1. [PETITION; POPULATION.] Any combination of counties or municipalities representing a majority of the population of the region for which a commission exists may petition the ~~director~~ governor by formal resolution stating that the existence of the commission is no longer in the public welfare and interest and is not needed to accomplish the purposes of the regional development act of ~~1969~~. For purposes of this section the population of a county does not include the population of a municipality within the county. Any formal resolution adopted by the governing body of a county or municipality for the termination of a commission shall be effective for a period of one year for the purpose of determining the requisite population of the region needed to petition the ~~director~~ governor.

Subd. 2. [HEARINGS; RECOMMENDATION, TERMINATION DATE.] Within 35 days of the ~~receipt~~ filing of the petition, the ~~director~~ governor or designee shall fix a time and place within the region for a hearing. The director shall give notice of the hearing by publication once each week for two successive weeks before the date of the hearing in a legal newspaper in each of the counties which the commission represents. The hearing shall be conducted by members of the commission. If the commission determines that the existence of the commission is no longer in the public welfare and interest and that it is not needed to accomplish the purposes of the regional development act of ~~1969~~, the commission shall recommend to the ~~director~~ governor or designee that the ~~director~~ governor or designee terminate the commission. Within 60 days after receipt of the recommendation, the ~~director~~ governor or designee shall terminate the commission by giving notice of the termination to all government units within the region for which the commission was established. Unless otherwise provided by this subdivision, the hearing shall be in accordance with sections 14.001 to 14.69.

Subd. 3. [30 MONTHS BETWEEN PETITIONS.] The ~~director~~ governor or designee shall not accept a petition for termination more than once in 30 months for each regional development commission.

Sec. 27. [REPEALER.]

Minnesota Statutes 1996, sections 462.384, subdivision 7; 462.385, subdivision 2; 462.389, subdivision 5; 462.391, subdivisions 1, 2, 3, 4, 6, 7, 8, and 9; and 462.392, are repealed.

## ARTICLE 13

### WASTE MANAGEMENT TAXES

Section 1. Minnesota Statutes 1996, section 270B.01, subdivision 8, is amended to read:

Subd. 8. [MINNESOTA TAX LAWS.] For purposes of this chapter only, "Minnesota tax laws" means the taxes administered by or paid to the commissioner under chapters 289A (except taxes imposed under sections 298.01, 298.015, and 298.24), 290, 290A, 291, ~~and 297A,~~ and 297F 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 government, and includes any laws for the assessment, collection, and enforcement of those taxes.

Sec. 2. Minnesota Statutes 1996, section 297A.01, subdivision 3, is amended to read:

Subd. 3. A "sale" and a "purchase" includes, but is not limited to, each of the following transactions:

(a) Any transfer of title or possession, or both, of tangible personal property, whether absolutely or conditionally, and the leasing of or the granting of a license to use or consume tangible personal property other than manufactured homes used for residential purposes for a continuous period of 30 days or more, for a consideration in money or by exchange or barter;

(b) The production, fabrication, printing, or processing of tangible personal property for a consideration for consumers who furnish either directly or indirectly the materials used in the production, fabrication, printing, or processing;



(c) The furnishing, preparing, or serving for a consideration of food, meals, or drinks. "Sale" does not include:

(1) meals or drinks served to patients, inmates, or persons residing at hospitals, sanitariums, nursing homes, senior citizens homes, and correctional, detention, and detoxification facilities;

(2) meals or drinks purchased for and served exclusively to individuals who are 60 years of age or over and their spouses or to the handicapped and their spouses by governmental agencies, nonprofit organizations, agencies, or churches or pursuant to any program funded in whole or part through 42 USCA sections 3001 through 3045, wherever delivered, prepared or served; or

(3) meals and lunches served at public and private schools, universities, or colleges.

Notwithstanding section 297A.25, subdivision 2, taxable food or meals include, but are not limited to, the following:

(i) heated food or drinks;

(ii) sandwiches prepared by the retailer;

(iii) single sales of prepackaged ice cream or ice milk novelties prepared by the retailer;

(iv) hand-prepared or dispensed ice cream or ice milk products including cones, sundaes, and snow cones;

(v) soft drinks and other beverages prepared or served by the retailer;

(vi) gum;

(vii) ice;

(viii) all food sold in vending machines;

(ix) party trays prepared by the retailers; and

(x) all meals and single servings of packaged snack food, single cans or bottles of pop, sold in restaurants and bars;

(d) The granting of the privilege of admission to places of amusement, recreational areas, or athletic events, except a world championship football game sponsored by the national football league, and the privilege of having access to and the use of amusement devices, tanning facilities, reducing salons, steam baths, turkish baths, health clubs, and spas or athletic facilities;

(e) The furnishing for a consideration of lodging and related services by a hotel, rooming house, tourist court, motel or trailer camp and of the granting of any similar license to use real property other than the renting or leasing thereof for a continuous period of 30 days or more;

(f) The furnishing for a consideration of electricity, gas, water, or steam for use or consumption within this state, or local exchange telephone service, intrastate toll service, and interstate toll service, if that service originates from and is charged to a telephone located in this state. Telephone service includes paging services and private communication service, as defined in United States Code, title 26, section 4252(d), except for private communication service purchased by an agent acting on behalf of the state lottery. The furnishing for a consideration of access to telephone services by a hotel to its guests is a sale under this clause. Sales by municipal corporations in a proprietary capacity are included in the provisions of this clause. The furnishing of water and sewer services for residential use shall not be considered a sale. The sale of natural gas to be used as a fuel in vehicles propelled by natural gas shall not be considered a sale for the purposes of this section;

(g) The furnishing for a consideration of cable television services, including charges for basic service, charges for premium service, and any other charges for any other pay-per-view, monthly, or similar television services;

(h) The furnishing for a consideration of parking services, whether on a contractual, hourly, or other periodic basis, except for parking at a meter;

(i) The furnishing for a consideration of services listed in this paragraph:

(i) laundry and dry cleaning services including cleaning, pressing, repairing, altering, and storing clothes, linen services and supply, cleaning and blocking hats, and carpet, drapery, upholstery, and industrial cleaning. Laundry and dry cleaning services do not include services provided by coin operated facilities operated by the customer;

(ii) motor vehicle washing, waxing, and cleaning services, including services provided by coin-operated facilities operated by the customer, and rustproofing, undercoating, and towing of motor vehicles;

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

(iv) detective services, security services, burglar, fire alarm, and armored car services not including services performed within the jurisdiction they serve by off-duty licensed peace officers as defined in section 626.84, subdivision 1;

(v) pet grooming services;

(vi) lawn care, fertilizing, mowing, spraying and sprigging services; garden planting and maintenance; tree, bush, and shrub pruning, bracing, spraying, and surgery; 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) mixed municipal solid waste management services as described in section 297A.45;~~

~~(viii)~~ 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

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

The services listed in this paragraph are taxable under section 297A.02 if the service is performed wholly within Minnesota or if the service is performed partly within and partly without Minnesota and the greater proportion of the service is performed in Minnesota, based on the cost of performance. In applying the provisions of this chapter, the terms "tangible personal property" and "sales at retail" include taxable services and the provision of taxable services, unless specifically provided otherwise. Services performed by an employee for an employer are not taxable under this paragraph. Services performed by a partnership or association for another partnership or association are not taxable under this paragraph if one of the entities owns or controls more than 80 percent of the voting power of the equity interest in the other entity. Services performed between members of an affiliated group of corporations are not taxable. For purposes of this section, "affiliated group of corporations" includes those entities that would be classified as a member of an affiliated group under United States Code, title 26, section 1504, and who are eligible to file a consolidated tax return for federal income tax purposes;

(j) A "sale" and a "purchase" includes the transfer of computer software, meaning information and directions that dictate the function performed by data processing equipment. A "sale" and a "purchase" does not include the design, development, writing, translation, fabrication, lease, or transfer for a consideration of title or possession of a custom computer program; and

(k) The granting of membership in a club, association, or other organization if:

(1) the club, association, or other organization makes available for the use of its members sports and athletic facilities (without regard to whether a separate charge is assessed for use of the facilities); and

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

Granting of membership includes both one-time initiation fees and periodic membership dues. Sports and athletic facilities include golf courses, tennis, racquetball, handball and squash courts, basketball and volleyball facilities, running tracks, exercise equipment, swimming pools, and other similar athletic or sports facilities. The provisions of this paragraph do not apply to camps or other recreation facilities owned and operated by an exempt organization under section 501(c)(3) of the Internal Revenue Code of 1986, as amended through December 31, 1992, for educational and social activities for young people primarily age 18 and under.

Sec. 3. Minnesota Statutes 1996, section 297A.25, subdivision 11, is amended to read:

Subd. 11. [SALES TO GOVERNMENT.] The gross receipts from all sales, including sales in which title is retained by a seller or a vendor or is assigned to a third party under an installment sale or lease purchase agreement under section 465.71, of tangible personal property to, and all storage, use or consumption of such property by, the United States and its agencies and instrumentalities, the University of Minnesota, state universities, community colleges, technical colleges, state academies, the Lola and Rudy Perpich Minnesota center for arts education, and school districts are exempt.

As used in this subdivision, "school districts" means public school entities and districts of every kind and nature organized under the laws of the state of Minnesota, including, without limitation, school districts, intermediate school districts, education districts, service cooperatives, secondary vocational cooperative centers, special education cooperatives, joint purchasing cooperatives, telecommunication cooperatives, regional management information centers, and any instrumentality of a school district, as defined in section 471.59.

Sales exempted by this subdivision include sales under section 297A.01, subdivision 3, paragraph (f), ~~but do not include sales under section 297A.01, subdivision 3, paragraph (j), clause (vii).~~

Sales to hospitals and nursing homes owned and operated by political subdivisions of the state are exempt under this subdivision.

The sales to and exclusively for the use of libraries of books, periodicals, audio-visual materials and equipment, photocopiers for use by the public, and all cataloguing and circulation equipment, and cataloguing and circulation software for library use are exempt under this subdivision. For purposes of this paragraph "libraries" means libraries as defined in section 134.001, county law libraries under chapter 134A, the state library under section 480.09, and the legislative reference library.

Sales of supplies and equipment used in the operation of an ambulance service owned and operated by a political subdivision of the state are exempt under this subdivision provided that the supplies and equipment are used in the course of providing medical care. Sales to a political subdivision of repair and replacement parts for emergency rescue vehicles and fire trucks and apparatus are exempt under this subdivision.

Sales to a political subdivision of 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, are exempt under this subdivision.

Sales to political subdivisions of chore and homemaking services to be provided to elderly or disabled individuals are exempt.

Sales of telephone services to the department of administration that are used to provide telecommunications services through the intertechnologies revolving fund are exempt under this subdivision.

This exemption shall not apply to building, construction or reconstruction materials purchased by a contractor or a subcontractor as a part of a lump-sum contract or similar type of contract with

a guaranteed maximum price covering both labor and materials for use in the construction, alteration, or repair of a building or facility. This exemption does not apply to construction materials purchased by tax exempt entities or their contractors to be used in constructing buildings or facilities which will not be used principally by the tax exempt entities.

This exemption does not apply to the leasing of a motor vehicle as defined in section 297B.01, subdivision 5, except for leases entered into by the United States or its agencies or instrumentalities.

The tax imposed on sales to political subdivisions of the state under this section applies to all political subdivisions other than those explicitly exempted under this subdivision, notwithstanding section 115A.69, subdivision 6, 116A.25, 360.035, 458A.09, 458A.30, 458D.23, 469.101, subdivision 2, 469.127, 473.448, 473.545, or 473.608 or any other law to the contrary enacted before 1992.

Sales exempted by this subdivision include sales made to other states or political subdivisions of other states, if the sale would be exempt from taxation if it occurred in that state, but do not include sales under section 297A.01, subdivision 3, paragraphs (c) and (e).

Sec. 4. Minnesota Statutes 1996, section 297A.25, subdivision 16, is amended to read:

Subd. 16. [SALES TO NONPROFIT GROUPS.] The gross receipts from the sale of tangible personal property to, and the storage, use or other consumption of such property by, any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, or educational purposes if the property purchased is to be used in the performance of charitable, religious, or educational functions, or any senior citizen group or association of groups that in general limits membership to persons who are either (1) age 55 or older, or (2) physically disabled, and is organized and operated exclusively for pleasure, recreation, and other nonprofit purposes, no part of the net earnings of which inures to the benefit of any private shareholders, are exempt. For purposes of this subdivision, charitable purpose includes the maintenance of a cemetery owned by a religious organization. Sales exempted by this subdivision include sales pursuant to section 297A.01, subdivision 3, paragraphs (d) and (f), ~~but do not include sales under section 297A.01, subdivision 3, paragraph (j), clause (vii).~~ This exemption shall not apply to building, construction, or reconstruction materials purchased by a contractor or a subcontractor as a part of a lump-sum contract or similar type of contract with a guaranteed maximum price covering both labor and materials for use in the construction, alteration, or repair of a building or facility. This exemption does not apply to construction materials purchased by tax exempt entities or their contractors to be used in constructing buildings or facilities which will not be used principally by the tax exempt entities. This exemption does not apply to the leasing of a motor vehicle as defined in section 297B.01, subdivision 5.

Sec. 5. Minnesota Statutes 1996, section 297A.44, subdivision 1, is amended to read:

Subdivision 1. (a) Except as provided in paragraphs (b); ~~and (c), and (d),~~ all revenues, including interest and penalties, derived from the excise and use taxes imposed by sections 297A.01 to 297A.44 shall be deposited by the commissioner in the state treasury and credited to the general fund.

(b) All excise and use taxes derived from sales and use of property and services purchased for the construction and operation of an agricultural resource project, from and after the date on which a conditional commitment for a loan guaranty for the project is made pursuant to section 41A.04, subdivision 3, shall be deposited in the Minnesota agricultural and economic account in the special revenue fund. The commissioner of finance shall certify to the commissioner the date on which the project received the conditional commitment. The amount deposited in the loan guaranty account shall be reduced by any refunds and by the costs incurred by the department of revenue to administer and enforce the assessment and collection of the taxes.

(c) All revenues, including interest and penalties, derived from the excise and use taxes imposed on sales and purchases included in section 297A.01, subdivision 3, paragraphs (d) and (l), clauses (1) and (2), must be deposited by the commissioner in the state treasury, and credited as follows:

(1) first to the general obligation special tax bond debt service account in each fiscal year the amount required by section 16A.661, subdivision 3, paragraph (b); and

(2) after the requirements of clause (1) have been met, the balance must be credited to the general fund.

~~(d) The revenues, including interest and penalties, derived from the taxes imposed on solid waste collection services as described in section 297A.45, shall be deposited by the commissioner in the state treasury and credited to the general fund to be used for funding solid waste reduction and recycling programs.~~

Sec. 6. [297F.01] [SOLID WASTE MANAGEMENT TAX DEFINITIONS.]

Subdivision 1. [SCOPE.] When used in this chapter, the following terms have the meanings given to them in this section. For terms not defined in this section, the definitions contained in chapter 115A are incorporated into this chapter.

Subd. 2. [COMMERCIAL GENERATOR.] "Commercial generator" means any of the following:

(1) an owner or operator of a business, including a home-operated business, industry, church, nursing home, nonprofit organization, school, or any other commercial or institutional enterprise that generates mixed municipal solid waste or non-mixed-municipal solid waste; or

(2) any other generator of taxable waste that is not a residential generator defined in subdivision 8. A commercial generator does not include a self-hauler.

Subd. 3. [CUBIC YARD.] "Cubic yard" means a cubic yard of non-mixed-municipal solid waste that is not compacted.

Subd. 4. [MARKET PRICE.] "Market price" means the lowest price available in the area, assuming transactions between separate parties that are willing buyers and willing sellers in a market.

Subd. 5. [MIXED MUNICIPAL SOLID WASTE.] "Mixed municipal solid waste" means mixed municipal solid waste as defined in section 115A.03, subdivision 21.

Subd. 6. [NON-MIXED-MUNICIPAL SOLID WASTE.] "Non-mixed-municipal solid waste" means:

(1) infectious waste as defined in section 116.76, subdivision 12;

(2) pathological waste as defined in section 116.76, subdivision 14;

(3) industrial waste as defined in section 115A.03, subdivision 13a; and

(4) construction debris as defined in section 115A.03, subdivision 7.

Subd. 7. [PERIODIC WASTE COLLECTION.] "Periodic waste collection" means each time a waste container is emptied by the person that collects the non-mixed-municipal solid waste at the point that the waste has been aggregated for collection by the generator.

Subd. 8. [RESIDENTIAL GENERATOR.] "Residential generator" means any of the following:

(1) a detached single family residence that generates mixed municipal solid waste or non-mixed-municipal solid waste;

(2) a person residing in a building or site containing multiple residences that generates mixed municipal solid waste, including apartment buildings, condominiums, manufactured home parks, or townhomes, where each residence is separately billed by the waste service provider;

(3) an owner of a building or site containing multiple residences or an association representing residences that generate mixed municipal solid waste or non-mixed-municipal solid waste,

including apartment buildings, condominiums, manufactured home parks, or townhomes where no residence is separately billed for such service by the waste management service provider and the owner or association is billed directly for the waste management services. A residential generator does not include a self-hauler.

Subd. 9. [SALES PRICE.] "Sales price" means total consideration valued in money for waste management services, excluding separately stated charges for exemptions listed under section 297F.06.

Subd. 10. [SELF-HAULER.] "Self-hauler" means a person who transports mixed municipal solid waste or non-mixed-municipal solid waste generated by that person or another person without compensation.

Subd. 11. [WASTE MANAGEMENT SERVICE PROVIDER.] "Waste management service provider" means the person who directly bills the generator or self-hauler for waste management services, and includes, but is not limited to, waste-haulers, waste management facilities, utility services, and political subdivisions, to the extent they directly bill for waste management services.

Subd. 12. [WASTE MANAGEMENT SERVICES.] "Waste management services" means waste collection, transportation, processing, and disposal.

Sec. 7. [297F.02] [RESIDENTIAL GENERATORS.]

Subdivision 1. [IMPOSITION.] (a) A tax is imposed upon the sales price of mixed municipal solid waste management services received by a residential generator.

(b) The tax is imposed upon the difference between the market price and the tip fee at a processing or disposal facility where the tip fee is less than the market price and the political subdivision subsidizes the cost of service at the facility. The political subdivision is liable for the tax.

(c) The tax is imposed upon the market price of waste management services where a political subdivision directly bills on a property tax statement for organized collection of mixed municipal solid waste. The political subdivision is liable for the tax.

(d) The political subdivision shall, by resolution, identify the market price. The political subdivision shall submit the market price to the director of the office of environmental assistance for review by October 1 of the year prior to the calendar year in which the market price will be in effect. The prices that the state pays for waste management services in that jurisdiction or the county where the jurisdiction is located must be a guideline in determining the market price. The director shall consult with the commissioner of the pollution control agency in reviewing the market price and shall inform the political subdivisions of any necessary changes to market price by November 15 of that year. The market price shall be effective as of January 1 of the next calendar year following review. The director may consider adjustment to the market price if a political subdivision submits a resolution for adjustment by May 1 of any year. The effective date of the adjustment shall be July 1.

If the commissioner of revenue believes a market price declared by resolution is not accurate, the commissioner may request that the office of environmental assistance advise the political subdivision to identify by resolution an updated market price and submit the updated market price to the office of environmental assistance for review.

Subd. 2. [RATES.] The rate of tax under this section is 9.75 percent.

Subd. 3. [SALES PRICE OF BAGS, STICKERS, OR OTHER INDICIA.] When the sales price of a bag, sticker, or other indicia includes mixed municipal solid waste management services for residential generators, the tax on the bag, sticker, and other indicia sold by vendors on behalf of a political subdivision or waste hauler shall be collected when the bag, sticker, or other indicia are sold to the vendor by the political subdivision or waste hauler, and shall be taxed at the rate imposed under subdivision 2. The solid waste management service and the solid waste management tax shall be included in the sales price of the bag, sticker, or other indicia.

Sec. 8. [297F.03] [MIXED MUNICIPAL SOLID WASTE COMMERCIAL GENERATORS.]

Subdivision 1. [IMPOSITION.] (a) A tax is imposed upon the sales price of mixed municipal solid waste management services received by a commercial generator.

(b) The tax is imposed upon the difference between the market price and the tip fee at a processing or disposal facility where the tip fee is less than the market price and the political subdivision subsidizes the cost of service at the facility. The political subdivision is liable for the tax.

(c) The tax is imposed upon the market price of waste management services where a political subdivision directly bills on a property tax statement for organized collection of mixed municipal solid waste. The political subdivision is liable for the tax.

(d) Section 297F.02, subdivision 1, paragraph (d), applies to paragraphs (b) and (c) of this subdivision.

Subd. 2. [RATE.] The rate of the tax under this section is 17 percent.

Subd. 3. [SALES PRICE OF BAGS, STICKERS, OR OTHER INDICIA.] When the sales price of a bag, sticker, or other indicia includes mixed municipal solid waste management services for commercial generators, the tax on the bag, sticker, and other indicia sold by vendors on behalf of a political subdivision or waste hauler shall be collected when the bag, sticker, or other indicia are sold to the vendor by the political subdivision or waste hauler, and shall be taxed at the rate imposed under subdivision 2. The solid waste management service and the solid waste management tax shall be included in the sales price of the bag, sticker, or other indicia.

Sec. 9. [297F.04] [NON-MIXED-MUNICIPAL SOLID WASTE.]

Subdivision 1. [IMPOSITION.] A tax is imposed upon the volume of non-mixed-municipal solid waste that is managed.

Subd. 2. [RATE.] (a) Commercial generators that generate non-mixed-municipal solid waste shall pay a solid waste management tax of 60 cents per noncompacted cubic yard of periodic waste collection capacity purchased by the generator, based on the size of the container for the non-mixed-municipal solid waste, the actual volume, or the weight-to-volume conversion schedule in paragraph (c). However, the tax must be calculated by the waste management service provider using the same method for calculating the waste management service fee so that both are calculated according to container capacity, actual volume, or weight.

(b) Notwithstanding section 297F.02, a residential generator that generates non-mixed-municipal solid waste shall pay a solid waste management tax in the same manner as provided in paragraph (a).

(c) The weight-to-volume conversion schedule for:

(1) construction debris as defined in section 115A.03, subdivision 7, is one ton equals 3.33 cubic yards, or \$2 per ton;

(2) industrial waste as defined in section 115A.03, subdivision 13a, is equal to 60 cents per cubic yard. The commissioner of revenue after consultation with the commissioner of the pollution control agency, shall determine, and may publish by notice, a conversion schedule for various industrial wastes; and

(3) infectious waste as defined in section 116.76, subdivision 12, and pathological waste as defined in section 116.76, subdivision 14, is 150 pounds equals one cubic yard, or 60 cents per 150 pounds.

Sec. 10. [297F.05] [SELF-HAULERS.]

(a) A self-hauler of mixed municipal solid waste shall pay the tax to the operator of the waste management facility to which the waste is delivered at the rate imposed under section 297F.03, based on the sales price of the waste management services.

(b) A self-hauler of non-mixed-municipal solid waste shall pay the tax to the operator of the waste management facility to which the waste is delivered at the rate imposed under section 297F.04.

(c) The tax imposed on the self-hauler of non-mixed-municipal solid waste may be based either on the capacity of the container, the actual volume, or the weight-to-volume conversion schedule in paragraph (d). However, the tax must be calculated by the operator using the same method for calculating the tipping fee so that both are calculated according to container capacity, actual volume, or weight.

(d) The weight-to-volume conversion schedule for:

(1) construction debris as defined in section 115A.03, subdivision 7, is one ton equals 3.33 cubic yards, or \$2 per ton;

(2) industrial waste as defined in section 115A.03, subdivision 13a, is equal to 60 cents per cubic yard. The commissioner of revenue, after consultation with the commissioner of the pollution control agency, shall determine, and may publish by notice, a conversion schedule for various industrial wastes; and

(3) infectious waste as defined in section 116.76, subdivision 12, and pathological waste as defined in section 116.76, subdivision 14, is 150 pounds equals one cubic yard, or 60 cents per 150 pounds.

Sec. 11. [297F.06] [EXEMPTIONS.]

Subdivision 1. [CERTAIN SURCHARGES OR FEES.] The amount of a surcharge, fee, or charge established pursuant to section 115A.919, 115A.921, 115A.923, or 473.843 is exempt from the solid waste management tax. The amount shown on a property tax statement as a county charge for solid waste management service or as a surcharge, fee, or charge established pursuant to section 400.08, subdivision 3, or section 473.811, subdivision 3a, is exempt from the solid waste management tax. The exemption does not apply to the tax imposed on market price under section 297F.02, subdivision 1, paragraphs (b) and (c), or section 297F.03, subdivision 1, paragraphs (b) and (c).

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;

(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; and

(8) waste and waste by-products for which the tax has been paid.

Sec. 12. [297F.07] [BILLING.]

The amount of the tax imposed under this chapter shall be itemized separately on the generator's bill, and shall be designated as the "solid waste management tax."

Sec. 13. [297F.08] [PAYMENT; REPORTING.]

(a) The waste management service provider, or a political subdivision specified in section 297F.02, subdivision 1, and section 297F.03, subdivision 1, shall report the tax on a return prescribed by the commissioner of revenue, and shall remit the tax with the return. The return and the tax must be filed using the filing cycle and due dates provided for taxes imposed under chapter 297A.

(b) The waste hauler or political subdivision that sells bags, stickers, or other indicia to vendors must report and remit the tax imposed by section 297F.02, subdivision 3, and section 297F.03, subdivision 3, on a return prescribed by the commissioner of revenue, and shall remit the tax with the return. The return and the tax must be filed using the filing cycle provided for taxes imposed under chapter 297A.

(c) Any partial payments received by waste management service providers for waste management services shall be prorated between the tax imposed under section 297F.02, 297F.03, or 297F.04 and the service.

Sec. 14. [297F.09] [BAD DEBTS.]

The remitter of the solid waste management tax may offset against the tax payable, with respect to any reporting period, the amount of tax imposed by this chapter previously remitted to the commissioner of revenue which qualified as a bad debt under section 166(a) of the Internal Revenue Code, as amended through December 31, 1993, during such reporting period, but only in proportion to the portion of such debt which became uncollectable. This section applies only to accrual basis remitters that remit tax before it is collected and to the extent they are unable to collect the tax.

Sec. 15. [297F.10] [ADMINISTRATION; ENFORCEMENT; PENALTY.]

Subdivision 1. [ADMINISTRATION AND ENFORCEMENT.] The audit, assessment, refund, penalty, interest, enforcement, collection remedies, appeal, and administrative provisions of chapters 270 and 289A that are applicable to taxes imposed under chapter 297A apply to this chapter.

Subd. 2. [PENALTY.] If the form prescribed by the commissioner of revenue for remitting the tax is the sales tax return, a penalty is imposed on a person or political subdivision who fails to separately report the amount of tax due under this chapter. The specified penalties are ten percent for the first violation and 20 percent for the second and subsequent violations. The penalty applies only to that portion of the tax that should have been reported on the separate lines for the tax due under this chapter and that was included on other lines of the sales tax return.

Sec. 16. [297F.11] [REQUIREMENTS AND POTENTIAL LIABILITY OF WASTE MANAGEMENT SERVICE PROVIDERS.]

Subdivision 1. [REQUIREMENTS.] Waste management service providers are required to:

(1) separately and accurately state the amount of the tax in the appropriate statement of charges for waste management services, or other statement if there are no charges for waste management services, and in any action to enforce payment on delinquent accounts;

(2) accurately account for and remit tax received; and

(3) work with the commissioner of revenue to ensure that generators pay the tax.

Subd. 2. [LIABILITY.] A waste management service provider is liable for an amount equal to the solid waste management tax that was either:

(1) received by the waste management service provider but not timely remitted to the commissioner of revenue; or

(2) not received by the waste management service provider and the waste management service provider failed to separately and accurately state the amount of the tax in the appropriate statement of charges for waste management services and in any action to enforce payment on delinquent accounts.

Subd. 3. [RECOVERY.] A person who is liable under subdivision 2 is not prohibited from recovering from the generator or self-hauler the amount of the liability paid to the commissioner of revenue that is equal to the solid waste management tax owed by the generator or self-hauler.

Sec. 17. [297F.12] [INFORMATION REGARDING THE SOLID WASTE MANAGEMENT TAX.]

The director of the office of environmental assistance, after consulting with the commissioner of revenue, the commissioner of the pollution control agency, and waste management service providers, shall develop information regarding the solid waste management tax for distribution to waste generators in the state. The information shall include facts about the substitution of the solid waste management tax for the sales tax on solid waste services and the solid waste generator assessment and the purposes for which revenue from the tax will be spent.

Sec. 18. [297F.13] [DEPOSIT OF REVENUES; USE OF PROCEEDS; FUNDING SHORTFALLS; REPORT ON RECEIPTS.]

Subdivision 1. [DEPOSIT OF REVENUES.] The revenues derived from the taxes imposed on waste management services under this chapter, less the costs to the department of revenue for administering the tax under this chapter, shall be deposited by the commissioner of revenue in the state treasury.

The amounts retained by the department of revenue shall be deposited in a separate revenue department fund which is hereby created. Money in this fund is hereby appropriated, up to a maximum annual amount of \$200,000, to the commissioner of revenue for the costs incurred in administration of the solid waste management tax under this chapter.

Subd. 2. [ALLOCATION OF REVENUES.] (a) \$22,000,000, or 50 percent, whichever is greater, of the amounts remitted under this chapter must be credited to the solid waste fund established in section 115B.42.

(b) The remainder must be deposited into the general fund.

Subd. 3. [FUNDING SHORTFALLS.] If less than \$22,000,000 is projected to be available for new encumbrances in any fiscal year after fiscal year 1999 from all existing dedicated revenue sources for landfill cleanup and reimbursement costs under sections 115B.39 to 115B.445, by October 1 before the next fiscal year in which the shortfall is projected, the commissioner of the pollution control agency shall certify to the commissioner of revenue the amount of the shortfall and notify persons required to collect and remit the tax. To provide for the shortfall, the commissioner of revenue shall increase the tax under sections 297F.03, 297F.04, and 297F.05, proportionately for both mixed municipal solid waste and non-mixed-municipal solid waste, by an amount sufficient to generate revenue equal to the amount of the shortfall effective the following January 1 and shall provide notice of the increased assessment by November 1 following certification to persons who are required to collect and remit the tax under this chapter.

Subd. 4. [EXCESS REVENUE ADJUSTMENT.] If the total tax revenues collected from the taxes imposed under this chapter in fiscal year 1999 is projected to exceed \$44,500,000, the commissioner of revenue shall decrease proportionately the amount of the tax under sections 297F.02, 297F.03, 297F.04, and 297F.05, by an amount sufficient to eliminate the excess effective October 1, 1999, and shall provide notice of the decreased tax by August 1, 1999, to waste management service providers.

Subd. 5. [REPORT ON RECEIPTS.] The commissioner of revenue shall report to the chairs of the house and senate environment and natural resources committees; the house environment and natural resources finance division; the senate environment and agriculture budget division; the house tax committee and the senate taxes and tax laws committee; the commissioner of the pollution control agency; and the director of the office of environmental assistance on the total tax revenues received from the taxes imposed under this chapter. The reports shall be made as follows:

(1) a report by May 31, 1998, based on amounts received by the commissioner of revenue from January 1, 1998, through April 30, 1998;

(2) a report by September 30, 1998, based on amounts received by the commissioner of revenue from May 1, 1998, through August 31, 1998; and

(3) a report by January 31, 1999, based on amounts received by the commissioner of revenue from September 1, 1998, through December 31, 1998.

Subd. 6. [ORGANIZED COLLECTION BILLING PRACTICES.] In preparing the report required under section 115A.981, including the duty to consider information filed by political subdivisions under section 115A.929, the commissioner of the pollution control agency shall report the extent, if any, to which the solid waste management tax is not being collected on the full cost of organized collection service because of billings that do not reflect the full cost of service.

Sec. 19. [MORATORIUM.]

The commissioner of revenue shall not initiate or continue any action to collect any underpayment from political subdivisions, or to reimburse any overpayment to any political subdivisions, of use taxes on solid waste management services under Minnesota Statutes, section 297A.45, for the period from January 1, 1990, through December 31, 1996.

Sec. 20. [REPEALER.]

Minnesota Statutes 1996, sections 116.07, subdivision 10; 297A.01, subdivision 21; and 297A.45, as amended by Laws 1997, chapter 84, article 3, section 8, are repealed.

Sec. 21. [EFFECTIVE DATES.]

Sections 1 to 18 and 20 are effective January 1, 1998.

Section 19 is effective the day following final enactment.

ARTICLE 14

SENIOR CITIZENS PROPERTY TAX DEFERRAL

Section 1. Minnesota Statutes 1996, section 270B.12, is amended by adding a subdivision to read:

Subd. 12. [PROPERTY TAX DEFERRAL.] The commissioner may disclose to a county auditor and treasurer, and to their designated agents or employees, the annual deferral amounts and the cumulative deferral and interest as determined by the commissioner under chapter 290B for each parcel of homestead property in the county that is enrolled in the senior citizen property tax deferral program under chapter 290B.

Sec. 2. Minnesota Statutes 1996, 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 and, in the case of a town, final 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 other than a town proposes to collect for taxes payable the following year and, for a town, the amount of its final levy. It 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 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; 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) by county, city or town, school district excess referenda levy, remaining school district levy, regional library district, if in existence, the total of the metropolitan special taxing districts as defined in paragraph (i) and the sum of the remaining special taxing districts, and as a total of the

taxing authorities, including all special taxing districts, the proposed or, for a town, final net tax on the property for taxes payable the following year and the actual tax for taxes payable the current year. If a school district has certified under section 124A.03, subdivision 2, 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. For the purposes of this subdivision, "school district excess referenda levy" means school district taxes for operating purposes approved at referendums, including those taxes based on net tax capacity as well as those based on market value. "School district excess referenda levy" does not include school district taxes for capital expenditures approved at referendums or school district taxes to pay for the debt service on bonds approved at referenda. 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 in the amounts in clause (2) from taxes payable in the current year to proposed or, for a town, final taxes payable the following year, expressed as a dollar amount and 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.

(g) If the notice the taxpayer receives under this section lists the property as nonhomestead and the homeowner provides satisfactory documentation to the county assessor that the property is owned and used as the owner's homestead, 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) For taxes levied in 1996, payable in 1997 only, in the case of a statutory or home rule charter city or town that exercises the local levy option provided in section 473.388, subdivision 7, the notice of its proposed taxes may include a statement of the amount by which its proposed tax increase for taxes payable in 1997 is attributable to its exercise of that option, together with a statement that the levy of the metropolitan council was decreased by a similar amount because of the exercise of that option.

Sec. 3. Minnesota Statutes 1996, 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 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 from the parcel of real property for which a particular tax statement is prepared. The dollar amounts due the county, township or municipality, the total of the metropolitan special taxing districts as defined in section 275.065, subdivision 3, paragraph (i), school district excess referenda levy, remaining school district levy, and the total of other voter approved referenda levies based on market value under section 275.61 must be separately stated. The amounts due all other special taxing districts, if any, may be aggregated. 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. For the purposes of this subdivision, "school district excess referenda levy" means school district taxes for operating purposes approved at referenda, including those taxes based on net tax capacity as well as those based on market value. "School district excess referenda levy" does not include school district taxes for capital expenditures approved at referendums or school district taxes to pay for the debt service on bonds approved at referenda. 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. The statement shall include the following sentence, printed in upper case letters in boldface print: **"THE STATE OF MINNESOTA DOES NOT RECEIVE ANY PROPERTY TAX REVENUES. THE STATE OF MINNESOTA REDUCES YOUR PROPERTY TAX BY PAYING CREDITS AND REIMBURSEMENTS TO LOCAL UNITS OF GOVERNMENT."**

(b) The property tax statements for manufactured homes and sectional structures taxed as personal property shall contain the same information that is required on the tax statements for real property.

(c) 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 multiplying the property's gross tax capacity times the total local tax rate and adding to the result the sum of the aids enumerated in clause (4);

(4) a total of the following aids:

(i) education aids payable under chapters 124 and 124A;

(ii) local government aids for cities, towns, and counties under chapter 477A; and

(iii) disparity reduction aid under section 273.1398;

(5) for homestead residential and agricultural properties, the homestead and agricultural credit aid apportioned to the property. This amount is obtained by multiplying the total local tax rate by the difference between the property's gross and net tax capacities under section 273.13. This amount must be separately stated and identified as "homestead and agricultural credit." For purposes of comparison with the previous year's amount for the statement for taxes payable in 1990, the statement must show the homestead credit for taxes payable in 1989 under section 273.13, and the agricultural credit under section 273.132 for taxes payable in 1989;

(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) any deferred property tax amount under the senior citizens' property tax deferral program under chapter 290B, as well as the total deferred amount plus accrued interest; and

(8) 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 clauses (3) and (4) that local governments will receive in the following year. In the case of a county containing a city of the first class, for taxes levied in 1991, and for all counties for taxes levied in 1992 and thereafter, the commissioner must certify this amount by September 1.

Sec. 4. [290B.01] [PURPOSE.]

Minnesota's system of ad valorem property taxation does not adequately recognize the unique financial circumstances of homestead property owned and occupied by low-income senior citizens. It is therefore declared to be in the public interest of this state to stabilize tax burdens on homestead property owned by qualifying low-income senior citizens through a deferral of certain property taxes.

Sec. 5. [290B.02] [CITATION.]

This program shall be named the "senior citizens' property tax deferral program."

Sec. 6. [290B.03] [DEFERRAL OF PROPERTY TAXES.]

Subdivision 1. [PROGRAM QUALIFICATIONS.] The qualifications for the senior citizens' property tax deferral program are as follows:

(1) the property must be owned and occupied as a homestead by a person 65 years of age or older. In the case of a married couple, both of the spouses must be at least 65 years old at the time the first property tax deferral is granted, regardless of whether the property is titled in the name of one spouse or both spouses, or titled in another way that permits the property to have homestead status;

(2) the total household income of the qualifying homeowners, as defined in section 290A.03, subdivision 5, for the calendar year preceding the year of the initial application may not exceed \$30,000;

(3) the homestead must have been owned and occupied as the homestead of at least one of the qualifying homeowners for at least 15 years prior to the year the initial application is filed;

(4) there are no delinquent property taxes, penalties, or interest on the homesteaded property;

(5) there are no delinquent special assessments on the homesteaded property;

(6) there are no state or federal tax liens or judgment liens on the homesteaded property;

(7) there are no mortgages or other liens on the property that secure future advances, except for those subject to credit limits that result in compliance with clause (8); and

(8) the total unpaid balances of debts secured by mortgages and other liens on the property, including unpaid special assessments, but not including property taxes payable during the year, does not exceed 30 percent of the assessor's estimated market value for the year.

Subd. 2. [QUALIFYING HOMESTEAD; DEFINED.] Qualifying homestead property is defined as the dwelling occupied as the homeowner's principal residence and so much of the land surrounding it, not exceeding one acre, as is reasonably necessary for use of the dwelling as a home and any other property used for purposes of a homestead as defined in section 273.13, subdivisions 22 and 23. The homestead may be part of a multidwelling building and the land on which it is built.

Sec. 7. [290B.04] [APPLICATION FOR DEFERRAL.]

Subdivision 1. [INITIAL APPLICATION.] A taxpayer meeting the program qualifications under section 290B.03 may apply to the commissioner of revenue for the deferral of taxes. Applications are due on or before July 1 for deferral of any of the following year's property taxes. A taxpayer may apply in the year in which the taxpayer becomes 65 years old, provided that no deferral of property taxes will be made until the calendar year after the taxpayer becomes 65 years old. The application, which shall be prescribed by the commissioner of revenue, shall include the following items and any other information which the commissioner deems necessary:

(1) the name, address, and social security number of the owner or owners;

(2) a copy of the property tax statement for the current payable year for the homesteaded property;

(3) the initial year of ownership and occupancy as a homestead;

(4) the owner's household income for the previous calendar year; and

(5) information on any mortgage loans or other amounts secured by mortgages or other liens against the property, for which purpose the commissioner may require the applicant to provide a copy of the mortgage note, the mortgage, or a statement of the balance owing on the mortgage loan provided by the mortgage holder. The commissioner may require the appropriate documents in connection with obtaining and confirming information on unpaid amounts secured by other liens.

The application must state that program participation is voluntary. The application must also state that the deferred amount depends directly on the applicant's household income, and that program participation includes authorization for the deferred amount for each year and the cumulative deferral and interest to appear on each year's property tax statement as public data.

Subd. 2. [APPROVAL; RECORDING.] The commissioner shall approve all initial applications that qualify under this chapter and shall notify qualifying homeowners on or before December 1. The commissioner may investigate the facts or require confirmation in regard to an application. The commissioner shall record or file a notice of qualification for deferral, including the names of



the qualifying homeowners and a legal description of the property, in the office of the county recorder, or registrar of titles, whichever is applicable, in the county where the qualifying property is located. The notice must state that it serves as a notice of lien and that it includes deferrals under this section for future years. The homeowner shall pay the recording or filing fees.

Subd. 3. [ANNUAL CERTIFICATION BY TAXPAYER.] Annually on or before July 1, a taxpayer whose initial application has been approved under subdivision 2, shall complete the certification form and return it to the commissioner of revenue. The certification must state whether or not the taxpayer wishes to have property taxes deferred for the following year provided the taxes exceed the maximum property tax amount under section 290B.05. If the taxpayer does wish to have property taxes deferred, the certification must state the homeowner's total household income for the previous calendar year and any other information which the commissioner deems necessary.

Sec. 8. [290B.05] [MAXIMUM PROPERTY TAX AMOUNT AND DEFERRED PROPERTY TAX AMOUNT.]

Subdivision 1. [DETERMINATION BY COMMISSIONER.] The commissioner shall annually determine the qualifying homeowner's "maximum property tax amount" and "maximum allowable deferral." The maximum property tax amount calculated for taxes payable in the following year is equal to five percent of the homeowner's total household income for the previous calendar year. No tax may be deferred for any homeowner whose total household income for the previous year exceeds \$30,000. No tax shall be deferred in any year in which the homeowner does not meet the program qualifications in section 290B.03. The maximum allowable total deferral is equal to 75 percent of the assessor's estimated market value for the year, less (1) the balance of any mortgage loans and other amounts secured by liens against the property at the time of application, including any unpaid special assessments but not including property taxes payable during the year; and (2) any outstanding deferral and interest.

Subd. 2. [CERTIFICATION BY COMMISSIONER.] On or before December 1, the commissioner shall certify to the county auditor of the county in which the qualifying homestead is located (1) the maximum property tax amount; (2) the maximum allowable deferral for the year; and (3) the cumulative deferral and interest for all years preceding the next taxes payable year.

Subd. 3. [CALCULATION OF DEFERRED PROPERTY TAX AMOUNT.] When final property tax amounts for the following year have been determined, the county auditor shall calculate the "deferred property tax amount." The deferred property tax amount is equal to the lesser of (1) the maximum allowable deferral for the year; or (2) the difference between the total amount of property taxes levied upon the qualifying homestead by all taxing jurisdictions and the maximum property tax amount. Any special assessments levied by any local unit of government must not be included in the total tax used to calculate the deferred tax amount. No deferral of the current year's property taxes is allowed if there are any delinquent property taxes or delinquent special assessments for any previous year. Any tax attributable to new improvements made to the property after the initial application has been approved under section 290B.04, subdivision 2, must be excluded when determining any subsequent deferred property tax amount. The county auditor shall annually, on or before April 15, certify to the commissioner of revenue the property tax deferral amounts determined under this subdivision by property and by owner.

Subd. 4. [LIMITATION ON TOTAL AMOUNT OF DEFERRED TAXES.] On or before September 1 of each year, the commissioner shall request, and each county or city assessor shall provide, the current year's estimated market value of each property on the list supplied by the commissioner that may be eligible for deferral under this section for taxes payable in the following year. The total amount of deferred taxes and interest on a property, when added to (1) the balance owing on any mortgages on the property at the time of initial application; and (2) other amounts secured by liens on the property at the time of the initial application, may not exceed 75 percent of the assessor's current estimated market value of the property.

Sec. 9. [290B.06] [PROPERTY TAX REFUNDS.]

For purposes of qualifying for the regular property tax refund or the special refund for

homeowners under chapter 290A, the qualifying tax is the full amount of taxes, including the deferred portion of the tax. In any year in which a program participant chooses to have property taxes deferred under this section, any regular or special property tax refund awarded based upon those property taxes must be taken first as a deduction from the amount of the deferred tax for that year, and second as a deduction against any outstanding deferral from previous years, rather than as a cash payment to the homeowner. The commissioner shall cancel any current year's deferral or previous years' deferral and interest that is offset by the property tax refunds. If the total of the regular and the special property tax refund amounts exceeds the sum of the deferred tax for the current year and cumulative deferred tax and interest for previous years, the commissioner shall then remit the excess amount to the homeowner. On or before the date on which the commissioner issues property tax refunds, the commissioner shall notify program participants of any reduction in the deferred amount for the current and previous years resulting from property tax refunds.

Sec. 10. [290B.07] [LIEN; DEFERRED PORTION.]

Payment by the state to the county treasurer of taxes deferred under this section is deemed a loan from the state to the program participant. The commissioner must compute the interest as provided in section 270.75, subdivision 5, but not to exceed five percent, and maintain records of the total deferred amount and interest for each participant. Interest shall accrue beginning September 1 of the payable year for which the taxes are deferred. The lien created under section 272.31 continues to secure payment by the taxpayer, or by the taxpayer's successors or assigns, of the amount deferred, including interest, with respect to all years for which amounts are deferred. The lien for deferred taxes and interest has the same priority as any other lien under section 272.31, except that liens, including mortgages, recorded or filed prior to the recording or filing of the notice under section 290B.04, subdivision 2, have priority over the lien for deferred taxes and interest. A seller's interest in a contract for deed, in which a qualifying homeowner is the purchaser or an assignee of the purchaser, has priority over deferred taxes and interest on deferred taxes, regardless of whether the contract for deed is recorded or filed. The lien for deferred taxes and interest for future years has the same priority as the lien for deferred taxes and interest for the first year, which is always higher in priority than any mortgages or other liens filed, recorded, or created after the notice recorded or filed under section 290B.04, subdivision 2. The county treasurer or auditor shall maintain records of the deferred portion and shall list the amount of deferred taxes for the year and the cumulative deferral and interest for all previous years as a lien against the property on the property tax statement. In any certification of unpaid taxes for a tax parcel, the county auditor shall clearly distinguish between taxes payable in the current year, deferred taxes and interest, and delinquent taxes. Payment of the deferred portion becomes due and owing at the time specified in section 290B.08. Upon receipt of the payment, the commissioner shall issue a receipt for it to the person making the payment upon request and shall notify the auditor of the county in which the parcel is located, within ten days, identifying the parcel to which the payment applies. Upon receipt by the commissioner of revenue of collected funds in the amount of the deferral, the state's loan to the program participant is deemed paid in full.

Sec. 11. [290B.08] [TERMINATION OF DEFERRAL; PAYMENT OF DEFERRED TAXES.]

Subdivision 1. [TERMINATION.] (a) The deferral of taxes granted under this chapter terminates when one of the following occurs:

- (1) the property is sold or transferred;
- (2) the death of the qualifying homeowner(s);
- (3) the homeowner notifies the commissioner in writing that the homeowner desires to discontinue the deferral; or
- (4) the property no longer qualifies as a homestead.

(b) A property is not terminated from the program because no deferred property tax amount is determined on the homestead for any given year after the homestead's initial enrollment into the program.

Subd. 2. [PAYMENT UPON TERMINATION.] Upon the termination of the deferral under subdivision 1, the amount of deferred taxes and interest plus the recording or filing fees under both section 290B.04, subdivision 2, and this subdivision becomes due and payable to the commissioner within 90 days of termination of the deferral. No additional interest is due on the deferral if timely paid. On receipt of payment, the commissioner shall within ten days notify the auditor of the county in which the parcel is located, identifying the parcel to which the payment applies and shall remit the recording or filing fees under section 290B.04, subdivision 2, and this subdivision to the auditor. A notice of termination of deferral, containing the legal description and the recording or filing data for the notice of qualification for deferral under section 290B.04, subdivision 2, shall be prepared and recorded or filed by the county auditor in the same office in which the notice of qualification for deferral under section 290B.04, subdivision 2, was recorded or filed, and the county auditor shall mail a copy of the notice of termination to the property owner. The property owner shall pay the recording or filing fees. Upon recording or filing of the notice of termination of deferral, the notice of qualification for deferral under section 290B.04, subdivision 2, and the lien created by it are discharged. If the deferral is not timely paid, the penalty, interest, lien, forfeiture, and other rules for the collection of ad valorem property taxes apply.

Sec. 12. [290B.09] [STATE REIMBURSEMENT.]

Subdivision 1. [DETERMINATION; PAYMENT.] The commissioner of revenue shall determine the deferred amount of property tax in each county, basing determinations on a review of abstracts of tax lists submitted by the county auditors under section 275.29. The commissioner may make changes in the abstracts of tax lists as deemed necessary. The commissioner of revenue, after such review, shall pay the deferred amount of property tax to each county treasurer on or before August 31.

At least once each year, the commissioner shall report to the county auditor the total cumulative amount of deferred taxes and interest that constitute a lien against the property.

The county treasurer shall distribute as part of the October settlement the funds received as if they had been collected as a part of the property tax.

Subd. 2. [APPROPRIATION.] An amount sufficient to pay the total amount of property tax determined under subdivision 1 is annually appropriated from the general fund to the commissioner of revenue.

Sec. 13. [DEPARTMENT OF REVENUE APPROPRIATION.]

There is appropriated to the commissioner of revenue \$33,000 for fiscal year 1999 for the purposes of administering the provisions of this article.

Sec. 14. [EFFECTIVE DATE.]

Sections 1 to 12 are effective for deferral of property taxes payable in 1999, and thereafter.

ARTICLE 15

INSURANCE PROVISIONS

Section 1. Minnesota Statutes 1996, section 60A.075, subdivision 1, is amended to read:

Subdivision 1. [DEFINITIONS.] For the purposes of this section, the terms in this subdivision have the meanings given them.

(a) "Eligible member" means a policyholder whose policy is in force as of the record date, which is the date that the mutual company's board of directors adopts a plan of conversion or some other date specified as the record date in the plan of conversion and approved by the commissioner. Unless otherwise provided in the plan, a person insured under a group policy is not an eligible member, unless on the record date:

(1) the person is insured or covered under a group life policy or group annuity contract under which funds are accumulated and allocated to the respective covered persons;

- (2) the person has the right to direct the application of the funds so allocated;
- (3) the group policyholder makes no contribution to the premiums or deposits for the policy or contract; and
- (4) the converting mutual company has the names and addresses of the persons covered under the group life policy or group annuity contract.
- (b) "Reorganized company" means a Minnesota domestic stock insurance company that has converted from a Minnesota domestic mutual insurance company according to this section.
- (c) "Plan of conversion" or "plan" means a plan adopted by a Minnesota domestic mutual insurance company's board of directors under this section to convert the mutual company into a Minnesota domestic stock insurance company.
- (d) "Policy" means a policy or contract of insurance issued by a converting mutual company, including an annuity contract.
- (e) "Commissioner" means the commissioner of commerce.
- (f) "Converting mutual company" means a Minnesota domestic mutual insurance company seeking to convert to a Minnesota domestic stock insurance company according to this section.
- (g) "Effective date of a conversion" means the date determined according to subdivision 6.
- (h) "Membership interests" means all policyholders' rights as members of the converting mutual company, including but not limited to, rights to vote and to participate in any distributions of surplus, whether or not incident to the company's liquidation.
- (i) "Equitable surplus" means the converting mutual company's surplus as regards policyholders as of the effective record date of the conversion or other date approved by the commissioner determined in a manner that is not unfair or inequitable to policyholders.
- (j) "Permitted issuer" means: (1) a corporation organized and owned by the converting mutual company or by any other insurance company or insurance holding company for the purpose of purchasing and holding all of the stock securities representing a majority of voting control of the reorganized company; (2) a stock insurance company owned by the converting mutual company or by any other insurance company or insurance holding company into which the converting mutual company will be merged; or (3) any other corporation approved by the commissioner.

Sec. 2. Minnesota Statutes 1996, section 60A.075, subdivision 8, is amended to read:

Subd. 8. [SHARE CONVERSION.] A plan of conversion under this subdivision shall provide for exchange of policyholders' membership interests in return for shares in the reorganized company, according to paragraphs (a) to (c).

(a) The policyholders' membership interests shall be exchanged, in a manner that takes into account the estimated proportionate contribution of equitable surplus of each class of participating policies and contracts, for all of the common shares of the reorganized company or common shares of its parent company or a permitted issuer, or for a combination of the common shares of the reorganized company or common shares of its parent company or a permitted issuer.

(b) Unless the anticipated issuance within a shorter period is disclosed in the plan of conversion, the issuer of common shares shall not, within two years after the effective date of reorganization, issue either of the following:

(1) any of its common shares or any securities convertible with or without consideration into the common shares or carrying any warrant to subscribe to or purchase common shares; and

(2) any warrant, right, or option to subscribe to or purchase the common shares or other securities described in paragraph (a), except for the issue of common shares to or for the benefit of policyholders according to the plan of conversion and the issue of options nontransferable

subscription rights for the purchase of common shares being granted to officers, directors, or employees a tax qualified employee benefit plan of the reorganized company or its parent company, if any, or a permitted issuer, according to ~~this section~~ subdivision 11.

(c) Unless the common shares have a public market when issued, the issuer shall use its best efforts to encourage and assist in the establishment of a public market for the common shares within two years of the effective date of the conversion or a longer period as disclosed in the plan of conversion. Within one year after any offering of stock other than the initial distribution, but no later than six years after the effective date of the conversion, the reorganized company shall offer to make available to policyholders who received and retained shares of common stock or securities described in paragraph (b), clause (1), a procedure to dispose of those shares of stock at market value without brokerage commissions or similar fees.

Sec. 3. Minnesota Statutes 1996, section 60A.075, subdivision 9, is amended to read:

Subd. 9. [SURPLUS DISTRIBUTION.] A plan of conversion under this subdivision shall provide for the exchange of the policyholders' membership interests in return for the operation of the converting mutual company's participating policies as a closed block of business and for the distribution of the company's equitable surplus to policyholders, and shall provide for the issuance of new shares of the reorganized company or its parent corporation, each according to paragraphs (a) to (i).

(a) The converting mutual company's participating business, comprised of its participating policies and contracts in force on the effective date of the conversion or other reasonable date as provided in the plan, shall be operated by the reorganized company as a closed block of participating business. However, at the option of the converting mutual company, group policies and group contracts may be omitted from the closed block.

(b) Assets of the converting mutual company must be allocated to the closed block of participating business in an amount equal to the reserves and liabilities for the converting mutual life insurer's participating policies and contracts in force on the effective date of the conversion. The plan must be accompanied by an opinion of an independent qualified actuary who meets the standards set forth in the insurance laws or regulations for the submission of actuarial opinions as to the adequacy of reserves or assets. The opinion must relate to the adequacy of the assets allocated to support the closed block of business. The actuarial opinion must be based on methods of analysis considered appropriate for those purposes by the Actuarial Standards Board.

(c) The reorganized company shall keep a separate accounting for the closed block and shall make and include in the annual statement to be filed with the commissioner each year a separate statement showing the gains, losses, and expenses properly attributable to the closed block.

(d) Notwithstanding the establishment of a closed block, the entire assets of the reorganized company shall be available for the payment of benefits to policyholders. Payment must first be made from the assets supporting the closed block until exhausted, and then from the general assets of the reorganized company.

(e) The converting mutual company's equitable surplus shall be distributed to eligible participating policyholders in a form or forms selected by the converting mutual company. The form of distribution may consist of cash, securities of the reorganized company, securities of another institution, a certificate of contribution, additional life insurance, annuity benefits, increased dividends, reduced premiums, or other equitable consideration or any combination of forms of consideration. The consideration, if any, given to a class or category of policyholders may differ from the consideration given to another class or category of policyholders. A certificate of contribution must be repayable in ten years, be equal to 100 percent of the value of the policyholders' membership interest, and bear interest at the highest rate charged by the reorganized company for policy loans on the effective date of the conversion.

(f) The consideration must be allocated among the policyholders in a manner that is fair and equitable to the policyholders.

(g) The reorganized company or its parent corporation shall issue and sell shares of one or more classes having a total price equal to the estimated value in the market of the shares on the initial offering date. The estimated value must take into account all of the following:

- (1) the pro forma market value of the reorganized company;
- (2) the consideration to be given to policyholders according to paragraph (e);
- (3) the proceeds of the sale of the shares; and

(4) any additional value attributable to the shares as a result of a purchaser or a group of purchasers who acted in concert to obtain shares in the initial offering, attaining, through such purchase, control of the reorganized company or its parent corporation.

(h) If a purchaser or a group of purchasers acting in concert is to attain control in the initial offering, the mutual company shall not, directly or indirectly, pay for any of the costs or expenses of conversion of the mutual company, whether or not the conversion is effected, except with permission of the commissioner.

(i) Periodically, with the commissioner's approval, the reorganized company may share in the profits of the closed block of participating business for the benefit of stockholders if the assets allocated to the closed block are in excess of those necessary to support the closed block.

Sec. 4. Minnesota Statutes 1996, section 60A.077, subdivision 1, is amended to read:

Subdivision 1. [FORMATION.] (a) A domestic mutual insurance company, upon approval of the commissioner, may reorganize by forming an insurance holding company based upon a mutual plan and continuing the corporate existence of the reorganizing insurance company as a stock insurance company. The commissioner, if satisfied that the interests of the policyholders are properly protected and that the plan of reorganization is fair and equitable to the policyholders, may approve the proposed plan of reorganization and may require as a condition of approval the modifications of the proposed plan of reorganization as the commissioner finds necessary for the protection of the policyholders' interests. The commissioner shall retain jurisdiction over the mutual insurance holding company according to this section and chapter 60D to assure that policyholder and member interests are protected.

(b) All of the initial voting shares of the capital stock of the reorganized insurance company must be issued to the mutual insurance holding company or to an intermediate stock holding company ~~that is wholly owned by the mutual insurance holding company.~~ The membership interests of the policyholders of the reorganized insurance company become membership interests in the mutual insurance holding company. "Membership interests" means those interests described in section 60A.075, subdivision 1, paragraph (h). Policyholders of the reorganized insurance company shall be members of the mutual insurance holding company and their voting rights must be determined in accordance with the articles of incorporation and bylaws of the mutual insurance holding company. The mutual insurance holding company shall, at all times, directly or through ~~an~~ one or more intermediate stock holding ~~company~~ companies, control a majority of the voting shares of the capital stock of the reorganized insurance company, taking into account any potential dilution resulting from convertible securities.

(c) A majority of the board of directors of a mutual insurance holding company must be disinterested directors. For purposes of this section, a director is disinterested if (i) the director is not or has not within the past two years been an officer or employee of the mutual insurance holding company or any subsidiary or predecessor corporation, and (ii) the director does not hold, directly or indirectly, a material ownership interest in any subsidiary of the mutual insurance holding company. An ownership interest is material if it represents more than one-half of one percent of the voting securities of the issuer, or a larger percentage as the commissioner may approve.

Sec. 5. Minnesota Statutes 1996, section 60A.077, subdivision 2, is amended to read:

Subd. 2. [MERGER.] (a) A domestic or foreign mutual insurance company, upon the approval

of the commissioner, may reorganize by merging its policyholders' membership interests into a mutual insurance holding company formed according to subdivision 1 and continuing the corporate existence of the reorganizing insurance company as a stock insurance company subsidiary of the mutual insurance holding company or of an intermediate stock holding company. "Membership interests" means those interests described in section 60A.075, subdivision 1, paragraph (h). The commissioner, if satisfied that the interests of the ~~policyholder~~ policyholders of the reorganizing company and the interests of the existing members of the mutual insurance holding company are properly protected and that the merger is fair and equitable to the ~~policyholders~~ those parties, may approve the proposed merger and may require as a condition of approval the modifications of the proposed merger as the commissioner finds necessary for the protection of the policyholders' or members' interests. The commissioner shall retain jurisdiction, under chapter 60D, over the mutual insurance holding company organized according to this section to assure that policyholder and member interests are protected.

(b) All of the initial voting shares of the capital stock of the reorganized insurance company must be issued to the mutual insurance holding company, or to an intermediate stock holding company that is wholly owned by the mutual insurance holding company. The membership interests of the policyholders of the reorganized insurance company become membership interests in the mutual insurance holding company. Policyholders of the reorganized insurance company shall be members of the mutual insurance holding company and their voting rights must be determined according to the articles of incorporation and bylaws of the mutual insurance holding company. The mutual insurance holding company shall, at all times, directly or through one or more intermediate stock holding companies, control a majority of the voting shares of the capital stock of the reorganized insurance company, taking into account any potential dilution resulting from convertible securities.

(c) A domestic mutual insurance holding company may merge with a domestic or foreign mutual insurance holding company in the manner prescribed for the merger of insurance companies set forth in section 60A.16, with any exceptions or modifications the commissioner may approve.

Sec. 6. Minnesota Statutes 1996, section 60A.077, subdivision 3, is amended to read:

Subd. 3. [PLAN OF REORGANIZATION; APPROVAL BY COMMISSIONER.] (a) ~~The A reorganizing or merging insurer or a merging mutual insurance holding company shall file a plan of reorganization, approved, by the affirmative vote of a majority of its board of directors, for review and approval by the commissioner adopt a plan of reorganization or merger consistent with the requirements of this section and file the plan with the commissioner. At any time before the approval of a plan by the commissioner, the company, by the affirmative vote of a majority of its directors, may amend or withdraw the plan. The plan must provide for the following:~~

(1) ~~in the case of a reorganization under subdivision 1, establishing a mutual insurance holding company with at least one stock insurance company subsidiary, the majority of shares of which must be owned, either directly or through an intermediate stock holding company, by the mutual insurance holding company or in the case of a reorganization under subdivision 2, a description of the terms and conditions of the proposed merger;~~

(2) analyzing the benefits and risks attendant to the proposed reorganization, including the rationale for the reorganization and analysis of the comparative benefits and risks of a demutualization under section 60A.075;

(3) protecting the immediate and long-term interests of existing policyholders;

(4) ensuring immediate membership in the mutual insurance holding company of all existing policyholders of the reorganizing domestic insurance company;

(5) describing a plan providing for membership interests of future policyholders;

(6) describing the number of members of the board of directors of the mutual insurance holding company required to be policyholders;

~~(7) ensuring that, in the event of proceedings under chapter 60B involving a stock insurance company subsidiary of the mutual insurance holding company that resulted from the reorganization of a domestic mutual insurance company, the assets of the mutual insurance holding company will be available to satisfy the policyholder obligations of the stock insurance company;~~

~~(8) for periodic distribution of accumulated holding company earnings to members describing the mutual insurance holding company's plan for distributions to members or other uses of accumulated mutual holding company earnings;~~

~~(9) (8) describing the nature and content of the annual report and financial statement to be sent to each member;~~

~~(10) (9) a copy of the proposed mutual insurance holding company's articles of incorporation and bylaws specifying all membership rights;~~

~~(11) (10) the names, addresses, and occupational information of all corporate officers and members of the proposed mutual insurance holding company board of directors;~~

~~(12) (11) information sufficient to demonstrate that the financial condition of the reorganizing or merging company will not be materially diminished upon reorganization, including information concerning any subsidiaries of the reorganizing or merging insurers that will become subsidiaries of the mutual insurance holding company or an intermediate holding company as part of the reorganization;~~

~~(13) (12) a copy of the articles of incorporation and bylaws for any proposed insurance company subsidiary or intermediate holding company subsidiary;~~

~~(14) (13) describing any plans for the an initial sale or subscription of stock for or other securities of the reorganized insurance company or any intermediate holding company; and~~

~~(15) (14) any other information requested by the commissioner or required by rule.~~

(b) The commissioner may approve the plan upon finding that the requirements of this section have been fully met and the plan will protect the immediate and long-term interests of policyholders.

(c) The commissioner may retain, at the reorganizing or merging mutual company's expense, any qualified experts not otherwise a part of the commissioner's staff to assist in reviewing the plan.

(d) The commissioner may, but need not, conduct a public hearing regarding the proposed plan. The hearing must be held within 30 days after submission of a completed plan of reorganization to the commissioner. The commissioner shall give the reorganizing mutual company at least 20 days' notice of the hearing. At the hearing, the reorganizing mutual company, its policyholders, and any other person whose interest may be affected by the proposed reorganization, may present evidence, examine and cross-examine witnesses, and offer oral and written arguments or comments according to the procedure for contested cases under chapter 14. The persons participating may conduct discovery proceedings in the same manner as prescribed for the district courts of this state. All discovery proceedings must be concluded no later than three days before the scheduled commencement of the public hearing.

Sec. 7. Minnesota Statutes 1996, section 60A.077, subdivision 5, is amended to read:

Subd. 5. [APPROVAL BY MEMBERS.] The plan shall be approved ~~by the members~~ as provided in section 60A.075, subdivision 5: by the eligible members described in paragraphs (a) to (c).

(a) In the case of a formation under subdivision 1, the plan must be approved by the eligible members of the reorganizing insurance company.



(b) In the case of a merger under subdivision 2, paragraph (a), the plan must be approved by the eligible members of the merging insurance company and by the eligible members of the mutual insurance holding company into which the policyholders' membership interests are to be merged. The vote of the eligible members of the mutual insurance holding company is not required if the commissioner determines that the merger would not be material to the financial condition of the mutual insurance holding company.

(c) In the case of a merger of two mutual insurance holding companies under subdivision 2, paragraph (c), the plan must be approved by the eligible members of both companies. The vote of the eligible members of the surviving mutual holding company is not required if the commissioner determines that the merger would not be material to the financial condition of the surviving company.

Sec. 8. Minnesota Statutes 1996, section 60A.077, subdivision 6, is amended to read:

Subd. 6. [INCORPORATION.] A mutual insurance holding company resulting from the reorganization of a domestic mutual insurance company organized under chapter 300 shall be incorporated pursuant to chapter 300. The articles of incorporation and any amendments to the articles of the mutual insurance holding company are subject to approval of the commissioner in the same manner as those of an insurance company. Members of a mutual insurance holding company shall be entitled to vote on all matters required to be submitted to members under chapter 300 and shall additionally be treated as shareholders for purposes of the voting approval requirements of section 300.09.

Sec. 9. Minnesota Statutes 1996, section 60A.077, subdivision 7, is amended to read:

Subd. 7. [APPLICABILITY OF CERTAIN PROVISIONS.] (a) A In the event of the insolvency of a mutual insurance holding company, the mutual insurance holding company is considered to be an insurer subject to chapter 60B, and shall automatically be a party to any proceeding under chapter 60B involving an insurance company that, as a result of a reorganization according to subdivision 1 or 2, is a subsidiary of the mutual insurance holding company. In any proceeding under chapter 60B involving the reorganized insurance company, the assets of the mutual insurance holding company are considered to be assets of the estate of the reorganized insurance company for purposes of satisfying the claims of the reorganized insurance company's policyholders. A mutual insurance holding company shall not dissolve or liquidate without the approval of the commissioner or as ordered by the district a court according to chapter 60B of competent jurisdiction.

(b) A mutual insurance holding company is subject to chapter 60D to the extent consistent with this section.

(c) As a condition to approval of the plan, the commissioner may require the mutual insurance holding company to comply with any provision of the insurance laws necessary to protect the interests of the policyholders as if the mutual insurance holding company were a domestic mutual insurance company.

(d) No person or group of persons other than the chief executive officer of a mutual insurance holding company, or the chief executive officer's designee, shall seek to obtain proxies from the members of the mutual insurance holding company for the purposes of affecting a change of control of the mutual insurance holding company unless that person or persons have filed with the commissioner and have sent to the mutual insurance holding company a statement containing the information required by section 60D.17. Section 60D.17, subdivisions 2 to 7, apply in the event of a proxy solicitation regulated by this paragraph.

(e) For purposes of this subdivision, the term "control," including the terms "controlling," "controlled by," and "under common control with," means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a person, whether through membership voting interests, by contract other than a commercial contract for goods or nonmanagement services, or otherwise, unless the power is the result of an official position with, corporate office held by, or court appointment of, the person. Control is presumed to exist if any

person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing, ten percent or more of the membership voting interests of the mutual insurance holding company. This presumption may be rebutted by a showing made in the manner provided by section 60D.19, subdivision 11, that control does not exist in fact. The commissioner may determine after furnishing all persons in interest notice and opportunity to be heard and making specific findings of fact to support the determination, that control exists in fact, notwithstanding the absence of a presumption to that effect.

Sec. 10. Minnesota Statutes 1996, section 60A.077, subdivision 8, is amended to read:

Subd. 8. [APPLICABILITY OF DEMUTUALIZATION PROVISIONS.] (a) Except as otherwise provided, section 60A.075 is not applicable to a reorganization or merger according to this section, ~~except for section 60A.075, subdivisions 14 to 16.~~

(b) Section 60A.075 is applicable to demutualization of a mutual insurance holding company ~~that resulted from the reorganization of a domestic mutual insurance company organized under chapter 300 as if it were a mutual insurance company.~~

(c) Section 60A.075, subdivisions 14 to 16, are applicable to a reorganization or merger under this section.

Sec. 11. Minnesota Statutes 1996, section 60A.077, subdivision 9, is amended to read:

Subd. 9. [MEMBERSHIP INTERESTS.] A membership interest in a domestic mutual insurance holding company does not constitute a security as defined in section 80A.14, subdivision 18. No member of a mutual insurance holding company may transfer or pledge membership in the mutual insurance holding company or any right arising from the membership except as attendant to the valid transfer or assignment of the member's policy in any reorganized company that gave rise to the member's membership interest. A member of a mutual insurance holding company is not, as a member, personally liable for the acts, debts, liabilities, or obligations of the company. No assessments of any kind may be imposed upon the members of a mutual insurance holding company by the directors or members, or because of any liability of any company owned or controlled by the mutual insurance holding company or because of any act, debt, or liability of the mutual insurance holding company. A member's interest in the mutual insurance holding company shall automatically terminate upon cancellation, nonrenewal, expiration, or termination of the member's policy in any insurance company that gave rise to the member's membership interest.

Sec. 12. Minnesota Statutes 1996, section 60A.077, subdivision 10, is amended to read:

Subd. 10. [FINANCIAL STATEMENT REQUIREMENTS.] (a) In addition to any items required under chapter 60D, each mutual insurance holding company shall file with the commissioner, by April 1 of each year, an annual statement consisting of the following:

(1) an income statement, balance sheet, and cashflow statement prepared in accordance with generally accepted accounting principles;

(2) complete information on the status of any closed block formed as part of a plan of reorganization;

(3) an investment plan covering all assets; and

(4) a statement disclosing any intention to pledge, borrow against, alienate, hypothecate, or in any way encumber the assets of the mutual insurance holding company or an intermediate stock holding company. Action taken according to the statement is subject to the commissioner's prior written approval.

(b) The aggregate pledges and encumbrances of a mutual insurance holding company's assets shall not affect more than 49 percent of the ~~company's~~ stock in ownership of any subsidiary insurance holding company or subsidiary insurance company that resulted from a reorganization or merger.

(c) At least 50 percent of the generally accepted accounting principles (GAAP) net worth of a mutual insurance holding company must be invested in insurance company subsidiaries.

Sec. 13. Minnesota Statutes 1996, section 60A.077, subdivision 11, is amended to read:

Subd. 11. [SALE OF STOCK AND PAYMENT OF DIVIDENDS.] (a) A reorganized insurance company and an intermediate stock holding company may issue subscription rights and may issue or grant any other securities, rights, options, and similar items to the same extent as any business corporation organized under chapter 302A. However, except as provided in paragraphs (b) to (d), no solicitation for the sale of the stock securities of the reorganized insurance company, or of an intermediate stock holding company of the mutual insurance holding company, that directly or indirectly controls a majority of voting shares of the reorganized insurance company, may be made without the commissioner's prior written approval.

(b) A registration statement covering securities that has been approved by the commissioner and filed with and declared effective by the Securities and Exchange Commission under the Securities Act of 1933 pursuant to any provision of that statute or rule that allows registration of securities to be sold on a delayed or continuous basis may be sold without further approval.

(c) Unless the commissioner has granted the mutual insurance holding company a written exemption from the requirements of this paragraph, any securities which are regularly traded on the New York Stock Exchange, the American Stock Exchange, or another exchange approved by the commissioner, or designated on the National Association of Securities Dealers automated quotations (NASDAQ) national market system, shall be sold according to the procedure in this paragraph. If the mutual insurance holding company, an intermediate holding company, or a reorganized insurance company intends to offer securities that are governed by this paragraph, that entity shall deliver to the commissioner, not less than ten days before the offering, a notice of the planned offering and information regarding: (1) the approximate number of shares intended to be offered; (2) the target date of sale; (3) evidence the security is regularly traded on one of the public exchanges noted above; and (4) the recent history of the trading price and trading volume of the security. The commissioner is considered to have approved the sale unless within ten days following receipt of the notice, the commissioner issues an objection to the sale. If the commissioner issues an objection to the sale, the security may not be sold until the commissioner issues an order approving the sale.

(d) A reorganized insurance company or intermediate holding company that has issued securities that are regularly traded on one of the exchanges or markets described in paragraph (c), may establish stock option, incentive, and share ownership plans customary for publicly traded companies in the same or similar industries. If the reorganized insurance company or intermediate holding company intends to establish a stock option, incentive or share ownership plan, that entity shall deliver to the commissioner, not less than 30 days before the establishment of the plan, a notice of the proposed plan along with any information about the proposed plan the commissioner requires. The commissioner is considered to have approved the plan unless within 30 days following receipt of the notice, the commissioner issues an objection to the proposed plan. If the commissioner issues an objection to the proposed plan, the plan may not be established until the commissioner issues an order approving the plan. If the commissioner approves the establishment of the stock option, incentive, or share ownership plan, the reorganized insurance company or the intermediate holding company that obtained the approval may sell or issue securities according to the approved plan without further approval.

(e) The total number of shares of capital stock issued by the reorganized insurance company or an intermediate holding company that may be held by directors and officers of the mutual insurance holding company, any intermediate holding company, and of any reorganized insurance company, and acquired according to subscription rights or stock option, incentive, and share ownership plans, may not exceed the percentage limits set forth in section 60A.075, subdivision 11, paragraph (b). Subject to the requirements of subdivision 1, paragraph (c), nothing in this section prohibits the acquisition of any securities of a reorganized insurance company or intermediate stock holding company through a licensed securities broker-dealer by any officer or director of the reorganized company, an intermediate stock holding company, or the mutual insurance holding company.

(f) Dividends and other distributions to the shareholders of the reorganized stock insurance company or of an intermediate stock holding company shall not be made except in compliance must comply with section 60D.20. Any dividends and other distributions to the members of the mutual insurance holding company must comply with section 60D.20 and any other approval requirements contained in the mutual insurance holding company's articles of incorporation.

(g) Unless previously approved as part of the plan of reorganization, the initial offering of any voting shares to the public by a reorganized company, a stock insurance company subsidiary, or an intermediate holding company which holds a majority of the voting shares of a reorganized insurance company or stock insurance company subsidiary, must be approved by a majority of votes cast at a regular or special meeting of the members of the mutual insurance holding company. Any issuer repurchase program, plan of exchange, recapitalization, or offering of capital securities to the public, shall, in addition to any other approvals required by law or by the issuer's articles of incorporation, be approved by a majority of the board of directors of the mutual insurance holding company and by a majority of the disinterested members of the board of directors of the mutual insurance holding company.

Sec. 14. Minnesota Statutes 1996, section 60A.077, is amended by adding a subdivision to read:

Subd. 12. [PROVISIONS IN THE EVENT OF INSURER INSOLVENCY.] (a) In the event of any insolvency proceeding involving an insolvent stock subsidiary, the assets of the mutual insurance holding company, together with any assets of any intermediate holding company that directly or indirectly controls the insolvent stock subsidiary, must be available to satisfy the policyholder obligations of the insolvent stock subsidiary in an amount determined by the commissioner, but in no event more than the total amount of nonpolicyholder dividends paid by the insolvent stock subsidiary to the mutual insurance holding company, or any intermediate holding company that controls the insolvent stock subsidiary, during the ten-year period immediately preceding the date of insolvency.

(b) In determining the required contribution by the mutual insurance holding company or any intermediate stock holding company which controls the insolvent stock subsidiary, the commissioner shall take into account among other factors:

(1) the possible direct or indirect negative effects of any required contribution on any insurance company affiliate of the insolvent stock subsidiary; and

(2) the possible direct or indirect, long-term, or short-term negative effects on the members of the mutual insurance holding company, other than those members who, are, or were policyholders of the insolvent stock subsidiary.

Nothing in this subdivision limits the powers of the commissioner or the liquidator under chapter 60B.

(c) For purposes of this subdivision, the following terms have the meanings given:

(1) "date of insolvency" means, as to an insolvent stock subsidiary, the date established in accordance with chapter 60B or comparable statute of another state governing the rehabilitation or liquidation of a foreign insolvent stock subsidiary;

(2) "insolvency proceeding" means any proceeding under chapter 60B or comparable statute of another state governing the rehabilitation and liquidation of a foreign insolvent stock subsidiary;

(3) "insolvent stock subsidiary" means any stock insurance company subsidiary of a mutual insurance holding company that resulted from the reorganization of a domestic or foreign mutual insurance company according to subdivision 1 or 2, or any other stock insurance company subsidiary that is subject to an insolvency proceeding, which on the date of insolvency has in force policies that have given rise to membership interests in the mutual insurance holding company;

(4) "control" has the meaning given in section 60D.15, subdivision 4; and

(5) "dividends" include distributions of cash or any other assets.

Sec. 15. Minnesota Statutes 1996, section 290.01, is amended by adding a subdivision to read:

Subd. 4c. [MUTUAL INSURANCE HOLDING COMPANIES.] A "mutual insurance holding company" is not an insurance company for purposes of this chapter.

Sec. 16. Minnesota Statutes 1996, section 290.17, subdivision 4, is amended to read:

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

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

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

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

(e) Unity of ownership is not deemed to exist when a corporation is involved unless that corporation is a member of a group of two or more business entities and more than 50 percent of the voting stock of each member of the group is directly or indirectly owned by a common owner or by common owners, either corporate or noncorporate, or by one or more of the member corporations of the group. For this purpose, the term "voting stock" shall include membership interests of mutual insurance holding companies formed under section 60A.077.

(f) The net income and apportionment factors under section 290.191 or 290.20 of foreign corporations and other foreign entities which are part of a unitary business shall not be included in the net income or the apportionment factors of the unitary business. A foreign corporation or other foreign entity which is required to file a return under this chapter shall file on a separate return basis. The net income and apportionment factors under section 290.191 or 290.20 of foreign operating corporations shall not be included in the net income or the apportionment factors of the unitary business except as provided in paragraph (g).

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

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

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

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

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

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

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

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

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

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

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

## ARTICLE 16

### MISCELLANEOUS

Section 1. Minnesota Statutes 1996, section 6.76, is amended to read:

#### 6.76 [LOCAL GOVERNMENTAL EXPENDITURES FOR LOBBYISTS.]

(a) On or before January 31, 1990, and of each year thereafter, all counties, cities, school districts, metropolitan agencies, regional railroad authorities, and the metropolitan council shall report to the state auditor, on forms prescribed by the auditor, their estimated expenditures paid for the previous calendar year to a lobbyist as defined in section 10A.01, subdivision 11, except payments to associations of local governments that are reported under paragraph (b), and to any staff person not registered as a lobbyist, over 25 percent of whose time is spent during the legislative session on legislative matters.

(b) Associations of local governments subject to this section shall report annually, on or before January 31, to the state auditor and the association's members the proportionate amount of each member's dues spent for lobbying purposes.

Sec. 2. Minnesota Statutes 1996, section 115A.554, is amended to read:

#### 115A.554 [AUTHORITY OF SANITARY DISTRICTS.]

A sanitary district has the authorities and duties of counties within the district's boundary for purposes of sections 115A.0716; 115A.46, subdivisions 4 and 5; 115A.48; 115A.551; 115A.552; 115A.553; 115A.919; 115A.929; 115A.93; 115A.96, subdivision 6; 115A.961; 116.072; 375.18, subdivision 14; 400.08, ~~except subdivision 4, paragraph (b); 400.16; and 400.161.~~

Sec. 3. Minnesota Statutes 1996, section 117.155, is amended to read:

117.155 [PAYMENTS; PARTIAL PAYMENT PENDING APPEAL.]

Except as otherwise provided herein payment of damages awarded may be made or tendered at any time after the filing of the report; and the duty of the petitioner to pay the amount of any award or final judgment upon appeal shall, for all purposes, be held and construed to be full and just compensation to the respective owners or the persons interested in the lands. If either the petitioner or any respondent appeals from an award, the respondent or respondents, if there is more than one, except encumbrancers having an interest in the award which has been appealed, may demand of the petitioner a partial payment of the award pending the final determination thereof, and it shall be the duty of the petitioner to comply with such demand and to promptly pay the amount demanded but not in excess of an amount equal to three-fourths of the award of damages for the parcel which has been appealed, less any payments made by petitioner pursuant to section 117.042; provided, however, that the petitioner may by motion after due notice to all interested parties request, and the court may order, reduction in the amount of the partial payment for cause shown. If an appeal is taken from an award the petitioner may, but it cannot be compelled to, pay the entire amount of the award pending the final determination thereof. If any respondent or respondents having an interest in the award refuses to accept such payment the petitioner may pay the amount thereof to the court administrator of district court to be paid out under direction of the court. A partial or full payment as herein provided shall not draw interest from the condemner from the date of payment or deposit, and upon final determination of any appeal the total award of damages shall be reduced by the amount of the partial or full payment. If any partial or full payment exceeds the amount of the award of compensation as finally determined, the petitioner shall have a claim against the respondents receiving such payment for the amount thereof, to be recoverable in the same manner as in any civil action upon petitioner's motion, final judgment must be entered in the condemnation action in favor of the petitioner in the amount of the balance owed to the petitioner and is recoverable within the original condemnation action.

Sec. 4. Minnesota Statutes 1996, section 121.15, is amended by adding a subdivision to read:

Subd. 1a. [PROJECT.] The construction, remodeling, or improvement of a building or site of an educational facility at an estimated cost exceeding \$100,000 is a project under section 177.42, subdivision 2.

Sec. 5. Minnesota Statutes 1996, section 161.45, is amended by adding a subdivision to read:

Subd. 3. [UTILITY INTERESTS WHEN REAL PROPERTY CONVEYED.] In proceedings to vacate, transfer, turn back, or otherwise convey an interest in real property owned or controlled by the department, when the property is owned in fee by the state, the commissioner may specify that the conveyance of the department's interest does not affect a prior, existing utility easement in the property or use of the property granted to a utility under permit issued by the department. In addition, the commissioner may convey interests in real property, including an easement, subject to the right of a utility to enter upon the right-of-way to maintain, repair, replace, reconstruct, improve, remove, or otherwise attend to its equipment. Where the utility had no preexisting easement over the real property, this subdivision does not prohibit a political subdivision, government agency, or private entity from negotiating or contracting with a utility with regard to the utility's easement or other interest in the property, but the utility shall continue to hold the interest in the property and the right of reasonable entry unless and until the utility agrees in writing to relinquish its interests.

Sec. 6. Minnesota Statutes 1996, section 270.60, is amended by adding a subdivision to read:

Subd. 4. [PAYMENTS TO COUNTIES.] (a) The commissioner shall pay to a qualified 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 qualifies for payments under this subdivision only 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.

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

(d) To make the payments authorized by this subdivision, \$1,100,000 is annually appropriated from the general fund to the commissioner. If the authorized payments exceed the amount of the appropriation, the commissioner shall proportionately reduce the rate so that the total amount equals the appropriation.

Sec. 7. Minnesota Statutes 1996, section 271.19, is amended to read:

271.19 [COSTS AND DISBURSEMENTS.]

Upon the determination of any appeal under this chapter before the tax court, or of any review hereunder by the supreme court, the costs and disbursements shall be taxed and allowed in favor of the prevailing party and against the losing party as in civil actions or, if there has been an offer of judgment or settlement by a party prior to ten days before the court hears the appeal, pursuant to Minnesota Rules of Civil Procedure, rule 68. In any case where a person liable for a tax or other obligation has lost an appeal or review instituted by the person, and the tax court or court shall determine that the person instituted the same merely for the purposes of delay, or that the taxpayer's position in the proceedings is frivolous, additional costs, commensurate with the expense incurred and services performed by the agencies of the state in connection with the appeal, but not exceeding \$5,000 in any case, may be allowed against the taxpayer, in the discretion of the tax court or court. Costs and disbursements allowed against any such person shall be added to the tax or other obligation determined to be due, and shall be payable therewith. To the extent described in section 15.471, where an award of costs and attorney fees is authorized under section 15.472, the costs and fees shall be allowed against the state, including expenses incurred by the taxpayer to administratively protest or appeal to the department of revenue the order, decision, or report of the commissioner that is the subject of the tax court proceedings. Costs and disbursements allowed against the state or other public agencies shall be paid out of funds received from taxes or other obligations of the kind involved in the proceeding, or other funds of the agency concerned appropriated and available therefor. Witnesses in proceedings under this chapter shall receive like fees as in the district court, to be paid in the first instance by the parties by whom the witnesses were called, and to be taxed and allowed as herein provided.

Sec. 8. Minnesota Statutes 1996, section 278.07, is amended to read:

278.07 [JUDGMENT; AMOUNT; COSTS.]

Judgment shall be for the amount of the taxes for the year as the court shall determine the same, less the amount paid thereon, if any. If the tax is sustained in the full amount levied or increased, costs and disbursements may, in the discretion of the court, be taxed and allowed as in delinquent tax proceedings and shall be included in the judgment. If the tax so determined ~~shall be less than~~ is decreased from the amount ~~thereof as originally~~ levied, the court may, in its discretion, award disbursements to the petitioner, which shall be taxed and allowed and be deducted from the amount of the taxes as determined unless there has been a previous offer of reduced taxes that was



rejected by the petitioner, in which case the award of costs and disbursements is governed by Minnesota Rules of Civil Procedure, rule 68. If there be no judgment for taxes, a judgment may be entered determining the right of the parties and for the costs and disbursements as taxed and allowed.

Sec. 9. Minnesota Statutes 1996, section 287.22, is amended to read:

287.22 [EXCEPTIONS.]

The tax imposed by section 287.21 shall not apply to:

A. Any executory contract for the sale of land under which the vendee is entitled to or does take possession thereof, or any assignment or cancellation thereof.

B. Any mortgage or any assignment, extension, partial release, or satisfaction thereof.

C. Any will.

D. Any plat.

E. Any lease.

F. Any deed, instrument, or writing in which the United States or any agency or instrumentality thereof is the grantor, assignor, transferor, conveyor, grantee or assignee.

G. Deeds for cemetery lots.

H. Deeds of distribution by personal representatives.

I. Deeds to or from coowners partitioning undivided interests in the same piece of property.

J. Any deed or other instrument of conveyance issued pursuant to a land exchange under section 92.121 and related laws.

K. A referee's or sheriff's certificate of sale in a mortgage or lien foreclosure sale.

L. A referee's or sheriff's certificate of redemption from a mortgage or lien foreclosure sale issued to the redeeming mortgagor or lienee.

M. A decree of marriage dissolution, as defined in section 287.01, subdivision 4, or any deed or other instrument between the parties to the dissolution made pursuant to the terms of the decree.

Sec. 10. [287.221] [NEW RESIDENTIAL CONSTRUCTION.]

The commissioner of revenue may not enforce a deed tax assessment on the consideration paid for an improvement in the case of new residential construction if, at or before the time the first residential owners of the improvement take possession, the deed tax has been paid on the consideration paid for the improvement.

Sec. 11. Minnesota Statutes 1996, section 308A.705, subdivision 1, is amended to read:

Subdivision 1. [DISTRIBUTION OF NET INCOME.] Net income in excess of dividends on capital stock and additions to reserves shall be distributed on the basis of patronage. A cooperative may establish allocation units, whether the units are functional, divisional, departmental, geographic, or otherwise, and pooling arrangements and may account for and distribute net income on the basis of allocation units and pooling arrangements. A cooperative may offset the net loss of an allocation unit or pooling arrangement against the net income of other allocation units or pooling arrangements to the extent permitted by section 1388(j) of the Internal Revenue Code of 1986, as amended through December 31, 1996.

Sec. 12. Minnesota Statutes 1996, section 325D.33, subdivision 3, is amended to read:

Subd. 3. [REBATES OR CONCESSIONS.] It is unlawful for a wholesaler to offer a rebate in

price, to give a rebate in price, to offer a concession of any kind, or to give a concession of any kind in connection with the sale of cigarettes. For purposes of this chapter, the term "discount" is included in the definition of a rebate. For purposes of this subdivision, the term "wholesaler" does not include a manufacturer or manufacturer's representative.

Sec. 13. [383A.80] [RAMSEY COUNTY DEED AND MORTGAGE TAX.]

Subdivision 1. [AUTHORITY TO IMPOSE; RATE.] (a) The governing body of Ramsey county may impose a mortgage registry and deed tax.

(b) The rate of the mortgage registry tax equals one cent for each \$100 or fraction of the principal.

(c) The rate of the deed tax equals five cents for each \$500 or fraction of the amount.

Subd. 2. [GENERAL LAW PROVISIONS APPLY.] The taxes under this section apply to the same base and must be imposed, collected, administered, and enforced in the same manner as provided under chapter 287 for the state mortgage registry and deed taxes. All the provisions of chapter 287 apply to these taxes, except the rate is as specified in subdivision 1, the term "Ramsey county" must be substituted for "the state," and the revenue must be deposited as provided in subdivision 3.

Subd. 3. [DEPOSIT OF REVENUES.] All revenues from the tax are for the use of the Ramsey county board of commissioners and must be deposited in the county's environmental response fund under section 383B.81.

Subd. 4. [EXPIRATION.] The authority to impose the tax under this section expires January 1, 2003.

Sec. 14. [383A.81] [ENVIRONMENTAL RESPONSE FUND.]

Subdivision 1. [CREATION.] An environmental response fund is created for the purposes specified in this section. The taxes imposed by section 383B.80 must be deposited in the fund. The board of county commissioners shall administer the fund either as a county board, a housing and redevelopment authority, or a regional rail authority.

Subd. 2. [USES OF FUND.] The fund created in subdivision 1 must be used for the following purposes:

(1) acquisition through purchase or condemnation of lands or property which are polluted or contaminated with hazardous substances;

(2) paying the costs associated with indemnifying or holding harmless the entity taking title to lands or property from any liability arising out of the ownership, remediation, or use of the land or property;

(3) paying for the costs of remediating the acquired land or property;

(4) paying the costs associated with remediating lands or property which are polluted or contaminated with hazardous substances; or

(5) paying for the costs associated with improving the property for economic development, recreational, housing, transportation or rail traffic.

Subd. 3. [MATCHING FUNDS.] In expending funds under this section, the county shall seek matching funds from contamination clean up funds administered by the commissioner of the department of trade and economic development, the metropolitan council, the federal government, the private sector, and any other source.

Subd. 4. [BONDS.] The county may pledge the proceeds from the taxes imposed by section 383B.80 to bonds issued under this chapter and chapters 398A, 462, 469, and 475.