

Minnesota Utility Tax Reform

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Utility Tax Reform

- **Why:** What were the policy principles and goals that drove the tax reform plan and utility recommendations?
- **What:** What changes we looked at and what was enacted in '01, and how do they affect governments and utilities?

Overall Tax Reform in '01

- Governor Ventura's goal right from the start in '98 transition process
- Grew out of "Big Plan" strategic planning process begun in summer '99
- Variety of public/stakeholder discussions beginning in August '99 throughout
- Many reform issues were longstanding ones
- including utility issues

Goals of Tax Reform:

- Fairness is number one
- Complexity of the tax and spending systems
- Uncertainty/insecurity about the future
- Competitiveness and long-run growth

Two other longstanding policy problems in the MN property tax:

- The property tax really wasn't a "local" tax -- mostly set by the State, but not funded in the State budget.
- State school levies and selective buydowns and the property classification system created disproportionate tax burdens.
- This hurt economic development and competitiveness

Overall Tax Reform Goals:

- Property tax smaller, simpler, and more local/accountable
- Sales tax applied more uniformly to fairly reflect modern service economy and technology
- Improve competitiveness via business/rental housing tax relief and income tax cuts
- Couple reform with net relief



Utility Tax Reform

1999 Mandated Study on
Utility Taxation

Had to dovetail into
larger
tax reform effort



Utility Reform

- Focus on Property tax - in particular the personal property tax
- Valuation of utility property
- Sales tax issues and Corporate tax issues as well
- Tax expenditures
- Local government and public finance issues

Utility Reform

- Looked at other states and our previous work
- 9 public meetings: education on issues, defining competitiveness, non-ptx issues, valuation, environmental issues, state-local fiscal issues, budget impacts
- Previous mediation sessions had failed

Utility Reform: areas of controversy

- Did tax issues make utilities non-competitive?
- Would tax changes upset local financial health of host communities?

Chapter 6: Competitiveness

How to determine if tax structure is competitive:

- Looked at real companies instead of hypothetical
- Found utilities were 1.5 to 5 times higher
- Overall C/I rate is high

Host Community Fiscal Issues: Chapter 9 and Appendix B

Would changes impact local fiscal structure dramatically?

- Attached machinery levy raised \$70 million
- \$40 million goes to non-school taxing jurisdictions

Host Community Fiscal Issues: Chapter 9 and Appendix B

Compare “host communities” to other Minnesota communities

- Measured local levy, average local tax rate, what percent was from A.M. levy, current debt and compared to statewide average
- Found “host communities heavily reliant on A.M. levy - some more so than others.

What happened?

Tax reform and utility reform

Overall structural reform: Beginning with taxes in 2002...

- The property tax made smaller and reflect local spending decisions to a much greater degree than it did before.
- The relative burden of property taxes will be more equally shared among types and values of property than it was before.
- The intent of these changes is to make the property tax more understandable and accountable to the local taxpayer/voter.

Utility Property Tax changes:

- Centrally assessed and CI rate applied to real and personal property at 3.4%
- Dropped CI rate to 2% and bought back some relief w/new statewide property tax
- Exempted personal property tax on generation from statewide levy, left local levy in place
- Overall relief for utilities: 18.5%

Other Utility Tax changes:

- No sales tax definition
- Pass on tax reduction to ratepayers
- More Exemptions!!
- Non tax issues in tax bill: emission reduction rider

Thanks!

www.taxes.state.mn.us