

Minnesota's Ag2School Property Tax Credit  
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Purpose of the Ag2School Credit

One challenge with funding school building projects is that the voters who can authorize building debt aren't necessarily the people who are responsible for repayment of that debt. In LQPV school district, a disproportionate share (about 85%) of the tax base comes from agricultural land value that is owned by a relatively small proportion of the voters living in the district. The Ag2School credit addresses this imbalance by significantly reducing the property tax burden on ag land owners, thereby giving a better opportunity to pass bond referenda to improve/replace buildings in the future.

The Ag2School credit was first signed into law in 2017 and provided a credit of 40% on the property taxes levied on agricultural property for existing or future school district building debt. The law was then updated during the 2019 legislative session, and under the new law the credit will provide an even greater benefit. This is a permanent law that will continue to exist in perpetuity, and the tax credit will increase over the next few years to a maximum of 70%.

- 40% for taxes payable in 2018 and 2019
- 50% for taxes payable in 2020
- 55% for taxes payable in 2021
- 60% for taxes payable in 2022
- 70% for taxes payable in 2023

How the Ag2School Credit Works

1. School District certifies an annual property tax levy to the County Auditor. Those levies are divided by the tax base to arrive at a tax rate. Here are the LQPV levies for taxes payable in 2019:

<b>Certified Levies and Calculations of Rates</b>			
	Levy	Initial Rate	
Gen NTC Other Job Ex.	662,439	0.03706	
Gen Debt Svc Other Job-NE	108,772	0.00609	
Comm Svc. Other Job Ex.	119,208	0.00667	
OPEB/Pension - Other Job NE	162,354	0.00908	
Subtotals	1,052,774	0.05890	
Gen RMV Voter Job Ex	346,913	0.0012199	
Gen RMV Other Job Ex	242,074	0.0008513	
Subtotals	588,986	0.0020712	
Grand Total	1,641,760		

Levies for school district building debt are eligible for the Ag2School credit (indicated in yellow highlight above).

- The tax rate is multiplied by a Net Tax Capacity, a factor based on assessed market value, to arrive at the initial property tax due.

Property Type	Value	*	Class Rate	=	NTC
Homestead Ag Land	\$100,000		0.5%		\$500
Non-homestead Ag Land	\$100,000		1.0%		\$1,000
	NTC	*	Tax Rate	=	Tax B/4 Credit
Homestead Ag Land	\$500		0.609%		\$3.05
Non-homestead Ag Land	\$1,000		0.609%		\$6.09

The initial tax due is reduced by the Ag2School credit to arrive at the final tax payable by the land owner. The credit is paid by the State, directly to the school district, on behalf of the taxpayer.

	Tax B/4 Credit	-	40% Credit	=	Final Tax Due
Homestead Ag Land	\$3.05		\$1.22		\$1.83
Non-homestead Ag Land	\$6.09		\$2.44		\$3.65
	Tax B/4 Credit	-	50% Credit	=	Final Tax Due
Homestead Ag Land	\$3.05		\$1.52		\$1.52
Non-homestead Ag Land	\$6.09		\$3.05		\$3.05
	Tax B/4 Credit	-	55% Credit	=	Final Tax Due
Homestead Ag Land	\$3.05		\$1.67		\$1.37
Non-homestead Ag Land	\$6.09		\$3.35		\$2.74
	Tax B/4 Credit	-	60% Credit	=	Final Tax Due
Homestead Ag Land	\$3.05		\$1.83		\$1.22
Non-homestead Ag Land	\$6.09		\$3.65		\$2.44
	Tax B/4 Credit	-	70% Credit	=	Final Tax Due
Homestead Ag Land	\$3.05		\$2.13		\$0.91
Non-homestead Ag Land	\$6.09		\$4.26		\$1.83

## Local Impact of Ag2School Credit

Because the overall tax base of LQPV School District is so heavily weighted on the value of ag land, the Ag2School Credit will pay a very large portion of the overall school building debt levy.

- For LQPV's 2019 levy of \$108,772, approximately \$92,456 (85%) will be apportioned to ag land. This is what ag land would pay without Ag2School.
- At the 40% credit, Ag2School will pay \$36,982 of the \$92,456 apportioned for ag land.
  - At the 40% credit rate, the State of MN effectively pays 34% of the District's debt levy.
- At the 70% credit, Ag2School will pay \$64,719 of the \$92,456 apportioned for ag land.
  - At the 70% credit rate, the State of MN effectively pays 59% of the District's debt levy.

## Could the Ag2School Credit be taken away?

Yes, it is possible that the MN legislature could reduce/eliminate the Ag2School program, but based on what we know today, the threat is not realistic. The following reasons were generated in consultation with Matt Hilgart, General Government Policy Analyst and legislative expert at the Association of MN Counties:

1. The credit is a critical factor in getting bond referendums passed. Legislators realize that it's not fair to put such a huge portion of the burden on ag land, and it is easy to see how the credit fixes that problem.
2. Legislators know that removing the credit would be very visible and get a lot of attention. Rural landowners would be hurt by taking the credit away, and voters would quickly realize why their taxes went up and who is to blame. If the legislature needed to make cuts, they would focus instead on programs that are less visible to voters.
3. With any legislation, it's much harder to take something away once it has been given. Now that the credit has been enacted people are seeing how valuable it is.
4. When budget deficits occur, we know that historically the GOP favors cutting programs/aids/credits. However, Ag2School is one of the strongest property tax credits targeting GOP districts (including where we live), and it wouldn't make sense for Republican legislators to hurt their main constituency.
5. Governor Walz supported Ag2School and he didn't fight it in tax committee during this session. He's a former teacher/educator, so he has personal and political awareness of how important this credit is to encourage investments in school facilities and community sustainability. Walz has shared his "One Minnesota" vision, which means he believes in investments in rural Minnesota. For all these reasons it is difficult to imagine a scenario where Walz would allow this credit to be removed.

6. The state budget looks good for the foreseeable future, so the need to be considering cuts to any program is not expected. In a scenario where cuts were needed, this program would be a lower priority compared to other options.
7. Even if Ag2School was targeted for a cut, the program is flexible. Legislators could reduce the credit percentage back to 40% (which still has a huge impact on ag taxes) or they could just phase out the program by cutting out new referendums and grandfather existing bonds.
8. Both parties and the governor like Ag2School. Besides bipartisan support, the program is backed by two very strong lobbies – farmers and educators.
9. I only know of one other time where a property tax credit was taken away. In that case lawmakers replaced the credit with an exclusion program in the hopes that taxpayers wouldn't notice a difference. The problem with that solution is that while a credit is paid by the state, an exclusion simply transfers the burden to other taxpayers. That wouldn't work with Ag2School, because transferring that burden would result in a major tax increase to non-ag landowners – likely by several hundred percent or more.