**PILT Report, Commissioner’s Advisory Group**

**Synopsis of analysis and recommendations thus far**

**Draft, July 26 - update**

**The purpose of the payment system and the criteria for payments**

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| **Analysis/Recommendations thus far** | **Level of agreement** |
| **For acquired natural resources land, PILT compensates for the loss of tax base and, *in some cases*, for the local expenses of managing land** | Moderate to high |
| PILT thereby reduces local resistance to natural resources land acquisition | Related to above |
| In a small number of counties with high proportions of public land, PILT pays for the county to have a land manager | Related to above |
| PILT was intended to address the disproportionate impact of public land ownership on some counties – mostly in Northern Minnesota | Historical research and recollection (see newspaper articles) |
| PILT compensates local government for restrictions placed on land use (e.g. ATV use) | Low – differing perspectives |
| Benefits to counties of public land ownership offset some of the burdens | Low – differing perspectives |

**The rate of payments for specific classes of natural resource lands**

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| **Analysis/Recommendations thus far** | **Level of agreement** |
| **We do not need this many rates** | High |
| The rates were not rationally or analytically set – they are an artifact of history and political lobbying – the “¾ of 1%” was based on the Federal rate | High? |
| Tying compensation to land value comes the closest to matching PILT’s purpose (hence the “in lieu of taxes” in the name) | Moderate |
| However, the ad valorem basis has created windfalls in metro and suburban areas with relatively small proportions of public land – contrary to the original legislative intent | Related to the above, but lower level of agreement |
| However, the ad valorem basis has created unpredictable increases in costs and pressure on the state general fund every five years (when re-evaluations happen) | High – and backed up by data (graphs) |
| Increases in valuations are unlikely for the next round, given the current real estate market | Low |
| The ad valorem basis creates a disincentive for the DNR to purchase land in the metro area and an incentive to purchase land in greater MN | Low – not certain that PILT is a major factor in these decisions |
| If ad valorem continues as the basis for compensation, the state should have the right to contest assessed values | High |
| Land values change based on the use and management of the land | Factual? |
| If you don’t adjust the percentage (from ¾ of 1%), it would be extremely expensive to switch all land to ad valorem based compensation. Much of the increase would be due to shoreline values. | 1994 analysis |
| A flat rate (or a menu of flat rates) would reduce unpredictability and prevent unintended windfalls in high-value areas, but would also be a departure from the original *in lieu of taxation* purpose | Not sure |
| Any flat rate (or menu of flat rates) should be adjusted for inflation | High |
| **Whether ad valorem or flat**, rates set for specific classes of lands should take into account the following considerations:   1. The reason the state acquired the land 2. The discretion that the county has to sell the land 3. Where the revenue generated from the lands goes (to the county, to the state) – and the net to all tax districts 4. The character of the land (wetland, etc.)    1. Note that the public value of the land may differ from the private (market) value | High –“ a good start” |
| If compensation continues to be based on land values, the state should ensure compliance with existing valuation standards | High |
| If compensation continues to be based on land values, the DNR and county assessors should work to simplify assessment methods. This would include enhancements to land identification, especially with respect to waterfront property, and overall process simplification. | MDOR survey suggested changes to facilitate valuation of exempt land. |

**The adequacy of current funding for payments and the impact of additional land acquisition on the funding**

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| **Analysis/Recommendations thus far** | **Level of agreement** |
| The group does not want to comment on overall “adequacy.” There is no extra GF money to put towards PILT, so we see it as a distribution matter. | Moderate – need to check-in |
| Increased land acquisition is not the primary driver of PILT payment increases – increased land valuation is the primary driver | Conclusion from data – do we need to agree on this? |
| The *perception* appears to be that payment increases are driven by land acquisition – whether DNR or LSOHC | High |
| Recent decisions in various jurisdictions to bar acquisition or to establish “no net gain” are not a signal that PILT is inadequate – they tend to increase when PILT is threatened with reduction or elimination, and also can be in response to other dynamics (such as economic development needs, disagreement with land management) | High |

**Alternative methods of reimbursing local units of governments for state natural resource lands**

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| **Analysis/Recommendations thus far** | **Level of agreement** |
| Other states’ research shows alternative methods vary from state to state, e.g.:   * Property taxes paid, or a portion of property taxes that would be paid (WI, IN, ND, NE, IA) * Based on proportion of land owned by the state (CT, NJ) * Straight (flat) rates (UT, PA) | Research presentation – DNR |
| Dedicated trust funds, established at the time of land acquisition, could fund PILT obligations with no general fund dollars. | Presentation by local government representatives |

**The formula for distribution of the payments to local units of government**

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| **Analysis/Recommendations thus far** | **Level of agreement** |
| The formula should not include school districts in the distribution (except for the Vermillion/Soudan distribution) | Not sure – need to test |
| There is concern that a distribution to school districts would be absorbed by the school funding formula, rather than distributed to the school districts where natural resources lands are located. (equalization payments) | Presentation on school funding formula |