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MEMO

TO: Senate chairs and minority leads of committees to which SF3557 has been referred
House of Representatives chairs and minority leads of committees to which HF3783 has been referred.

FROM: Christian Larson, LBO Director

DATE: May 14, 2024

SUBJECT: Local Impact Note Request: SF3557 (Kunesh) – Tax-forfeited Land within the Boundary of an Indian Reservation

Enclosed is the local impact note for SF3557 (Kunesh) – Tax-forfeited Land within the Boundary of an Indian Reservation, requested by Senator Eric Pratt, as the ranking minority member of the Senate Finance Committee. SF3557 is a companion bill to HF3783 (Kozlowski). The introduced version of SF3557 was considered in the preparation of this local impact note. All references to SF3557 in the local impact note are in reference to the introduced version.

The Legislative Budget Office (LBO) is charged with coordinating the development of local impact notes under Minnesota Statute 3.987. Local impact notes focus on the impact of proposed legislation on political subdivisions, understood to include local entities such as cities, townships, counties, and school districts.

The local impact note provides a summary of the bill, a description of the assumptions used to inform the note, and an analysis developed by the LBO. The local impact note is available electronically on the [LBO website](#).

If you or your staff have any questions about the local impact note process, please contact LBO Director, Christian Larson, at 651-284-6436.

cc: Senator Mary Kunesh
Representative Alicia Kozlowski
Senate Fiscal Staff
House Fiscal Staff
LBO Staff

Committee leadership receiving a copy of local impact note:

Senator John Marty
Senator Nick Frenz
Senator Eric Pratt
Senator Founq Hawj
Senator Jennifer McEwen
Senator Justin Eichorn

Representative Liz Olson
Representative Heather Edelson
Representative Pat Garofalo
Representative Rick Hansen
Representative Sydney Jordan
Representative Josh Heintzeman

Local Impact Note

2023-2024 Legislative Session
Minnesota Legislative Budget Office

Senate File 3557 – Tax-forfeited Land within the Boundary of an Indian Reservation

Authors: Kunesh; Hauschild; McEwen

Date: May 14, 2024

Note: For background information on the tax forfeiture process and state-Tribal relationships, see American Indians, Indian Tribes, and State Government, published by the Minnesota House Research Department and The Delinquent Real Property Tax and Tax Forfeiture Manual published by the Minnesota Department of Revenue.¹

Bill Description

Section 1 provides that, except for the repurchase provisions described in Minnesota Statutes 282.012, if a tax-forfeited parcel of land “subject to sale” under Minnesota Statutes 282.01 to 282.13 includes land within the boundary of an Indian reservation, the county auditor must first offer the land to the affected band of Indians for sale at the appraised value. The cost of any survey or appraisal must be added to and made a part of the appraised value. To determine whether the band wants to buy the land, the county auditor must give written notice to the band. If the band wants to buy the land, the band must submit a written offer to the county auditor within two weeks after receiving the notice. If the offer is for at least the appraised value, the county auditor must accept the offer.

Assumptions

The following assumptions were developed in consultation with Senate nonpartisan staff to facilitate fiscal analysis and discussion. Assumptions are not intended to provide a legal interpretation of bill text. *This analysis is limited to the text of Senate File (SF) 3557 and does not include other bills under consideration or potential interactions between SF 3557 and other proposed bills impacting tax forfeiture.*

- It is assumed that “subject to sale” means real property classified nonconservation and approved for sale under Minnesota Statutes 282.01, or real property classified conservation but designated for sale under Minnesota Statutes 282.011.

¹ Mary Davis, et. al., American Indians, Indian Tribes, and State Government (St. Paul: Minnesota House Research Department, 2023), <https://www.house.mn.gov/hrd/pubs/indiangb.pdf>; Minnesota Department of Revenue, Delinquent Tax and Tax Forfeiture Manual (April, 2020), <https://www.revenue.state.mn.us/delinquent-real-property-tax-and-tax-forfeiture-manual>.

- It is assumed that tax-forfeited land required to be withheld from sale under Minnesota Statutes 85.012, 282.018, or 282.01 is not considered subject to sale.
- It is assumed that an offer and potential sale of tax-forfeited property to an affected Band occurs before the 6-month withholding period and discretionary conveyance or sale to a governmental subdivision or the state as provided in Minnesota Statutes 282.01, subdivision 1(a).
- It is assumed that “appraised value” means the fair market value set by the county board after the classification and sale of a tax-forfeited parcel has been approved under Minnesota Statutes 282.01.²
- It is assumed that “boundary of an Indian reservation” means federally recognized Tribal reservation boundaries.
- It is assumed that bill language does not preclude counties from leasing tax-forfeited land or granting easement rights before a parcel is conveyed or sold under Minnesota Statutes 282.04.
- It is assumed that bill language does not preclude counties from subdividing or grouping tax forfeited parcels as provided in M.S. 282.01, subdivision 1(e).

Fiscal Impact Analysis

Land held in trust by the federal government for a Tribe or individual Tribal members is exempt from ad valorem taxes. Land held in fee (the most common type of property ownership in the United States), whether held by a Tribe, Tribal member, or non-Tribal individual, is generally subject to property taxes. Thus, if a tax-forfeited parcel is purchased by a Tribe and the Tribe successfully petitions the federal government to take the land in trust for the Tribe (or the legislature exempts the parcel), then the parcel is removed from the local property tax base.

Exempting property from the tax base redistributes the tax burden across the remaining properties in the taxing jurisdiction but does not directly affect the cost of local services. Rather, a higher tax rate is required to produce the same levy amount. Conversely, if a tax-forfeited parcel is purchased by a Tribe and held in fee, the property may be returned to the local property tax base, reducing the tax burden across the other properties in the taxing jurisdiction. Proposed bill language may impact the tax base of local jurisdictions whose boundaries overlap with reservation boundaries, but it is not feasible to predict when or to what extent tax base impact will occur. It is unknown when applicable tax-forfeited land sales will occur in the future and the land’s taxable value relative to the corresponding tax base at the time of sale. There are a variety of factors that may influence whether a Tribe is interested in purchasing tax forfeited land, making impact difficult to predict.

² The county board may perform the appraisal itself, or it may use any other official source. The appraised value should be an amount which potential buyers are likely to pay. See Minnesota Department of Revenue, Delinquent Tax and Tax Forfeiture Manual, page 150.