STATE OF MINNESOTA
Legislative Budget Office

Open Space Tax Expenditure Evaluation

PREPARED FOR THE TAX EXPENDITURE REVIEW COMMISSION

JULY 15, 2026

Agenda

- What is the Open Space Program?
- How does the Open Space Program Work?
- Is the Program Meeting its Objective?
- How does the Open Space Program Affect the Tax System?
- What Became of Properties that Exited the Program?
- Similar Policies in Minnesota and Other States
- Potential Modifications and Future Considerations
- Conclusion

What is the Open Space Program (OSP)?

- Enacted in 1969 and last modified in 2005
- Privately owned recreational facilities exclusively devoted to golf, skiing, lawn bowling, croquet, polo, or archery or firearm ranges are entitled to preferential valuation and tax deferment if they meet certain requirements
- The Open Space Program allows qualifying facilities to be valued at their current use rather than what would be the highest and best use
- When a facility no longer qualifies for OSP, taxes are due equal to the amount by which the preferential valuation reduced the tax for the previous seven years

Tax Expenditure Objective

The Open Space Property tax law (OSP) is intended to encourage the preservation and development of private outdoor, recreational, open space and park land which would otherwise not occur or have to be provided by governmental authority.

This objective was approved and adopted by the Tax Expenditure Review Commission on March 15, 2024.

Types of Facilities in the Open Space Program

- 69 facilities, comprised of about 284 parcels, received an OSP deferral in taxes payable 2024
- 59 (86%) of these facilities were located in the Twin Cities Metro
- The estimated shift impact in taxes payable year 2024 was $15,900,000

Facility Type	Count
Golf Courses	56
Firearms or Archery Ranges	10
Ski Areas	3
Total	**69**

Open Space Key Terms

- **Estimated Market Value:** the value determined by the assessor as the price the property would likely sell for on the open market, where the buyer and seller are not related and both are educated about the property
- **Taxable Market Value:** the amount of value that is used in calculating taxes for a property
- **Preferential Valuation:** A reduction in or deferral of property tax liability by assessing property at a value lower than its highest and best use value
- **Market Value Deferral:** the portion of EMV being deferred until the property is sold or no longer qualifies
- **Net Tax Capacity:** "the property's taxable market value" x "the classification rate(s)"
- **Tax Liability Deferral:** the portion of tax liability being deferred until the property is sold or no longer qualifies

How Does the Open Space Program Work? (Slide 1 of 3)

- Administered at the local level
- The assessor calculates two values for qualifying facilities
  1. Estimated Market Value (EMV) based on highest-and-best use
  2. Taxable Market Value (TMV) based on the current use of the qualifying portion of the property
- The auditor calculates a property tax liability based on the EMV and a property tax liability based on the TMV
- The difference between tax liability based on EMV and tax liability based on TMV is deferred so long as the property remains eligible

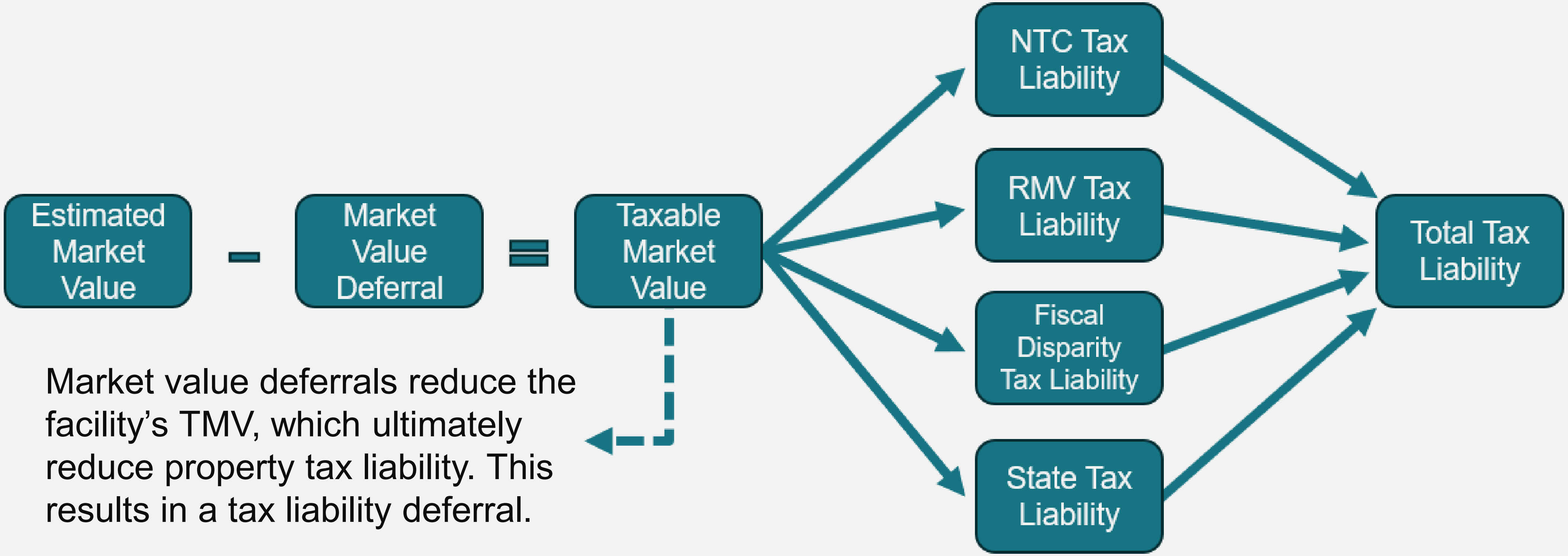
How Does the Open Space Program Work? (Slide 2 of 3)

- **Open Space facilities may be subject to four property tax types**
- **Net Tax Capacity (NTC)** based property taxes
  - TMV × class rate = NTC
  - Local rates are applied to NTC to calculate tax liability
  - Class rates defined in Minnesota Statutes, section 273.13. Most open space properties are classed 3a Commercial/Industrial or 4c(2) Qualifying Golf Course
  - Cities, counties, special districts, school districts
- **Referendum Market Value (RMV)** based property taxes
  - TMV × local RMV rate = tax liability
  - Primarily school district operating levies

How Does the Open Space Program Work? (Slide 3 of 3)

- **Fiscal Disparities Program**
  - NTC × Fiscal Disparities Ratio × Fiscal Disparities Area Wide Rate
  - Seven-county metro area and Iron Range
  - Commercial/Industrial tax base sharing programs
- **State General Property Tax (Commercial/Industrial)**
  - NTC (TMV less the first $150,000 x second tier class rate) x State General Property Tax Rate
  - Applied to the Commercial/Industrial tax base
  - Does not apply to 4c(2) Golf Course
- **NTC, RMV, Fiscal Disparities, and State calculations all start with TMV**

The Open Space Program Simplified



Market value deferrals reduce the facility's TMV, which ultimately reduce property tax liability. This results in a tax liability deferral.

The Open Space Program Simplified – Net Tax Capacity Tax Liability Calculation

Estimated Market Value – Market Value Deferral = Taxable Market Value × Classification Rate(s) = Net Tax Capacity

Net Tax Capacity × Local Tax Rates = NTC Tax Liability

Example Tax Liability Calculation

- Example property tax calculation with and without Open Space
  - Figure 1 in page 9 of the full report
  - Hypothetical example of a golf course classified as 3a Commercial/Industrial
  - For taxes payable year 2024
  - This example holds tax rates constant for simplicity – real world rates adjust due to tax shifts that occur due to the program

Example – Total Tax Liability, Taxes Payable 2024

Row	Golf Course Classified 3a Commercial/Industrial	With OSP	Without OSP	Difference
A	Estimated Market Value	$1,000,000	$1,000,000	-
B	Market Value Deferral	$250,000	-	-
C	Taxable Market Value	$750,000	$1,000,000	$250,000
D	NTC Tax Liability	$8,257	$11,030	$2,773
E	RMV Tax Liability	$2,564	$3,426	$861
F	Fiscal Disparities Tax Liability	$6,343	$8,474	$2,131
G	State General Tax Liability	$3,600	$5,100	$1,500
H	**Estimated Total Tax Liability**	**$21,131**	**$28,756**	**$7,625**

Tax Liability Estimates, Taxes Payable 2024

- The LBO estimated tax liability with and without Open Space for every facility that received a deferral in taxes payable 2024
  - Estimates are included in Figure 12 of the full report, located in Appendix B, pages 30-32
  - NTC and RMV rates are adjusted due to the shifts caused by the Open Space Program (discussed below)
  - Fiscal Disparity Program and special taxing district rates are held constant to balance simplicity and accuracy
  - Taxing jurisdiction levies are held constant – assumes the City, County, School District, or other taxing jurisdiction would have levied the same amount
  - The next two slides provide summary statistics of the model

Market Value Deferred by County, Taxes Payable Year 2024

County	OSP Facilities	Total EMV	Total Deferred EMV	% EMV Deferred
Anoka	13	$39,229,700	$22,267,500	55%
Blue Earth	4	$9,276,200	$4,023,800	43%
Carver	3	$19,642,400	$11,939,900	62%
Cook	1	$9,115,300	$6,165,300	67%
Dakota	10	$43,206,200	$17,156,400	39%
Hennepin	24	$749,568,700	$665,323,500	89%
Kandiyohi	1	$2,775,500	$637,500	23%
Morrison	2	$218,600	$35,500	14%
Nobles	2	$8,041,400	$7,203,800	89%
Ramsey	4	$73,164,100	$54,685,900	75%

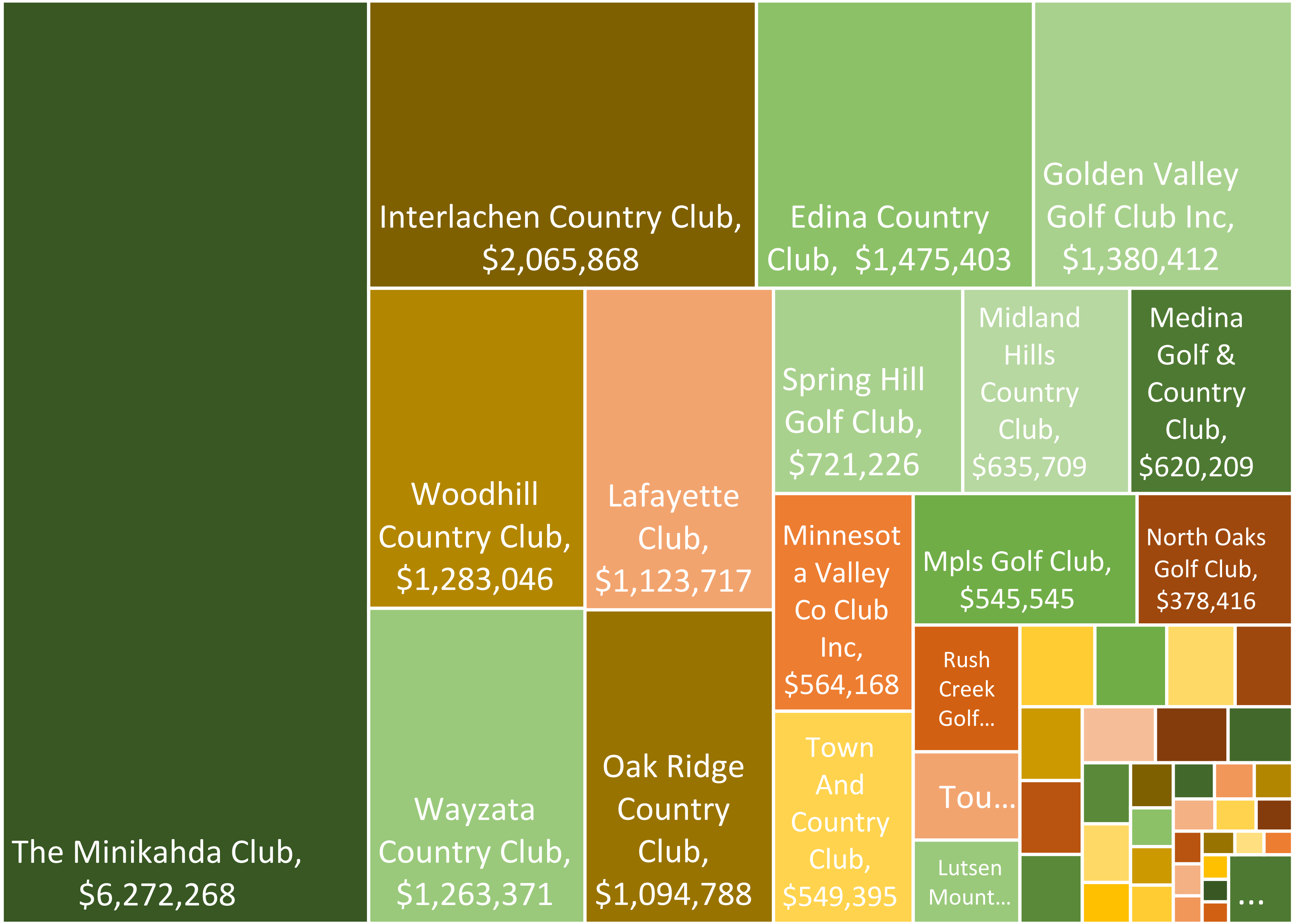
Note: Deferral percentage may be overstated if there are linked parcels that did not receive a deferral.

Proportion of Estimated Deferred Tax Liability by Facility Type, Taxes Payable 2024

Facility Type	Proportion of Tax Liability Deferred	Facility Count
Member Only Golf Course	87%	25
Publicly Accessible Golf Course	10%	31
Firearms or Archery Range	1%	10
Ski Area	1%	3

Estimated Deferred Tax Liability of Individual Facilities, Taxes Payable 2024

A table with tax liability estimates for each OSP facility is included in Appendix B of the report.



Is the Open Space Program Meeting Its Objective?

- The LBO cannot conduct a causal analysis that tracks the supply of OSP facilities over time due to data limitations
  - Historical property tax data prior to 2004 is not available
  - Private business expense and revenue data is not available
  - Comparisons to municipal facilities or other state programs is difficult
  - Considerations for future Open Space evaluations

Is the Open Space Program Meeting Its Objective? (continued)

The LBO does have sufficient data to address the following research questions:

1. What does program participation currently look like?
2. What is the benefit per facility?
3. What is the broader impact of this program on the property tax system?
4. How has the Open Space Program participation changed over time?
5. When these facilities left the program or were sold, how was the land developed?
6. What are additional considerations for the future evaluation of the Open Space Program?

Evaluation Methodology

- PRISM Parcel Data, Assessment Years 2004 - 2024
  - Tax Liability and Shift estimates
  - Analysis of current and previous enrollment
- Interview with sample of County Assessors
  - Provided insights to better understand OSP administration at the local level
- County records and articles on Open Space facility closures
  - Reasons why facilities closed

How Does the Open Space Program Affect the Property Tax System? (Slide 1 of 3)

- OSP deferments do not reduce the amount of revenue collected by taxing jurisdictions but reduce the tax base (NTC), requiring a higher rate to produce the same levy amount.
- A portion of tax liability is effectively shifted from qualifying properties to all other properties in the same taxing jurisdictions.
- Estimated shift across all jurisdictions (2024 Tax Expenditure Budget):

Fiscal Year	2024	2025	2026	2027
Tax Shift	$15,900,000	$15,900,000	$16,800,000	$17,500,000

How Does the Open Space Program Affect the Property Tax System? (Slide 2 of 3)

Taxing Jurisdiction Type	Estimated Shift Amount ($)
Cities / Townships	3,873,010
School Districts	3,578,147
Counties	3,544,814
State General Property Tax	4,136,674

- The shift column represents the estimated amount of tax liability that was shifted from qualifying properties to all other properties in the same jurisdiction in taxes payable year 2024.
- Figures 11 through 16 in Appendix B estimate property tax shifts caused by Open Space deferments
- Analyses in Appendix B produced by the LBO and reviewed by the DOR, Property Tax Division

How Does the Open Space Program Affect the Property Tax System? (Slide 3 of 3)

- Please turn to page 31 of the evaluation in your packet for a walkthrough of Figure 12
- Figure 12 includes the following information:
  - Location, taxing jurisdictions, and use
  - Estimated property tax liability with and without Open Space deferral
  - Shift to average-valued residential homestead in the same taxing jurisdictions
  - Methodology is similar to how property tax modeling is done for Tax Committees
  - Fiscal Disparities Program rates, special district rates, and levies are assumed constant

Figure 12

- **Columns A and B**: local taxing jurisdictions
- **Columns F through H**: tax liability calculations with and without Open Space deferment
- **Columns I through L**: shift estimates – average valued residential homestead

Program Participation Trends

- The number of participating facilities has fluctuated somewhat between 2004 and 2024
  - 51 facilities were continuously enrolled
  - 22 facilities entered the program
  - 25 facilities exited the program
  - 6 facilities entered then exited the program during the 20-year time period
  - Net enrolled facilities declined from 76 in 2004 to 72 in 2024

If a Facility Left the Program, What Became of the Land?

Reason for leaving Open Space	Number of Properties
Properties that sold for residential development	13
Properties purchased by a Local Unit of Government	2
Properties sold for other development type	2
Properties that lost OSP status or did not reapply	10
Properties that closed but were not developed	4

Cumulative Fiscal Impacts of Other State and Federal Policies

- Minnesota Statutes, section 273.13, subdivision 25(d)(2) offers a reduced property tax classification rate to golf courses that meet certain requirements.
- A golf course can receive an OSP deferment and 4c(2) golf course classification simultaneously.
- About half of OSP-qualified facilities had at least a portion of their property classified as 4c(2) in taxes payable year 2024.
- The 4c(2) classification shifted an estimated $430,000 from qualifying properties to all other properties in the same taxing jurisdictions, assuming qualified properties would have otherwise been classified 3a commercial.

Similar Programs in Other States

- The LBO identified seven other states where privately owned golf courses were explicitly referenced in preferential valuation provisions within state law
  - Arizona, Hawaii, Illinois, Maryland, Massachusetts, Nevada, and Virginia.
- There were no other states with specific mention of skiing, lawn bowling, croquet, polo, archery, or firearms ranges
- Assessment practice may vary regardless of explicit state law
  - Use-value assessments for similar facilities may be a de facto practice
  - Zoning regulation may impact how facilities are assessed
  - Deed restriction may also have a similar impact

Potential Modifications to Increase Efficiency or Effectiveness

- Changing the reapplication frequency to every-other-year or greater and aligning the annual application due date with other significant property tax dates.

- Recommend the Department of Revenue provide additional guidance around OSP use-value appraisal determination and how deferred taxes are calculated when a facility leaves the program.
  - Green Acres Program guidelines

Additional considerations for future Open Space Program Evaluations

- Additional review of preferential valuation of golf courses in other states
- Establish a baseline measure of existing government provided facilities that would otherwise qualify for the OSP if privately owned
- Additional research into the valuation of privately owned recreational facilities
- Possibly surveying the owners and operators of the facilities

Conclusion

- Due to data limitations, the LBO is unable to determine if the Open Space Property tax law has encouraged the preservation and development of private outdoor recreational facilities over time
- From 2004 to 2024, most of the facilities enrolled in the program have been golf courses
- Net enrolled facilities declined from 76 in 2004 to 72 in 2024
- Properties that left the program most often sold for residential development
- Open Space deferments shift tax liability from qualifying properties to all other properties in the same taxing jurisdictions
- Interviews with county assessors revealed potential modifications

Recommendation to the Legislature

The Commission may choose to consider these findings in preparing a recommendation to the legislature to continue, repeal, or modify the tax expenditure, as is required of the Commission under Minnesota Statutes, section 3.8855, subdivision 5.

Special Thanks to DOR, Legislative Staff, and Minnesota Counties

- Thank you to DOR Property Tax Division staff
- Thank you to Nonpartisan Legislative Staff
- Thank you to Minnesota Counties

LBO Contacts

- Kristi Schroedl | Deputy Director | kristi.Schroedl@lbo.mn.gov | 651-284-6544
- Carlos Guereca | carlos.guereca@lbo.mn.gov | 651-284-6541
- Thomas Raney | thomas.raney@lbo.mn.gov | 651-284-6438
- Joel Enders | joel.enders@lbo.mn.gov | 651-284-6542
- Tax Expenditure Review Commission LBO TERC Website

Appendix

Example – NTC Tax Liability

Row	Golf Course Classified 3a Commercial/Industrial	With OSP	Without OSP	Difference
A	Estimated Market Value	$1,000,000	$1,000,000	-
B	Market Value Deferral	$250,000	-	-
C	Taxable Market Value	$750,000	$1,000,000	$250,000
D	Class Rate First Tier: $0 - $150,000	1.50%	1.50%	-
E	Class Rate First Tier: Above $150,000	2.00%	2.00%	-
F	Net Tax Capacity (TMV × Class Rate)	$14,250	$19,250	$5,000
G	Fiscal Disparities Ratio	30%	30%	-
H	NTC after Fiscal Disparities (NTC - (NTC × Ratio))	$9,975	$13,475	$3,500
I	Combined NTC Rate (City, County, School, Spec. Dist.)	105%	105%	-
J	**Estimated NTC Tax Liability (NTC × Combined Rate)**	**$10,474**	**$14,149**	**$3,675**

Example – RMV Tax Liability

Row	Golf Course Classified 3a Commercial/Industrial	With OSP	Without OSP	Difference
A	Estimated Market Value	$1,000,000	$1,000,000	-
B	Market Value Deferral	$250,000	-	-
C	Taxable Market Value	$750,000	$1,000,000	$250,000
D	Combined RMV Rate (School District)	0.2%	0.2%	-
E	**Estimated RMV Tax Liability (TMV × Combined Rate)**	**$1,500**	**$2,000**	**$500**

Example – Fiscal Disparities Program

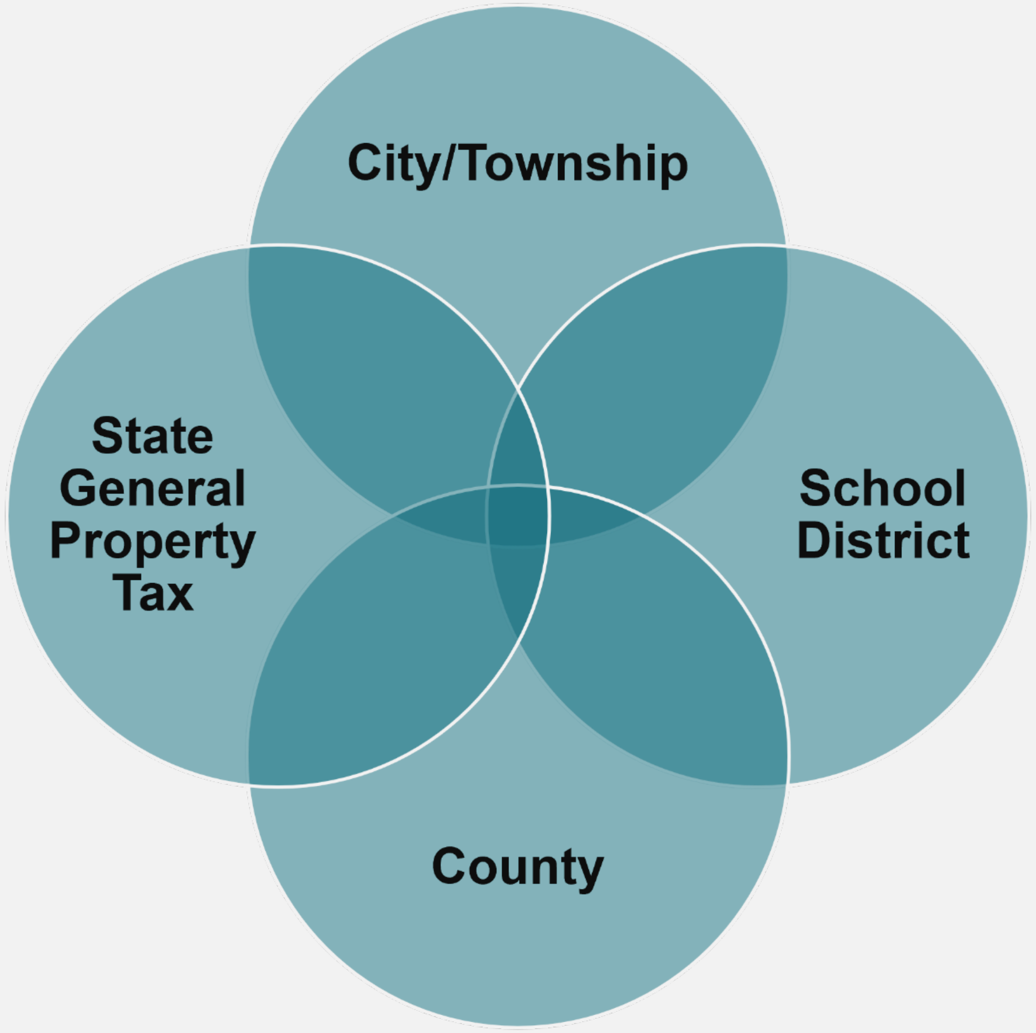
Row	Golf Course Classified 3a Commercial/Industrial	With OSP	Without OSP	Difference
A	Estimated Market Value	$1,000,000	$1,000,000	-
B	Market Value Deferral	$250,000	-	-
C	Taxable Market Value	$750,000	$1,000,000	$250,000
D	Class Rate First Tier: $0 - $150,000	1.50%	1.50%	-
E	Class Rate Second Tier: Above $150,000	2.00%	2.00%	-
F	Net Tax Capacity (TMV × Class Rate)	$14,250	$19,250	$5,000
G	Fiscal Disparities Ratio	30%	30%	-
H	Fiscal Disparities NTC	$4,275	$5,775	$1,500
I	Fiscal Disparities Area Wide Rate	130%	130%	-
J	**Estimated Fiscal Disparities Tax Liability**	**$5,558**	**$7,508**	**$1,950**

Example – State General Tax Liability

Row	Golf Course Classified 3a Commercial/Industrial	With OSP	Without OSP	Difference
A	Estimated Market Value	$1,000,000	$1,000,000	-
B	Market Value Deferral	$250,000	-	-
C	Taxable Market Value	$750,000	$1,000,000	$250,000
D	Class Rate Second Tier: Above $150,000	2.00%	2.00%	-
E	State Net Tax Capacity ((TMV - $150,000) × Class Rate)	$12,000	$17,000	$5,000
F	State General Tax Rate	30%	30%	-
G	**Estimated State General Tax Liability (State NTC × State Rate)**	**$3,600**	**$5,100**	**$1,500**

Tax Liability Shifts and Unique Taxing Areas

- Real property may be subject to several overlapping taxing jurisdictions. A Unique Taxing Area (UTA) includes the same taxing jurisdictions with the same total tax rate.
- There are currently more than 6,000 UTAs in Minnesota, each with own unique total local tax rate.
- An OSP deferral shifts tax liability from the qualifying property to all other properties in each jurisdiction that comprise the UTA.



Appendix: OSP Summary Analysis – Figure 12

- Columns A-C describe property location by UTA
- Columns D-E specify the property taxpayer name and qualified use
- Columns F-H estimate property tax liability with and without OSP deferment
- Columns I-L estimate the tax shift from the qualifying property to a residential homestead with an EMV equal to the average EMV of all homesteads in the corresponding UTA in taxes payable year 2024
- Properties with high EMV in a small tax base will cause a relatively large shift
- Properties with a low EMV in a large tax base will cause a relatively small shift

Appendix: City and Township Impacts – Figure 13

- The first five columns show qualifying property NTC relative to the total NTC of the corresponding city or township.
- The last two columns estimate tax liability that is shifted from qualifying properties in that city or township to all other properties in the same city or township, and the corresponding NTC rate impact on the city or township, in taxes payable year 2024.
- Figure 13 is intended to show scale – qualifying facilities make up how much of the tax base?

Appendix: School District and County Impacts – Figures 14 and 15

- Figure 14 estimates the tax liability that is shifted from qualifying properties in the corresponding school district to all other properties in the same school district in taxes payable year 2024.
- Figure 15 estimates the tax liability that is shifted from qualifying properties in the corresponding county to all other properties in the same county in taxes payable year 2024.
- Both figures are intended to show scale – to what degree do qualifying property shifts affect NTC and RMV rates?

Appendix: County Assessor Interview Questions

1. How familiar are you with the Open Space Property deferral program?
2. Please walk us through your approach to use-value assessment of Open Space properties.
3. Do you work with other counties when determining use-value or are you aware of common practices across counties with Open Space properties?
4. How does your county define enrollment? In other words, under what circumstances would you collect the previous six years and current year of deferred tax?
5. How much additional work is required to assess Open Space property? Additional meaning assessment procedures explicitly for Open Space beyond what would otherwise be a regular assessment.
6. What else would you like us to know about the Open Space program?

Appendix: Additional Property Tax Resources

- Property Taxes page of Minnesota House Research Department website
- Overview of Property Taxes by Minnesota House Research and Fiscal Analysis Departments
- Property Tax 101: Administration by Minnesota House Research Department
- Property tax reports and data on the Department of Revenue website
- Property Tax Administrator’s Manual by the Department of Revenue
- Minnesota Fiscal Disparities Program overview by Minnesota House Research Department
- Classification Rates for Taxes Payable in 2026

Component of Review #4:
Compare to Direct Expenditure with the Same Objective

- Minnesota Statutes, section 3.8855, subdivision 5(a)(4) requires the LBO to compare each tax expenditure to a direct expenditure.
- Nearest comparison would be a publicly owned recreational facility that would qualify for OSP deferment if privately owned.
- The LBO identified 23 golf courses owned and operated by local units of governments in the 11 counties where OSP facilities are located.

Appendix: Best Practices to Evaluate Tax Expenditures

At minimum, evaluations should include:

- A description of the incentive, including its history and goals
- An assessment of the program's design and administration
- Estimates of the expenditure's economic and fiscal impacts
- Policy recommendations

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: Best Practices… Other Criteria to Consider

- Displacement – to what extent does the expenditure benefit certain taxpayers at the expense of others?
- Leakage – does the expenditure benefit non-state residents?
- Timing – how does timing impact the level of fiscal risk and economic return to the state?
- Opportunity costs – are there trade-offs related to expenditure costs?
- “But for” – does the credit change taxpayer behavior?

Best Practices presented to TERC August 11, 2022, by PEW Charitable Trusts

Appendix: General Tax Principles

I. Allocative Efficiency (Neutrality)

II. Fairness and Equity

- Horizontal Equity – Equal treatment of equals

III. Simplicity

- Transparency
- Ease of compliance and administration

May conflict with each other or with policy goals (vertical equity, maintaining state competitiveness, promoting economic development)

Appendix: Minnesota Statutes, section 3.8855, subdivision 5

Tax expenditure review must include:

1. **Annual revenue lost** as a result of the expenditure
2. **Objective** of the tax expenditure
3. **Impacts and efficiency** in accomplishing its objective
4. **Compare the effectiveness** of a tax expenditure and a direct expenditure with the same objective
5. **Potential modifications** to the tax expenditure to increase efficiency or effectiveness
6. **Amount the tax rate could be reduced** if the revenue lost due to the tax expenditure were applied to a rate reduction

Appendix: Minnesota Statutes, section 3.8855, subdivision 5 (continued)

7. **Incidence** of the tax expenditure and the effect of the expenditure on the incidence of the state's tax system (if tax expenditure is significant)

   - A significant tax expenditure, as defined in Minnesota Statutes, section 270C.11, subdivision 6, is a tax expenditure but excludes any tax expenditure that:

     a) is incorporated into state law by reference to a federal definition of income;

     b) results in a revenue reduction of less than $10,000,000 per biennium; or

     c) is a business tax credit

8. **Fiscal impacts of other state and federal taxes** providing benefits to taxpayer for similar activities

9. **Recommend** whether the tax expenditure be continued, repealed, or modified