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Tax Court

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www.mn.gov/tax-court

AT A GLANCE

- Nine full-time staff: 3 judges, 3 administrative staff, and 3 judicial law clerks.
- Approximately 3,800 cases are filed annually with the Court over the last five years, 98% of which are appeals from property tax assessments, and the remainder are appeals from orders of the Commissioner of Revenue.
- A property tax appeal is filed with the district court administrator in the county in which the property is located and then transferred to the tax court; an appeal from an order of the Commissioner of Revenue is filed directly with the Tax Court.
- Generates approximately \$1,150,000 per year in filing fees deposited into the General Fund.
- FY 2015 budget of \$1,095,000.
- Judges travel throughout Minnesota to hear cases where taxpayers reside.
- The Court files written findings of fact, conclusions of law, and an explanatory memorandum in each case within three months of submission.

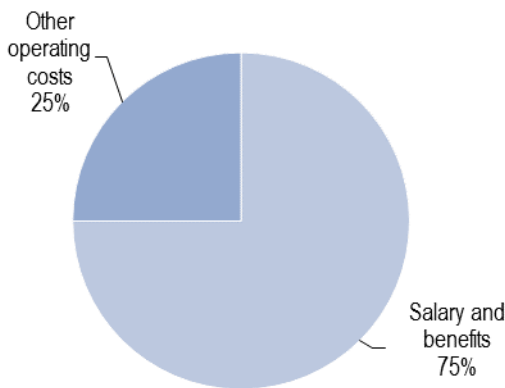
PURPOSE

The Minnesota Tax Court is a specialized trial court in the executive branch with statewide jurisdiction. By statute, it is “the sole, exclusive, and final authority for the hearing and determination of all questions of law and fact arising under the tax laws of the state.”

The Tax Court resolves disputes between property owners and counties concerning the correct value and classification of real property, and adjudicates taxpayer appeals from orders of the Minnesota Commissioner of Revenue. By ensuring that property is correctly classified and valued and that taxpayers are correctly taxed, the court helps provide efficient and accountable government services. The Court’s three judges (all appointed between December 2012 and September 2013) are working to ensure that the Court is managed according to best practices by working closely with the Department of Administration’s Small Agency Resource Team (SmART) and in particular with MN.IT in the acquisition of a new case management system approved during the last biennium.

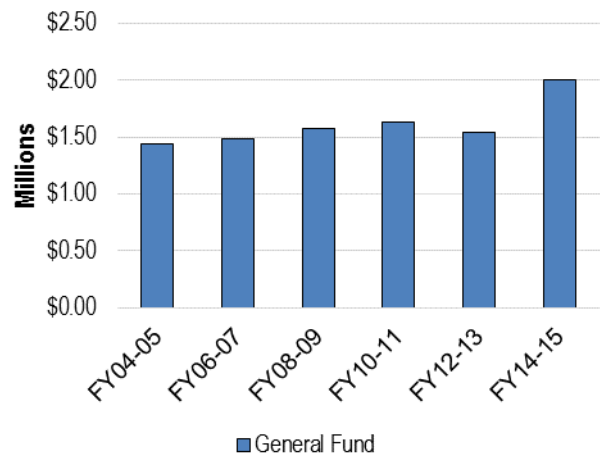
BUDGET

**Spending by Category
FY 15 Actual**



Source: BPAS

Historical Spending



Source: Consolidated Fund Statement

Minnesota Tax Court generates approximately \$1,150,000 annually in non-dedicated revenue from filing fees, which are deposited into the General Fund. All funding for Tax Court operations, in turn, comes from General Fund appropriations. The Tax Court’s budget for fiscal 2015 was approximately 75 percent compensation, 25 percent operating expenditures. During the FY 16-17 biennium the appropriation was \$3,925,000, which included appropriations for the acquisition of a new electronic case

management system, new phone system, new website, salary and benefits for three judicial law clerks, specialized continuing legal education, and electronic legal research costs.

STRATEGIES

The Tax Court is a specialized trial court. Tax Court actions are governed by the Minnesota Rules of Civil Procedure and of Evidence, and proceed in largely the same manner as civil actions filed in the Minnesota District Courts. Like other trial courts, the Tax Court actively manages its docket, resolves discovery and trial-management disputes, decides dispositive and non-dispositive motions, and conducts trials. Jury trials are not available in Tax Court; the Tax Court files written findings of fact, conclusions of law, and an explanatory memorandum in each case heard.

To ensure the Court is managed according to best practices, we are working closely with the Department of Administration's Small Agency Resource Team (SmART) and MN.IT. SmART assists the Court with human resources and budgeting. The Court's budget now includes line-items for statutorily mandated services such as judicial travel to conduct hearings, the purchase of transcripts for indigent taxpayers, and translators for court proceedings. MN.IT assists the Court in maintaining its existing infrastructure and in helping to guarantee that the Court's technology will meet its future needs.

Filings in the Tax Court increased from approximately 1,200 in calendar year 2000 to almost 6,000 in 2010. Filings for each of the last five years have averaged approximately 3,800 cases per year. Although most cases eventually settle over time, four years ago the court was faced with a significant backlog of cases.

To reduce its backlog of cases, the Court now issues individual scheduling orders designed to ensure that all cases are either settled or ready for trial in approximately 18 months. As a result of this more active case management (and a modest decrease in filings), the Court has, over the last year, reduced the number of open and pending cases on its docket by approximately 52%, essentially erasing our backlog of cases. To further facilitate settlements in property tax cases (in which counties would otherwise have to request special funds to pay for an outside mediator), the judges of the Court have completed training as civil mediators, enabling parties to mediate appropriate cases (at no cost to the parties) in hopes of resolving them short of trial. Finally, the court has implemented streamlined procedures that reduce the time (and cost to the parties) of trying cases that cannot otherwise be resolved.

RESULTS

| <i>Type of Measure</i> | <i>Name of Measure</i> | <i>Aug.25, 2015</i> | <i>Aug. 15, 2016</i> | <i>Change</i> | <i>Percent Change</i> |
|------------------------|--|---------------------|----------------------|---------------|-----------------------|
| Quantity | Open and Pending Cases ¹ | 7,740 | 4,003 | 3,737 | 52% |
| Quality/Efficiency | Average Age of Open and Pending Cases ² | - | - | - | - |
| Quality/Efficiency | Average Trial Length ³ | - | - | - | - |

1. The number of open and pending cases represents the Tax Court's cases awaiting disposition. As used here, "Open and Pending Cases" refers to matters that have been entered into the Tax Court's own electronic case-management system and as to which the parties have not notified the Court of a settlement or are awaiting a hearing.
2. Until we are able to install a new case management system, the Tax Court is unable to calculate the average age of cases pending before it and does not yet have a base for comparison.
3. The Court has only begun to track average trial length and does not yet have a base for comparison. Anecdotal evidence suggests the Court's streamlined procedures have reduced trial times by as much as half of what they were prior to 2013.

The Minnesota Tax Court is authorized by Minn. Stat.Ch. 271 (<https://www.revisor.mn.gov/statutes/?id=271>).

Expenditures By Fund

| | Actual | Actual | Actual | Estimate | Forecasted Base | | Governor's Recommendation | |
|--------------------------------------|------------|--------------|--------------|--------------|-----------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| 1000 - General | 903 | 1,095 | 1,049 | 2,696 | 1,392 | 1,392 | 1,823 | 1,820 |
| Total | 903 | 1,095 | 1,049 | 2,696 | 1,392 | 1,392 | 1,823 | 1,820 |
| <i>Biennial Change</i> | | | | 1,746 | | (961) | | (102) |
| <i>Biennial % Change</i> | | | | 87 | | (26) | | (3) |
| <i>Governor's Change from Base</i> | | | | | | | | 859 |
| <i>Governor's % Change from Base</i> | | | | | | | | 31 |

Expenditures by Program

| | | | | | | | | |
|--------------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Program: Tax Court | 903 | 1,095 | 1,049 | 2,696 | 1,392 | 1,392 | 1,823 | 1,820 |
| Total | 903 | 1,095 | 1,049 | 2,696 | 1,392 | 1,392 | 1,823 | 1,820 |

Expenditures by Category

| | | | | | | | | |
|------------------------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Compensation | 719 | 811 | 865 | 997 | 1,057 | 1,060 | 1,073 | 1,088 |
| Operating Expenses | 174 | 195 | 181 | 1,699 | 335 | 332 | 750 | 732 |
| Other Financial Transactions | 10 | 89 | 3 | | | | | |
| Total | 903 | 1,095 | 1,049 | 2,696 | 1,392 | 1,392 | 1,823 | 1,820 |

Full-Time Equivalents

| | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|------------|------------|
| | 6.8 | 7.7 | 8.0 | 9.1 | 9.0 | 9.0 | 9.0 | 9.0 |
|--|------------|------------|------------|------------|------------|------------|------------|------------|

1000 - General

| | Actual | Actual | Actual | Estimate | Forecast Base | | Governor's Recommendation | |
|--|------------|--------------|--------------|--------------|---------------|--------------|---------------------------|--------------|
| | FY14 | FY15 | FY16 | FY17 | FY18 | FY19 | FY18 | FY19 |
| Balance Forward In | 0 | 120 | 0 | 839 | 0 | 0 | 0 | 0 |
| Direct Appropriation | 1,023 | 1,035 | 2,068 | 1,857 | 1,392 | 1,392 | 1,823 | 1,820 |
| Net Transfers | 0 | (57) | (180) | 0 | 0 | 0 | 0 | 0 |
| Cancellations | 0 | 3 | 0 | 0 | 0 | 0 | 0 | 0 |
| Expenditures | 903 | 1,095 | 1,049 | 2,696 | 1,392 | 1,392 | 1,823 | 1,820 |
| Balance Forward Out | 120 | 0 | 839 | 0 | 0 | 0 | 0 | 0 |
| <i>Biennial Change in Expenditures</i> | | | | 1,746 | | (961) | | (102) |
| <i>Biennial % Change in Expenditures</i> | | | | 87 | | (26) | | (3) |
| <i>Gov's Exp Change from Base</i> | | | | | | | | 859 |
| <i>Gov's Exp % Change from Base</i> | | | | | | | | 31 |
| Full-Time Equivalent | 6.8 | 7.7 | 8.0 | 9.1 | 9.0 | 9.0 | 9.0 | 9.0 |

Minnesota Tax Court

FY18-19 Biennial Budget Change Item

Change Item Title: Maintenance of Tax Court's New Case Management System

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|----------|----------|----------|----------|
| General Fund | | | | |
| Expenditures | 400 | 400 | 446 | 446 |
| Revenues | 0 | 0 | 0 | 0 |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 400 | 400 | 446 | 446 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends an increase of \$800,000 in FY18-19 to cover costs associated with operation and maintenance of the new case management system.

Rationale/Background:

The court's case management system is the repository of all information about the cases pending before the court, including the identity of the parties and their legal representatives, the procedural history of the case, communications between the court and the parties, and orders and decisions of the court. This increase in the tax court's budget will allow the court to operate the system in accordance with the Tax Court's new case management system license agreement.

Last biennium, the Legislature appropriated funds to the Tax Court to replace its current case management system, an effort for which software and a vendor has been selected. To allow the court to continue to meet its statutory obligations, the new system will allow for electronic receipt of new cases and case updates from the District Courts; electronic transmission of case resolution data and documents to District Courts; on-line filing of new cases and of documents in existing cases; on-line publication of information for consumption by the public; enhanced reporting capabilities; and, scheduling of hearings and trials at a case level.

Proposal:

The requested increase in the tax court's budget will allow the court to operate the system in accordance with the license agreement for the benefit of the court and litigants appearing before the court. This requests funds 1.5 FTEs of IT staff, along with the ongoing licensing and other costs associated with the case management system.

IT Related Proposals:

This request funds ongoing costs of the court's new case management system including items such as annual maintenance fees, hosting of the database by MNIT, and staffing.

Results:

The court will be able to take full advantage of its new case management system, including improvements in tracking the inventory of pending cases, identifying taxpayers or their counsel, scheduling hearings, and performing other tasks required to bring the cases to completion.

Statutory Change(s):

No statutory changes are required.

Minnesota Tax Court

FY18-19 Biennial Budget Change Item

Change Item Title: Tax Court Rulemaking for Electronic Filing

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|----------|----------|----------|----------|
| General Fund | | | | |
| Expenditures | 15 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 15 | 0 | 0 | 0 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends a onetime appropriation of \$15,000 for FY 18 to cover costs associated with rulemaking to allow litigants and the court to take advantage of the electronic filing feature in the court's new case management system.

Rationale/Background:

The Minnesota Tax Court is an independent court within the executive branch responsible for hearing and determining disputes involving taxes administered by the State of Minnesota. The court is currently implementing a modern case management system that is capable of allowing litigants to file cases and case documents with the tax court electronically, greatly reducing administrative burdens on both litigants and court staff. The court has requested statutory amendments to allow litigants and the court to take advantage of this electronic filing feature. If the requested statutory amendments are adopted, the court will need to adopt rules to implement the new legislation analogous to those adopted by the judicial branch.

Proposal:

This proposal will allow litigants to file documents with the tax court electronically, subject to rules to be adopted by the court. This request is similar to recent statutory amendments that authorize the Office of Administrative Hearings to implement electronic filing. If the proposed legislation is adopted, the requested funds are necessary this biennium to adopt the necessary rules.

IT Related Proposals:

This proposal does not have an IT component.

Results:

The requested funds are necessary to adopt rules to implement the proposed statutory amendment and thus to allow litigants to file documents with the tax court electronically.

Statutory Change(s):

Minn. Stat. §§ 271.06 and 278.01.

Minnesota Tax Court

FY18-19 Biennial Budget Change Item

Change Item Title: Increase to Tax Court Small Claims Jurisdiction Dollar Amount

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|---------|---------|---------|---------|
| General Fund | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | (3) | (3) | (3) | (3) |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 3 | 3 | 3 | 3 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends that Minn. Stat. § 271.21 be amended to index the small claims division dollar limit for an appeal from an order of the Commissioner of Revenue to the same dollar limit applicable to a judicial branch small claims court proceeding, which is currently \$15,000. The current small claims division dollar limit for the Tax Court is \$5,000.

Rationale/Background:

The dollar limit for the small claims division of the Tax Court is currently lower than the dollar limit for small claims proceedings in the judicial branch. Increasing the jurisdictional limit in Tax Court small claims proceedings will allow more taxpayers to resolve their disputes using this informal and less costly approach. Approximately 120 to 150 appeals from orders of the Commissioner of Revenue are filed with the tax court each year. This change would allow a portion of those cases to be filed as small claims proceedings. Increasing the jurisdictional amount will also allow the tax court to resolve more cases more quickly.

Proposal:

This proposal amends Minn. Stat. § 271.21 to replace the current small claims division dollar limit of \$5,000 with a \$15,000 limit. In the future, this amount would be tied to the dollar amount limit for judicial branch small claims proceedings. This change will mean that some taxpayers will pay a reduced, small claims filing fee instead of the higher filing fee required for regular tax court proceedings.

IT Related Proposals:

This proposal does not have an IT component.

Results:

This change will result in an increase of taxpayers being able to file claims in the small claims.

Statutory Change(s):

Minn. Stat. § 271.21

Minnesota Tax Court

FY18-19 Biennial Budget Change Item

Change Item Title: Operating Adjustment

| Fiscal Impact (\$000s) | FY 2018 | FY 2019 | FY 2020 | FY 2021 |
|--|---------|---------|---------|---------|
| General Fund | | | | |
| Expenditures | 16 | 28 | 28 | 28 |
| Revenues | 0 | 0 | 0 | 0 |
| Other Funds | | | | |
| Expenditures | 0 | 0 | 0 | 0 |
| Revenues | 0 | 0 | 0 | 0 |
| Net Fiscal Impact = (Expenditures – Revenues) | 16 | 28 | 28 | 28 |
| FTEs | 0 | 0 | 0 | 0 |

Recommendation:

The Governor recommends additional funding of \$44,000 to maintain the current level of service delivery at the Tax Court.

Rationale/Background:

Each year, employer-paid health care contributions, pension contributions, FICA and Medicare, along with other salary and compensation-related costs increase. Other operating costs, like rent and lease, fuel and utilities, and IT and legal services also grow. This cost growth puts pressure on agency operating budgets that remain flat from year to year.

Agencies face challenging decisions to manage these costs within existing budgets, while maintaining the services Minnesotans expect. From year to year, agencies find ways to become more efficient with existing resources. However, cost growth typically outstrips efficiencies, and without additional resources added to agency budgets, service delivery erodes.

For the Tax Court, an erosion of services includes case backlogs and delays for taxpayers bringing cases to the court.

Proposal:

The Governor recommends increasing agency operating budgets to maintain the delivery of current services. For the Tax Court this funding will cover expected and anticipated employee compensation growth, including anticipated compensation increases and employer-paid pension costs.

Results:

This proposal is intended to allow agencies to continue to provide current levels of service and information to the public.

Statutory Change(s):

N.A.