SUPREME COURT OF MINNESOTA

Under the Rainbow Child Care Center, Inc. v. County of Goodhue

741 N.W.2d 880 (Minn. 2007) · No. No. A07-468 · Decided December 6, 2007

SUMMARY

The Minnesota Supreme Court reviewed whether property owned by Under the Rainbow Child Care Center qualified for exemption from real property taxation as an institution of purely public charity. The court held that North Star factor three—whether recipients receive the charitable benefit free of charge or at considerably reduced rates—is essential, and that Rainbow's market-rate tuition and limited write-offs did not satisfy that requirement. The court reversed the Minnesota Tax Court's exemption order.

CASE DETAILS

COURT	Supreme Court of Minnesota
WRITING FOR THE COURT	Russell A. Anderson, Chief Justice; Hanson, Justice; Page, Justice; Meyer, Justice
JURISDICTION	Minnesota
DECIDED	December 6, 2007
DOCKET	No. A07-468
DISPOSITION	reversed
PROCEDURAL POSTURE	Goodhue County petitioned for certiorari review of a Minnesota Tax Court order exempting Rainbow's real property from taxes assessed for 2004 and 2005.
STANDARD OF REVIEW	The Supreme Court independently reviews the record and gives great deference to the tax court's factual determination when reasonably supported by the evidence; legal conclusions are reviewed de novo. The court may review a final tax court order for jurisdictional error, legal error, lack of evidentiary support, or nonconformity with law.
PRECEDENTIAL VALUE	Published precedential opinion of the Minnesota Supreme Court
PARTIES	County of Goodhue v. Under the Rainbow Child Care Center, Inc.

TOPICS

property tax · tax exempt organizations · tax court procedure · constitutional law

PRACTICE AREAS

property tax · tax exempt organizations · constitutional law · tax court procedure

QUESTIONS PRESENTED

1. Whether Rainbow qualified as an institution of purely public charity exempt from real property taxation under Article X, section 1 of the Minnesota Constitution and Minn. Stat. § 272.02, subdivision 7, despite failing to satisfy the third North Star factor.
2. Whether the third North Star factor, concerning whether recipients must pay for charitable assistance, is an essential condition for purely public charity status.
3. Whether government payments made directly for child-care services on behalf of families should be treated as donations or gifts in determining charitable-exemption status.

HOLDINGS

1. An organization cannot qualify as an institution of purely public charity unless it satisfies North Star factor three. The organization must provide a substantial proportion of its goods or services free of charge or at considerably reduced rates, meaning considerably less than market value or cost.
2. Rainbow was not an institution of purely public charity because it did not prove that it provided child-care services free or at substantially less than market rates or cost during 2004 and 2005.
3. When the government pays directly for goods or services on behalf of one of its citizens, the payment is not a gift or donation for purposes of determining whether the provider qualifies for the property-tax exemption for institutions of purely public charity.

KEY QUOTATIONS

> *“Because this is a core characteristic of an institution of public charity, we now clarify that the third factor must be satisfied if an organization is to be deemed an institution of purely public charity.”* (886)

> *“In summary, these cases establish that to qualify for the exemption from property taxes as an institution of purely public charity an organization must provide its "charity" to recipients free of charge or at considerably reduced rates.”* (892)

> *“when the government pays directly for goods or services on behalf of one of its citizens, the payment is not considered a gift or donation for purposes of determining whether the entity providing the goods or services is exempt from property taxation as an institution of purely public charity.”* (898)

FACTUAL BACKGROUND

Rainbow was a nonprofit, state-licensed child-care center that had not realized a profit during any year of its existence. It charged tuition to all enrolled families, generally at or above the rates charged by the other child-care centers in Red Wing, offered no scholarships, and retained the ability to dismiss children for nonpayment. Some families received government child-care assistance, but Rainbow charged those families the same tuition as other families and was fully compensated through the government payments.

PROCEDURAL HISTORY

The Minnesota Tax Court concluded that Rainbow was an institution of purely public charity under the Minnesota Constitution and Minn. Stat. § 272.02, subdivision 7, despite finding that Rainbow did not satisfy the third North Star factor. The Minnesota Supreme Court reviewed the order on certiorari and reversed.

DISPOSITION

reversed

CASES CITED

- North Star Research Institute v. County of Hennepin, 306 Minn. 1, 236 N.W.2d 754 (1975)
- Mayo Foundation v. Commissioner of Revenue, 306 Minn. 25, 236 N.W.2d 767 (1975)
- SHARE v. Commissioner of Revenue, 363 N.W.2d 47 (Minn. 1985)
- Chateau Community Housing Ass'n v. County of Hennepin, 452 N.W.2d 240 (Minn. 1990)
- Chisago Health Services v. Commissioner of Revenue, 462 N.W.2d 386 (Minn. 1990)
- Community Memorial Home at Osakis, Minn., Inc. v. County of Douglas, 573 N.W.2d 83 (Minn. 1997)
- Rio Vista Non-Profit Housing Corp. v. County of Ramsey, 277 N.W.2d 187 (Minn. 1979)
- Assembly Homes, Inc. v. Yellow Medicine County, 273 Minn. 197, 140 N.W.2d 336 (1966)
- Junior Achievement of Greater Minneapolis, Inc. v. State, 271 Minn. 385, 135 N.W.2d 881 (1965)
- Croixdale, Inc. v. County of Washington, 726 N.W.2d 483 (Minn. 2007)
- Skyline Preservation Foundation v. County of Polk, 621 N.W.2d 727 (Minn. 2001)
- Camping & Educational Foundation v. State, 282 Minn. 245, 164 N.W.2d 369 (1969)
- Manpower, Inc. v. Commissioner of Revenue, 724 N.W.2d 526 (Minn. 2006)
- Care Institute, Inc.-Maplewood v. County of Ramsey, 576 N.W.2d 734 (Minn. 1998)
- Northwest Racquet Swim & Health Clubs, Inc. v. County of Dakota, 557 N.W.2d 582 (Minn. 1997)
- Worthington Dormitory, Inc. v. Commissioner of Revenue, 292 N.W.2d 276 (Minn. 1980)
- Care Institute, Inc.-Roseville v. County of Ramsey, 612 N.W.2d 443 (Minn. 2000)
- State v. North Star Research & Development Institute, 294 Minn. 56, 200 N.W.2d 410 (1972)
- St. Peter's Church, Shakopee v. Board of County Commissioners, 12 Minn. 395 (Gil. 280) (1867)