Property Tax
Tax Increment Financing
Waiver of Local Contributions/Aid Cuts

March 29, 2001

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings	X	

Department of Revenue
Analysis of H.F. 1143 (Knoblach) / S.F. 1041 (Hottinger)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
		(000's)		
General Fund	$0	$0	$0	(Unknown)

Effective for districts with a request for certification after June 30, 2001, or districts with a request for certification after June 30, 1994, if local contributions were elected for the district.

EXPLANATION OF THE BILL

Current Law: M.S. 273.1399 requires municipalities to incur local government aid reductions for TIF districts with a request for certification after April 30, 1990. The amount of the aid reduction is equal to the difference between the actual state education aid paid to the school district and the hypothetical aid calculated if the captured net tax capacity were included in the school district's levy base. The reduction amount is first subtracted from local government aid (LGA) and then any remainder is subtracted from homestead and agricultural credit aid (HACA). For districts created after June 30, 1994, municipalities may elect to make local contributions to the project from unrestricted funds, equaling five or ten percent of the district costs depending on the type of district, to earn an exemption from these aid reductions. If the state contributes to the project costs through a direct grant or similar incentive, the required local contribution is reduced by one-half of the dollar amount of the state contribution. Qualifying agricultural processing facilities, which must also make a local contribution of five percent, qualifying ethanol production facilities, and qualified housing districts are also exempt from aid reductions.

Proposed Law: The proposal allows cities to gain a waiver from aid reductions and from the need to make a local contribution in lieu of aid reductions. The waivers are to be granted by the Department of Trade and Economic Development (DTED) upon application by a city if the agency determines that one of four conditions is met: 1) the private investment would not have occurred in the state without the assistance, 2) the state has contributed to project costs, 3) the projected increase in state revenues generated by the project exceeds the amount of the state aid reduction, or 4) the city makes a contribution to an affordable housing fund in amounts equivalent to the local contribution requirement.

EXPLANATION OF THE BILL (CONTINUED)

If DTED does not deny an application within 30 days, the waiver is granted. Denials may be contested under the administrative procedures act, chapter 14. The proposal eliminates the application of state grants toward contribution requirements because any amount of state grant will permit the waiver.

REVENUE ANALYSIS DETAIL

- Any foregone aid reductions represent a negative impact on the general fund, beginning as early as fiscal year 2005.
- The number of applications, the validity of claims regarding the conditions for a waiver, the level of response to applications by DTED, the alternative selection of local contributions or aid reductions absent the waivers, and the potential size of aid reductions are all unkown. The impact on the general fund, therefore, is also unknown.

Number of Taxpayers Affected: In addition to the unkown number of districts that will have aid reductions eliminated, all other future districts and the approximately 750 districts in 288 municipalities that were created since June 30, 1994, could be affected by the proposal, by either diverting local contributions to affordable housing needs, or by freeing those funds for other purposes if one of the other conditions is met.

ADMINISTRATIVE/OPERATIONAL IMPACT

The proposal requires DTED to make revenue estimates to weigh against estimated aid reduction amounts, however, these duties are traditionally performed by the Department of Revenue.
Further administrative or operational impacts may be identified if or when the proposal becomes subject to review for a fiscal note.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/polic.html#analyses

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