Property Tax
Tax Increment Financing
Pooling for Deficits

March 30, 2001

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

Department of Revenue
Analysis of H.F. 1317 (Dawkins) / S.F. 1473 (Pappas)

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

Effective for increments collected in 2002 and thereafter.

EXPLANATION OF THE BILL

Current Law: M.S. 469.1763 provides several restrictions on the amount of increments that may be "pooled" or spent outside a tax increment financing district. Subd. 6 of this statute allows pooling to cover deficits in other districts resulting from specified law changes. The amount of pooling may not exceed the lesser of: 1) total deficits (preexisting obligations minus increments from the district and other increments available to be pooled), or 2) the reduction in increments resulting from class rate changes enacted in 1997, 1998, and 1999. The Department of Revenue must approve any use of this authority.

Proposed Law: The proposal makes four changes to the provisions that allow pooling to cover deficits.

First, it corrects an error in the calculation of total deficits so that they equal the preexisting obligations minus the sum of 1) the district's increments and 2) available increments under regular pooling authority. The current language adds the available increments under regular pooling authority increase to the preexisting obligations. In practice, the law is administered as intended.

Second, the proposal makes the pooling authority equal to the total deficit, even if the reductions due to the class rate changes were smaller than the total deficit. This broadens the pooling authority to deficits beyond those created by class rate reductions.

Third, the proposal also further defines preexisting obligations, which must be a bond issued prior to June 2, 1997, to also require that the proceeds of these bonds must have been spent or deposited into a reasonably required reserve fund on or before December 31, 2000.

Lastly, the proposal eliminates the requirement that the Department of Revenue approve the additional pooling.

REVENUE ANALYSIS DETAIL

- The proposal may affect the amount of increments captured or spent by providing additional pooling authority or by restricting additional pooling authority in cases where the proceeds of bonds sold before June 2, 1997, are spent after December 31, 2000.
- Any change in the expenditure and capture of increments may affect the size of aid reductions for affected districts that might be incurring aid reductions. The extent to which this might occur and the amount of aid reduction impacts are unknown.
- The capture of tax capacity by any TIF district can affect the tax base upon which a school district may levy, which in turn affects the amount of state aid received by the district. However, the total school aid amount is set to an appropriation, so changes in captured value will only shift the distribution between school districts rather than impact the total amount of state aid.

Number of Taxpayers Affected: Taxpayers in jurisdictions where additional pooling may occur would be affected by the proposal.

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

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

hf1317(sf1473)_1 / JN