

**Property Tax  
Tax Increment Financing  
Inver Grove Heights**

April 5, 2001

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

Department of Revenue  
Analysis of H.F. 1557 (Milbert)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>
		(000's)		
General Fund	\$0	(\$74)	(\$89)	(\$104)

Effective the day following final enactment and after local compliance with M.S. 645.021, subd. 3.

**EXPLANATION OF THE BILL**

**Current Law:** Tax increment financing (TIF) districts are bound by the TIF laws in effect at the time of the district's creation, as is generally determined by the date of request for certification. The city of Inver Grove Height's tax increment financing district No. 4-1, a redevelopment district, has a requested for certification date of May 31, 1991.

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 amount of captured tax capacity used in calculating the aid reduction is phased in for some types of districts. For redevelopment districts, the value is phased in by increments of 6.25% beginning in the sixth year. For aid year 2001, district No. 4-1 had an aid reduction of \$57,597, based on 25% of its captured net tax capacity. Aid reductions are 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.

**Proposed Law:** The proposal allows the city of Inver Grove Heights to elect local contributions in lieu of aid reductions for designated parcels within tax increment financing district No. 4-1. Qualifying contributions would be determined based on the increments of the designated parcels, and aid reductions for the remaining parcels must be determined by excluding the net tax capacity of the designated parcels.

## **REVENUE ANALYSIS DETAIL**

- By permitting the local contribution exemption, the proposal will have a negative impact on the state general fund equal to the amount of the foregone aid reductions. The impact will begin with aid year 2002, or F.Y. 2003, which is based on increments payable in 2001.
- Without any restrictions on which parcels are designated parcels, this estimate assumes all parcels in the district would be designated. This assumption may result in an overestimate of the state cost if fewer parcels are designated.
- The aid reduction estimates are based on the 2000 TIF Supplement, and the assessment ratios and school aid formula rate used for aid year 2001. The estimate therefore assumes that no significant changes in captured value, the assessment ratio, or the school aid tax rate will occur for aid years 2002 and later. This assumption may result an underestimate of state costs because captured value in this district has been growing significantly in the past few years.

**Number of Taxpayers Affected:** All taxpayers in the city will be affected by the cost of the local contributions and by the additional aid preserved by the exemption.

## **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>