Property Tax
Tax Increment Financing
Railroad Improvement Districts

March 27, 2001

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

Department of Revenue
Analysis of H.F. 1715 (Dorn)/S.F. 2070 (Hottinger)

	Revenue Gain or (Loss)			
	F.Y. 2002	**F.Y. 2003**	**F.Y. 2004**	**F.Y. 2005**
		(000's)		
General Fund	$0	$0	$0	($190)

Effective the day following final enactment.

EXPLANATION OF THE BILL

Current Law: Minnesota Statutes, sections 469.174 to 469.179 provide authority for tax increment financing (TIF) and make provisions that govern its use. Several of the provisions within these sections are affected by the proposal.

M.S. 469.176, subd. 1a, prohibits increments from being paid to a district after three years from its date of certification, unless within the three-year period, bonds are issued, property is acquired, or public improvements are constructed.

M.S. 469.176, subd. 4g, prohibits TIF authorities from using increments for buildings that are to be used primarily for conducting the business of a governmental unit, for a commons area used as a public park, or for a facility used for social, recreational, or conference purposes.

M.S. 469.176, subd. 5, allows no more than 25% of the acreage of a redevelopment district (or 10% of an economic development or housing district) to be acquired by the authority unless development agreements have been made for the additional acreage.

M.S. 469.176, subd. 6, requires action to be taken on any individual parcel in a district within four years of certification, or else the parcel(s) is eliminated from the district.

M.S. 469.1763, provides several restrictions on the amount of increments that may be "pooled" or spent outside a tax increment financing district.

M.S. 469.177, subd. 1a, requires the certification of an original local tax rate. Under M.S. 469.177, subd. 3, this original local tax rate is referenced in the determination of tax increments, where the

EXPLANATION OF THE BILL (CONTINUED)

increment equals the lesser of the captured value multiplied by current tax rate or the original local tax rate. This prevents increases in tax rates from producing increased increments, and also allows reduced tax rates to yield smaller increments.

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. 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 cities and counties that contain qualifying railroad property to establish a railroad improvement tax increment financing district (a new type of district established by the proposal) to pay for mitigation measures. The districts shall contain all of the operating railroad property in the jurisdiction (for counties this excludes property within city boundaries). To qualify, a railroad company must undertake a series of improvements to its property and must: build new track or substantially rebuild existing track, gain approval by the federal Surface Transportation Board, and spend over $250 million on the improvements over a five-year period. The district may last for 25 years from receipt of the first increment. Permitted uses of increments are defined.

The proposal exempts the district from several provisions of TIF law, including: the aid reductions of M.S. 273.1399; the three-year activity rule of M.S. 469.176, subd. 1a; the pooling restrictions of M.S. 469.1763; and the original local tax rate provision of M.S. 469.1771, subd. 1a. One further exemption appears to be incorrectly cited. The proposal suggests that exemption from M.S. 469.176, subd. 6, pertains to requirements for agreements. However, this subdivision pertains to the four-year knockdown provision. M.S. 469.176, subd. 5, makes provisions that require development agreements. The intended exemption is not clear.

REVENUE ANALYSIS DETAIL

- This estimate assumes the proposal only affects a plan by Dakota, Minnesota and Eastern Railroad (DM&E) to construct, rebuild, and upgrade track in Minnesota, South Dakota, and Wyoming.
- The proposal is unclear as to what extent the procedures for establishing a TIF district apply to the proposed TIF authority. This estimate assumes that the but-for test and similar requirements are overridden by the proposal's authority to expend increments notwithstanding any restrictions to the contrary.

REVENUE ANALYSIS DETAIL (CONTINUED)

- By exempting the new districts from M.S. 273.1399, no aid reduction impacts will result from any districts created. Current law would not allow the use of TIF for this project so there is no offset.
- 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.
- The capture of tax capacity, which would otherwise add to the tax base of all affected jurisdictions, would cause more of the levies by those jurisdictions to be paid by homestead property. As a result, the proposal would result in larger property tax refunds than would be paid under current law, and could have some impact on education homestead credits. The proposal therefore has a negative impact on the general fund.
- This estimate assumes that $8.2 million of taxes will be shifted off the planned rail development based on DM&E's low estimate of property tax impacts, and that roughly 46%, or $3.8 million, of this shift will fall on homestead property. A shift of this magnitude would create a property tax refund impact of approximately $190,000. Any potential education homestead credit impact would likely be minimal. This impact is shown for FY 2005, which may be the earliest possible year of impact, although the actual start of this impact may occur in later years.

Number of Taxpayers Affected: All taxpayers in jurisdictions where the authorized districts are created could be affected by the proposal.

ADMINISTRATIVE/OPERATIONAL IMPACT

See fiscal note.

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

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