

**Property Tax  
Tax Increment Financing  
St. Louis Park**

March 29, 2001

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

Department of Revenue  
Analysis of S.F. 571 (S. Kelley) / H.F. 669 (Rhodes)

	<b>Revenue Gain or (Loss)</b>			
	<u><b>F.Y. 2002</b></u>	<u><b>F.Y. 2003</b></u>	<u><b>F.Y. 2004</b></u>	<u><b>F.Y. 2005</b></u>
		(000's)		
General Fund		(\$660)	(\$660)	(\$660)

Effective upon local compliance with M.S. 645.021.

**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. The city of St. Louis Park's Excelsior Boulevard redevelopment project and Oak Park Village tax increment financing districts were created prior to the 1979 Tax Increment Financing Act; however, certain provisions of Act do apply limitations to pre-1979 districts. M.S. 469.176, subdivision 1c, imposes a duration limit that prevents increments from being paid to a pre-1979 district after the later of April 1, 2001, or the term of a nondefeased bond or obligation outstanding on April 1, 1990, provided that in no case will increment be paid after August 1, 2009. The Excelsior Boulevard redevelopment project and Oak Park Village tax increment financing districts were set to expire on April 1, 2001, under this provision until a special law, (Laws 1995, ch. 265, art. 5, sec. 36), allowed an extension to August 1, 2009.

As a result of the duration extension by special law, M.S. 469.1782 took effect. M.S. 469.1782 requires that when a district is allowed a duration extension by special law, the municipality must elect either to incur aid reductions under M.S. 273.1399, subd. 8, or to adjust the net tax capacity of the school district to prevent the continued capture of school district levies. The aid reductions became the default selection for these districts when the alternative election was not made. By M.S. 273.1399, subd. 8, the local contribution exemption is not allowed and the full captured tax capacity is to be used when calculating the aid reductions. However, a second special law, (Laws 1996, ch. 464, art. 1, sec. 11), altered the treatment of this district by providing that if the duration were extended and if the city received a livable communities grant, then the aid reduction must be computed using only 70 percent of the captured tax capacity.

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

## **EXPLANATION OF THE BILL (CONTINUED)**

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.

**Proposed Law:** The proposal allows the city of St. Louis Park to elect local contributions in lieu of aid reductions for the Excelsior Boulevard redevelopment project and Oak Park Village tax increment financing districts. Qualifying contributions are those that are made any time after January 1, 2001, that otherwise qualify as local contributions.

## **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.
- The aid reduction estimates are based on the 2000 TIF Supplement and on 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 estimate assumes that the proposal does not affect aid reductions for the Excelsior Boulevard hazardous substance subdistrict.

**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>

