

**Property Tax  
Tax Increment Financing  
Park Rapids Five-Year Rule**

March 30, 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. 2173 (Howes)/S.F. 2035 (Kinkel)

	<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	\$0	Unknown	Unknown

Effective upon local approval and 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 Park Rapids' tax increment financing district No. 4, a redevelopment district, has a request for certification date, and actual certification date, of September 1, 1995. M.S. 469.1763, which establishes restrictions on the pooling of increments, requires that at least 75% of the revenues derived from increments must be spent on activities within the district. For an expenditure of increments to be considered as having been spent within the district, subdivision 3 provides that such expenditures must be made, or pledged, within five years of certification. Thus, expenditures are considered to have been spent on activities within district No. 4 only if they were made or pledged by September 1, 2000.

**Proposed Law:** The proposal allows the five-year rule to be satisfied for district No. 4 if the activities are undertaken within six years of certification, thereby allowing additional expenditures and pledge to be made until September 1, 2001.

**REVENUE ANALYSIS DETAIL**

- The proposal may affect the amount of increments captured or spent by authorizing an additional year for undertaking activity.
- The additional expenditures and capture of increments will increase the size of aid reductions for the district, which are expected to begin in F.Y. 2004. The amount of increase is 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.

**REVENUE ANALYSIS DETAIL (CONTINUED)**

**Number of Taxpayers Affected:** Taxpayers in jurisdictions affected by the TIF district 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>

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