Property Tax
Tax Increment Financing
Five-Year Rule Extended to Ten Years

April 3, 2001

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

Department of Revenue
Analysis of S.F. 2176 (Chaudhary)

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

Effective for districts for which certification is requested after April 30, 1996 .

EXPLANATION OF THE BILL

Current Law: M.S. 469.1763 provides several restrictions on the amount of tax increments that may be "pooled" or spent outside a tax increment financing district. Subd. 2 requires 80% of increments from districts with a request for certification made after June 30, 1995, or 75% for redevelopment districts and older districts, to be spent inside the district. Subd. 3, which is referred to as the "five-year rule", states that expenditures are considered to be spent within the district only if they are paid within five years after certification, or they relate to bonds, obligations, or reimbursements that were issued, entered into, or made within the five-year period for activities reasonably expected to be completed within the five-year period. Subd. 4 requires that, starting with the sixth year, in-district increments must pay expenditures allowed under subd. 3, with the goal of moving toward decertification.

Proposed Law: The proposal changes the five-year rule to a ten-year rule, with the in-district revenues being committed for decertification starting in the 11th year. Districts certified as early as May 1, 1996, with five-year limits being reached as early as May 1, 2001, would be affected by the proposal.

REVENUE ANALYSIS DETAIL

- The proposal may affect the amount of increments captured or spent by authorizing an additional five years for undertaking activity.
- The additional expenditures and capture of increments will increase the size of aid reductions for districts with aid reductions. The first aid reductions that could be affected by additional captured value as a result of the proposal would be F.Y. 2003. The amount of increase is unknown.

REVENUE ANALYSIS DETAIL

- 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: The number of districts and taxpayers affected is unknown..

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

sf2176_1 / JN