

MINNESOTA • REVENUE

PROPERTY TAX TIF Extensions and Grant Program

February 23, 2004

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

Department of Revenue

Analysis of H.F. 1684 (Davids)/ S.F. 1778 (Kierlin) **Preliminary Analysis**

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2004</u>	<u>F.Y. 2005</u>	<u>F.Y. 2006</u>	<u>F.Y. 2007</u>
		(000's)		
General Fund	\$0	(Unknown)	(Unknown)	(Unknown)

Effective the day following final enactment, and applies to districts for which the request for certification was made on, before, or after August 1, 1979, and before August 1, 2001.

EXPLANATION OF THE BILL

Current Law: Tax increment financing (TIF) provides a means of financing municipal improvement projects. Types of districts include redevelopment districts, housing districts, economic development districts, soil condition districts, renewal and renovation districts, and hazardous substance districts. Although these types of districts have particular distinguishing characteristics, all commonly possess the authority to retain the tax dollars generated by the “retained captured net tax capacity”. The captured net tax capacity equals the difference between the current year net tax capacity and the original net tax capacity of the properties within the TIF district. (The retained captured net tax capacity is after the subtraction any fiscal disparity or shared value reductions and after any prior year net tax capacity adjustments.) Activity must commence within 5 years of district creation.

Proposed Law: The bill creates a new TIF grant program. TIF district extensions and grants are limited to bonds, contracts to issue bonds, or interfund loans. The grant program would offset deficits in the ability to pay preexisting obligations caused by the repeal of the state determined state general education property tax levy and its replacement with the state general tax.

Municipalities would apply to the Commissioner of Revenue for a grant if qualifications are met. These qualifications include increments insufficient to cover preexisting obligations in the current or following year. The grant is to be the lesser of the amount of the state general tax paid by the captured net tax capacity of the district, or the shortfall in revenues required to meet the preexisting obligations. TIF obligation contract shortfalls are allowed similar treatment, and contractors may apply for TIF grants that pay the shortfall in increments of the remaining contract, or the state general tax paid by the captured tax capacity, whichever is less. The commissioner is allowed to reduce or deny the grant, subject to certain conditions. Payments would be made by December 26 to municipalities and by December 1 to contractors. Amounts sufficient to pay the

grants are appropriated from the general fund. A direct appropriation for administrative costs for fiscal year 2005 is left blank.

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REVENUE ANALYSIS DETAIL

- ? The TIF grant remedy is available after all other remedies, such as district pooling or extension, have been exhausted.
- ? The cumulative participation in previous TIF grant programs totaled \$2 million.
- ? Using the 2003 TIF abstract, the original local tax rates (LTRs) of districts created since 1988 were compared to the current LTRs. For districts with a decline in LTRs, the difference in LTR was multiplied with the captured increment to provide a possible upper bound to the amount of TIF deficits of \$6.8 million annually. The probable amount of TIF deficits is lower due to pooling, extension, and other remedies provided in the last three years. Participation may be higher than historical behavior because contractors are eligible to apply directly to the Commissioner of Revenue.
- ? The first grant payments would occur in December 2004 and would affect fiscal year 2005.

Number of Taxpayers: Municipalities with TIF districts.

Source: Minnesota Department of Revenue
Tax Research Division
http://www.taxes.state.mn.us/taxes/legal_policy

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