

# MINNESOTA • REVENUE

## PROPERTY TAX TIF Ceiling

March 30, 2004

Department of Revenue  
Analysis of H.F. 3093 (Rukavina) / S.F. 2971 (Tomassoni)

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

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

Effective August 1, 2004.

### 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 would limit the total amount of a city’s TIF net tax capacity to 13.5% of its total net tax capacity. The restriction applies only to cities of the first class that do not have a neighborhood revitalization program.

### REVENUE ANALYSIS DETAIL

- The only city of the first class that does not have a neighborhood revitalization program is Duluth.
- Duluth’s ratio of TIF net tax capacity to total net tax capacity is currently 13.1%.
- By restricting the amount of TIF, more property would be subject to local taxes, thereby lowering tax rates, and reducing homestead property taxes. The change result in a small decrease in property tax refunds paid by the state.

**Number of Taxpayers:** Taxpayers in the City of Duluth.

Source: Minnesota Department of Revenue  
Tax Research Division  
[http://www.taxes.state.mn.us/taxes/legal\\_policy](http://www.taxes.state.mn.us/taxes/legal_policy)

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