

MINNESOTA • REVENUE

PROPERTY TAX Chatfield & Preston TIF Districts

March 7, 2006

| | Yes | No |
|----------------------------------|-----|----|
| DOR Administrative Costs/Savings | | X |

Department of Revenue
Analysis of H.F. 2760 (Davids) / S.F. 2518 (Kierlin)

| | <u>Fund Impact</u> | | | |
|--------------|--------------------|------------------|------------------|------------------|
| | <u>F.Y. 2006</u> | <u>F.Y. 2007</u> | <u>F.Y. 2008</u> | <u>F.Y. 2009</u> |
| | | (000's) | | |
| General Fund | \$0 | (\$34) | (\$61) | (\$61) |

Effective upon local approval.

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.

The state general tax base is not subject to adjustments for tax increment financing (TIF), fiscal disparities, or the 10% transmission line tax base exclusion. The entire state general property is for state general fund purposes only. The state tax on a business property located in a TIF district does not provide any taxes for the TIF district.

Proposed Law: The bill would allow the cities of Preston and Chatfield to include the state general levy as tax increment for TIF the specified districts. Included districts are Chatfield No. 2-4 and Preston districts 1, 5, and 6. The city and note holders must agree to extend the note's maturity.

REVENUE ANALYSIS DETAIL

- Chatfield TIF district No. 2-4 had a captured net tax capacity of \$39,071 in payable 2005. It is assumed that the bill requires the state general tax rate of 51% (in pay 2006) to be multiplied by the current net tax capacity to result in additional increment of about \$20,000.
- The three Preston TIF districts had a captured net tax capacity of \$79,876 in payable 2005. It is assumed that the bill requires the state general tax rate of 51% (in pay 2006) to be multiplied by the current net tax capacity to result in additional increment of about \$41,000.
- The state levy reduction is assumed to begin in taxes payable 2007.
- The fiscal year impacts of the state levy decrease would be \$34,000 in FY 2007, \$61,000 in FY 2008, and \$61,000 FY 2009.
- State general levy is not included in TIF increments under current law. The bill makes no provision for replacing the state general levy withheld by the TIF district, so the state general fund would decrease.

Number of Taxpayers: none.

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

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