DEPARTMENT OF REVENUE

March 09, 2021

PROPERTY TAX
Providing flexibility on the use of increments

	Yes	No
DOR Administrative Cost/Savings		X

Department of Revenue
Analysis of H.F. 1736 (Fischer) as introduced

	Fund Impact			
	FY2022	**FY2023**	**FY2024**	**FY2025**
	(000's)			
General Fund	$0	$0	$0	$0

Effective the day following final enactment.

EXPLANATION OF THE BILL

Temporary Use of Increment Authorized (Section 1)
Under current law, there are a number of restrictions on how tax increment financing (TIF) authorities can spend any tax increment generated by a TIF district.

The proposal allows unobligated increment to be transferred from the authority to the municipality's general fund. The municipality would be able to use transferred increments for any purpose the municipality's general fund permits. The maximum transfer amount would be the excess increment remaining after the required payments of obligations that would come due in the six months following the transfer. This section would be effective the day following enactment and applies to unobligated increments from any district, regardless of when the request for certification was made. The authority to transfer increments would expire on December 31, 2022.

Pooling Rules Expanded (Section 2)
Under current law, pooling rules require that a certain percentage of tax increments must be spent on activities within each tax increment financing (TIF) district. TIF districts may increase, by up to ten percent, the permitted amount of expenditures for activities outside the district if the increase is used for specific purposes, such as low-income housing projects.

The proposal would allow the transfer of increments to an affordable housing trust fund to be considered activity within a housing district and owner-occupied housing to be considered expense outside a district. The proposal would also increase the allowance for increased expenditures outside a district from ten percent to 25 percent.

Extension of Five-Year Rule for Certain TIF Districts (Sections 3-4)
The five-year rule essentially requires development activity for a TIF district to be finished within a five-year period that begins with certification of the district's original tax capacity. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period or to the extent permitted under the pooling rules. When these

obligations are paid or enough money has been collected to pay them, the district must be decertified.

The proposal would extend the five-year rule to ten years for redevelopment districts located outside the defined metropolitan area that are certified after December 31, 2019 and before January 1, 2022.

REVENUE ANALYSIS DETAIL

- The proposed changes to these general TIF provision may have an impact on the local tax base and tax rate in the future and may result in a small change in property tax refunds paid by the state.

Source: Minnesota Department of Revenue
Property Tax Division - Research Unit
https://www.revenue.state.mn.us/revenue-analyses

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