Bill Summary

# H.F. 4082

As introduced

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| **Subject** | **Hopkins Tax Increment Financing District** |
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| **Date** | **March 11, 2022** |

## Summary

In 2000, the city of Hopkins began receiving increment from Tax Increment Financing (TIF) District No. 2-11. In 2003, Minnesota enacted special rules for the district that (1) allowed Hopkins to extend the duration of the district by four years, (2) extended the five-year rule to nine years, and (3) prohibited expending increment outside the district, except on administrative expenses.

In 2008, Minnesota amended the special rules by authorizing Hopkins to spend up to 20 percent of the increment from the district on housing located outside the district. In 2019, Minnesota further amended the special rules by (1) capping administrative expenses at ten percent of total increment, (2) capping the amount which Hopkins could spend outside the district at 25 percent of the increment, and (3) adding blight correction to the activities which Hopkins could expend up to 20 percent of increment on outside the district.

This bill would remove the 20 percent cap on expenditures for housing and blight correction outside the district and would change the cap on total spending outside the district from 25 percent to 30 percent of total increment.

**Background on the five-year rule and pooling limits**

**Five-year rule.** The five-year rule requires 80 percent (75 percent for redevelopment districts) of tax increment revenues derived from a TIF district after the fifth year to be spent to decertify the district.

After the fifth year, money may only be spent to: (1) pay bonds or contracts that financed improvements, if bonds were issued before the end of the five-year period; or (2) reimburse the developer for costs it paid to make improvements in the district during the first five years. When sufficient money has been set aside, the district is decertified. This is intended to ensure that after a reasonable period of time, tax increments are used only to pay off bonds or development contracts and to put the property back on the tax rolls, rather than undertaking new expenditures or projects.

**Pooling limits.** The pooling rules under general law limit the amount of increments that may be spent on activities outside the area of the TIF district to statutory percentages. These percentages are the inverse of the percentages that apply under the five-year rule. So if 80 percent of increments are subject to the five-year rule, 20 percent may be spent outside of the district.  No time limits apply to the percentage of increments that may be pooled.  These percentage limits are a complement to the five-year rule and are intended to prevent use of unlimited amounts of a district's increment on projects or activities outside of the district.  In all cases, increments must be spent in the "project area" for district, but the law imposes no significant limits on how large those areas may be or how frequently they can be changed, even well after the TIF district was established.  This bill would become effective once local approval of the district is certified by the chief clerical officer of the city of Hopkins.