PROPERTY TAX
Local Development and TIF Modifications

March 22, 2010

	Yes	No
DOR Administrative Costs/Savings	**X***	

**Costs incurred in state tax provisions of the bill.*

Property Taxes and Local Aids Only – See Separate Analysis for State Taxes

Department of Revenue
Analysis of H.F. 2695 (Lenczewski), ***as amended by H2695DE2A***

Sections 4, 5, 10, and 11 create a new voluntary energy improvement financing program for qualifying residential, industrial, or commercial property. Loans may not exceed 20 years. A lien is required against the property is required, and repayment of the loan is collected as a special assessment. Local governments may issue non-general obligation bonds.

Section 12 allows transportation infrastructure loans to local governments. The loans may be repaid to the Public Finance Authority from special assessments, tax increments, or sales, lodging, liquor, admissions and recreation, or food and beverage taxes.

Sections 13 & 14 allow municipalities to issue revenue bonds for qualified green buildings and sustainable design projects. Projects may include lowering electricity usage, reducing carbon dioxide emissions, solar projects, and fuel cell projects.

Sections 15-18 of the bill makes several changes to tax increment financing (TIF) provisions. The bill creates a new type of district designated as "compact development districts". 70 percent of the area of the district must be occupied by structures classed as 3a commercial-industrial, and the planned redevelopment must increase the square footage of class 3a buildings by 3 times or more. The authority for approving TIF plans for compact development districts expires June 30, 2012. Compact development districts expire after 25 years. Increments from these districts may be used to pay administrative expenses, land acquisition costs, demolition and preparation costs, and public improvement costs.

Several provisions for economic development TIF districts are modified. Tax increments from economic development districts may be used to provide assistance to projects deemed to create or retain jobs. Construction must begin no later than July 1, 2011. Equity investments may be made in corporations, partnerships, or limited liability companies. Municipal approval is required. Authority to spend increments under this provision expires December 31, 2011.

Sections 21-31 contains the new create automotive recovery zone (CARZ) program that provides tax benefits, including a property tax exemption, to a qualified business. All CARZ provisions are included in the separate analysis for state taxes. A five year zone duration extension for a wind turbine manufacturer is also included, which would increase state costs to the general fund beginning in CY 2016.

Section 32 expands the definition of the Mall of America project.

Section 33 of the bill authorizes the city of Brooklyn Park to designate an authority for housing replacement projects.

Section 34 of the bill allows the original cities of Crystal, Fridley, Richfield, and Columbia Heights to designate an additional 50 parcels (up to 100 total) to be included in a housing replacement district. The city of Brooklyn Park is added to the list of cities.

Sections 35 - 39 are related to the Mall of America. The bill requires a labor peace agreement prohibiting boycotts related to any hotel projects in the Mall of America project for five years. The minimum sales tax rate of 0.5% is eliminated. Revenue bonds may be issued for any phase of the project.

Section 40 of the bill allows the city of St. Paul to exercise specified special law authority without local approval. The special laws refer to the 1995 housing replacement district law.

Section 41 allows the city of Oakdale to extend the duration of tax increment financing (TIF) district No. 6 Bergen Plaza until December 31, 2024. A development agreement must be in place by July 1, 2011. By November 1, 2011 the city or developer must begin construction of streets, traffic improvements, water, sewer, or related infrastructure that serves one or both identified parcels. Increments received after December 31, 2016 must only be used to pay costs related to the two parcels. Local approval is required.

Section 42 exempts the city of St. Paul's Snelling University tax increment financing (TIF) district from several increment expenditure provisions. The provisions exempted require 75% of TIF tax increments to be spent within the district, and require activity to begin within five years. Also exempted is the requirement that 90% of redevelopment district increments be spent on activities such as acquisition costs, demolition and rehabilitation costs, hazardous substance removal, and public improvements. Construction must begin by July 1, 2011. Effective following local approval.

Section 43 allows the city of North Mankato to expand the area of tax increment financing (TIF) district IDD 1-8. The property to be added is described. The five year rule does not apply. The original tax capacity is increased. Increments may be used for allowable expenditures under the district's plan budget and to pay principal, premium, and interest on $990,000 of general obligation bonds issued by the city for the TIF district. A development agreement must be in place by July1, 2011. Local approval is required.

Section 44 allows the authority operating tax increment financing (TIF) districts 2-1 and 3-1 in the city of Cohasset to transfer increments from the districts to the city in an amount equal to a previous transfer from the city to the districts. Local approval is required. Effective following final enactment.

Section 47 repeals a limitation on the use of tax increments for the Mall of America property.

The proposed exemptions to the general development and TIF provisions may have an impact on the local tax base and tax rate in the future and may result in a small increase in property tax refunds paid by the state.

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

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