

**Subject** Fridley Tax Increment Financing District

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## Summary

This bill would authorize the city of Fridley to use increment from Tax Increment Financing (TIF) District No. 20, a redevelopment district, to fund grant and loan programs for housing located outside the district. Only programs adopted by the Fridley Housing and Redevelopment Authority as of December 31, 2021, could be funded through increment.

This bill would exempt these expenditures on housing from pooling restrictions and from the requirement that 90 percent of the increment from a redevelopment district be spent on blight correction. This bill would also exempt the district from the five-year rule, from the six-year rule, and from annual financial reporting requirements, except that the amount of expenditures on housing would still need to be reported.

This bill would become effective once local approval of the district is certified by the chief clerical officer of the city of Fridley. Fridley's authority to elect these special rules would expire December 31, 2022.

### Background information.

**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.

**Six-year rule.** The six-year rule requires that after the passage of the five-year period (i.e., the first five years after certification of the district), the in-district share of the increments (80 percent for all other districts) may be used only to pay bonds, contracts, and other obligations incurred during the first five years. This is intended to encourage early decertification of TIF districts, returning their captured value to the regular property tax rolls.

**Percentage pooling restriction.** The five- and six-year rules do not apply to the portion of a TIF district's increment that may be "pooled" (i.e., spent on activities outside of the district, or

inside the district but after the five-year period). For most districts, including renewal and renovation, 20 percent of increments qualify to be used as pooled increments but any amount spent for administrative expenses count against this percentage.



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