HOUSE RESEARCH
Bill Summary

FILE NUMBER: H.F. 811 **DATE:** April 25, 2003

Version: Delete everything amendment (H811DE1)

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Subject: TIF - Extensions to Cover Deficits Caused by 2001 Property Tax Changes

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Overview

The amendment allows a development authority (with approval by the city, county, and school district) to extend the duration of a pre-2001 tax increment financing (TIF) district to offset deficits caused by the 2001 property tax changes. The permitted length of the extension is determined by the percentage tax reduction experienced by the district's original value between 2001 and 2002/2003. The maximum extension is four years, except application can be made to the commissioner of revenue for an additional two years if the formula extension is insufficient to offset the deficit. Increments from extended districts (and from other districts pledged to pay their debt) can only be used to pay pre-2001 obligations. Extensions to pay developer obligations ("pay-as-you-go" agreements) are limited to one-half of the formula extension.

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1 **Pre-1979 districts; use of increments.** Modifies the permitted use of increments from pre-1979 districts in three ways. Under present law, these increments may only be used to pay pre-1990 debt. This section:

- Clarifies that the pooling rules that allow transfers of surplus increments from one district to another to offset deficits caused by the 2001 property tax changes apply to pre-1979 districts. (The effective date of the pooling changes specified that they applied to pre-1979 districts. The pre-1979 statute itself was not amended.)
- Allows increments to be used to pay county administrative expenses for the district.

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- Allows refunding of pre-1979 district bonds, even if the average maturity of the bonds increases.

Effective date: Day following final enactment for all pre-1979 districts

2 **Pre-existing obligations.** Changes the definition of pre-existing obligations to include refunding bonds. This will allow refundings that reduce debt service costs. Payment of these obligations is a permitted use of increments from extension of the duration of district under section 0.

Effective date: Day following final enactment for all pre-2001 districts

3 **Fiscal disparities option, economic development districts.** Clarifies that the fiscal disparities option for an economic development district may be changed to clause (1) to offset a deficit. This was authorized in the 2001 tax bill, but it was unclear whether it applied to economic development districts. The law requires these districts to make their fiscal disparities contributions out of increment (clause (2) option). The deficit reduction statute contains language suggesting its authority may be used only if the authority could elect clause (1).

Effective date: Day following final enactment for all pre-2001 districts.

4 **Duration extensions to offset deficits.** Authorizes a development authority to extend the duration of a pre-2001 TIF district to offset deficits caused by 2001 property tax changes. Before an authority may use this authority, it must first exercise all of the other available deficit reduction powers:

- Uncapping the original tax rate;
- Changing fiscal disparities options, if applicable; and
- Transferring surplus increments from other districts in the municipality.

Formula extensions. The maximum duration extension is determined under a formula. This formula compares the tax paid by the district's original net tax capacity in 2001 with the average tax paid in 2002 and 2003. The percentage reduction is multiplied by the remaining duration of the district to determine the permitted extension (rounded up to the nearest whole number of years for fractional amounts greater than 1/3). For example, a district with 9 years remaining that experienced a 25 percent drop in taxes on its original net tax capacity would qualify for a 2-year extension (9 years * 25% = 2.25 years or rounded to 2 years). The maximum extension under this authority is limited to four years.

Additional DOR extensions. In addition, the commissioner of revenue may grant extensions of up to 2 more years upon a showing that the formula based extension would not be sufficient to offset the deficit and that it is unlikely that the district can "grow out of" the deficit. Application could not be made until the authority is within 3 years of the end of the duration limit (both the regular limit and the extension under the formula).

Procedures. The authority must provide public notice and hold a hearing before approving an extension. The county and school district in which the district is located must approve the extension.

Qualifying obligations. These obligations are pre-existing obligations that are also bonds or interfund loans (an advance or loan made by the authority or city). The city may elect to

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include developer or "pay-as-you-go" obligations as qualified obligations. However, if it does so, the maximum formula extension is one-half of the regular length.

Limits on use of increments. The authority may use increments from a district that receives an extension only to pay pre-existing obligations of the district (i.e., generally obligations issued before August 1, 2001). During the extension period, increments may only be used to pay qualifying obligations (i.e., bonds and interfund loans). If increments from multiple districts are pledged to pay the qualifying obligations, then all of these districts (even if their terms have not been extended) are subject to this limit on the use of increments.

Effective date: Day following final enactment for all pre-2001 districts.