MN HOUSE RESEARCH

Bill Summary

H.F. 164

As Introduced

Subject	**Duluth; tax increment financing districts authorized**
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Date	**March 1, 2019**

Overview

This bill authorizes the city of Duluth to create redevelopment TIF districts within a project area in downtown Duluth. Under this bill, the following special rules would apply to any TIF district created:

- The established redevelopment districts do not have to meet the statutorily required blight findings for establishing a redevelopment district.
- Increments from the established districts would not be required to be spent on correction of blight conditions, as required by statute for redevelopment districts.
- Increments generated may be used for a public park or a facility used for social, recreational, or conference purposes. Both uses of increment are prohibited under general TIF law.
- The four-year knockdown rule is extended to 7 years.
- The five-year rule is extended to 10 years.
- Exempts the district from the requirement that starting in the district's sixth year, increment must be used to decertify the district.

Background on general TIF rules

Redevelopment districts. Under current law, a blight finding within the district area must be found before a redevelopment district can be established. The blight finding is based on a percentage of the area's parcels that are occupied by improvements and of the parcels' building that are substandard.

To that end, redevelopment districts are allowed a longer duration (25 years) than districts that have a lesser blight requirement (i.e. renewal and renovation districts – 15 years), or districts that do not have a blight finding requirement (i.e. economic development districts – 8 years).

Four-year knockdown rule. This rule requires qualifying activity to commence on a parcel within a district within four years of the district's certification. Qualifying activity includes demolition, rehabilitation, renovation, or other site preparation. If a parcel has had no such activity, no additional tax increment may be taken from that parcel, and the original net tax capacity of that parcel is removed from the original net tax capacity of the district.

Five-year rule. Under current law for redevelopment districts, 75 percent of increment generated in a district in the district's first five years after certification must be spent on development activity within the district. After the fifth year, increments may only be spent to decertify the district by paying off obligations that were incurred to fund work done during the five-year period, or to reimburse a developer for costs it paid during the first five years.

The rule is intended to ensure that the property within the district is put back on the tax rolls in a reasonable amount of time, rather than increment being used to undertake new projects or expenditures instead of being used to pay existing debts.

Pooling limits. Under current law for redevelopment districts, the pooling rules limit (to statutory percentages) the amount of increments that may be spent on activities outside the area of the TIF district. The statutory percentage limits state that since 75 percent of increments are subject to the five-year rule (above) and spent within the district, 25 percent may be spent outside of the district.

These limits 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 within the "project area" for a district, but the law imposes no significant limits on how large those areas may be or how frequently their boundaries may be changed, even after the TIF district was established.