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This bill authorizes Minneapolis to create redevelopment TIF districts in an area of North Minneapolis along the Mississippi River (generally referred to as the Upper Harbor Terminal area). Under the bill, the following special rules would apply to these TIF districts:

- The districts would be redevelopment districts without meeting the statutory “blight test” that provides limits (based on the percentages of the area’s parcels that are occupied by improvements and of the parcel’s buildings that are substandard). Redevelopment districts are allowed a longer duration (25 years) than districts that meet a lesser blight test (e.g., renewal and renovation districts – 15 years) or that are not required to meet a blight test at all (economic development districts – 8 years).
- Increments from the districts would not be required to be spent on “blight correction,” as is required under general law for redevelopment districts.
- The original net tax capacity of the districts would be set at zero, rather than based on the current market value of the property. Much of the area is currently tax exempt, but general law requires tax exempt property in a TIF district that becomes taxable property to be included in original tax capacity based on its market value (not set at zero because it was tax exempt).
- The five-year rule is extended to 10 years.
- The percentage pooling rules do not apply, if the increments are spent on activities in geographic area defined in the bill.

### **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

## **Section**

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.