

HOUSE RESEARCH

Bill Summary

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Overview

This bill eliminates a number of expired, little or never used or otherwise obsolete provisions from chapter 469, along with related provisions of other chapters. The major categories:

- Repeal of the International Economic Development Zone (IEDZ) program provisions - this law was enacted in 2005 to permit development an airfreight zone (proposed to be in Rosemount). The zone was not designated and the promoters have abandoned the idea.
- Repeal and rewrite the 1983 enterprise zone law. These zones were designated in 1983 for a seven-year period. The tax incentives, which extended beyond the duration of the zones, ended in the 1990s. The border city zone component of this program, however, is permanent and retains some state funding (the last allocation was enacted in 2008). The bill limits the law to the five border city zones and the tax incentives that they provide. The employment property tax classification (class 3b), which was provided as part of the 1983 enterprise zone, is repealed since it is not used in the still active border zones.
- Elimination of provisions related to pre-1979 TIF districts. These districts were grandfathered by the 1979 TIF Act and were required to be decertified by 2009. As of the end of 2011 all of these districts have been decertified.
- Repeal of the enterprise zone law enacted to enable Minnesota's participation in the federal empowerment zone, renewal community, and enterprise community programs that were enacted in the 1990s.
- Repeal of a variety of other provisions with sunset dates that have passed (e.g., the authority to issue hospital revenue bonds under section 469.1651 expired on August 1, 1990), but the laws remain on the books.
- A number of tax increment financing (TIF) provisions that were enacted in the 1990s, but that apparently have never been used (e.g., the Guaranty Fund and special taxing district provisions).
- Provisions related to the Northwest Airlines financing from the early 1990s - the TIF provision and the income tax credit, but not the bonding provisions that are in the MAC statute.

The draft also makes minor changes in chapter 469 to update it for other changes in the law - e.g., the repeal of the market value homestead credit relative to TIF calculations, and the split of the green acres program into two separate programs (green acres and rural preserves). In addition, an obsolete housing and redevelopment authority (HRA) law allowing liquidation of HRAs is rewritten to be a general and potentially active provision to provide cities a legal path to dissolve HRAs. The authority of HRAs to exempt property from taxation is repealed, because it is no longer used and duplicates the economic development abatement authority.

- 1 **Economically disadvantaged areas.** Changes references to the enterprise zone program to refer the border city enterprise zone, the only surviving portion of the 1983 enterprise zone program, in the statute providing state procurement preferences to small businesses located in economically disadvantaged areas.
- 2 **Small business loans; preferences.** Changes references to the enterprise zone program to refer to the border city enterprise zone program, the only surviving portion of the 1983 enterprise zone program, in the statute giving preferences in the agricultural resource loan program.
- 3 **Public service corporation definition.** Eliminates a reference to the IEDZ, which was never established and the authority for which is repealed by section 43, in the definition of a public service corporation under the eminent domain law.
- 4 **DOR data practices law.** Changes a general reference to the enterprise zone program to refer to the border city enterprise zone program, the only surviving portion of the 1983 enterprise zone law, and corrects cross references required by changes the bill makes, in the Department of Revenue's data practices law.
- 5 **Property tax exemption; HRAs.** Eliminates cross references to the authority of HRAs to exempt property from tax, which is repealed by section 43.
- 6 **Employment property.** Repeals a reference to employment property in the property tax classification section. Employment property was provided under the 1983 enterprise zone program and is not used in border city enterprise zones (since the 1990s), the only remaining portion of the 1983 enterprise zone law.
- 7 **Disparity reduction credit.** Corrects cross references in the disparity reduction credit statute, which are required by changes that the bill makes eliminating obsolete provisions of the 1983 enterprise zone law and repealing the obsolete employment property class.
- 8 **Iron Range fiscal disparities law; cross reference.** Eliminates cross references to the obsolete pre-1979 HRA TIF laws in the Iron Range fiscal disparities law. Authority to create new districts under these laws ended on August 1, 1979, and the last districts were required to be decertified in 2009.
- 9 **Income tax, subtractions from FTI.** Eliminates the subtraction for IEDZ income from federal taxable income (FTI) under the individual income tax. Section 43 repeals the enabling law.
- 10 **Corporate franchise tax, subtraction from FTI.** Eliminates the IEDZ subtraction from taxable income in computing corporate franchise tax. Section 43 repeals the enabling law.
- 11 **Income tax rates; cross references.** Corrects cross references to reflect the repeal of the income tax subtraction by section 9 for IEDZ income.
- 12 **Dependent care credit; cross reference.** Corrects a cross reference in the dependent care credit to reflect the repeal of the income tax subtraction by section 9 for IEDZ income.
- 13 **Working family credit, cross reference.** Corrects a cross reference in the working family credit to reflect the repeal of the income tax subtraction by section 9 for IEDZ income.
- 14 **Individual AMT; cross references.** Corrects cross references in the individual alternative minimum tax (AMT) definitions to reflect the repeal of the income tax subtraction by section 9 for IEDZ income.
- 15 **Corporate AMT; cross references.** Eliminates the subtraction for IEDZ income under the corporate franchise tax AMT. Section 43 repeals the enabling law.
- 16 **Minimum fee.** Eliminates the exclusion for IEDZ property and payroll from the minimum fee under the corporate franchise tax when all of the property and payroll are in the zone. Section 43 repeals the enabling law.

- 17 **Minimum fee, property and payroll factors.** Eliminates the exclusion for IEDZ property and payroll from the minimum fee under the corporate franchise tax when only a portion of the property and payroll of the business is in the zone. Section 43 repeals the enabling law.
- 18 **IEDZ sales tax refund.** Eliminates the sales tax refund provisions for businesses in the IEDZ. Section 43 repeals the enabling law.
- 19 **HRAs, public bidding exemption.** Eliminates an obsolete exemption (expired August 1, 2009) from the public bidding requirements under the housing redevelopment authority (HRA) law.
- 20 **HRAs, dissolution authority.** Converts the authority to dissolve certain HRAs (which appears to be an obsolete provision since it is limited to assets of HRAs that were derived from a special benefits tax imposed before March 6, 1953, by an HRA that did not have low rent public housing contracts with the federal government) to a general authority to dissolve an HRA that no longer has operative contracts with the federal government. There does not appear to be authority or a mechanism for a city to dissolve an HRA under present law.
- 21 **Enterprise zones; definition.** Limits the definition of enterprise zones under the 1983 enterprise zone law to border city enterprise zones. The regular or competitive zones expired in the 1990s and only border zones remain.
- 22 **Enterprise zones; definition of municipality.** Converts the definition of "municipality" under the 1983 enterprise zone law to a "city," since only the five border city enterprise zones in cities remain.
- 23 **Enterprise zones; definition of governing body.** Modifies the definition of "governing body" under the 1983 enterprise zone law to refer to city councils. This program is now limited to the border city enterprise zone programs for five cities along the western border of the state; counties and joint powers entities are no longer involved.
- 24 **Enterprise zones; duration limits.** Eliminates obsolete references to the duration limit under the 1983 enterprise zone law that expired in the 1990s. Border city enterprise zones are permanent until terminated by the city.
- 25 **Border city enterprise zones; but-for limits.** Imports the substantive restrictions that apply to tax incentives provided in border city enterprise zones, currently in section 469.170, subdivision 5, into the general limits that apply to the tax reductions. Section 469.170, subdivision 5, is repealed by section 43, since the regular zones expired in the 1990s.
- 26 **Enterprise zones; limits.** Eliminates obsolete portion of the limits on the 1983 enterprise zone law that applied to the regular or competitive zones.
- 27 **Enterprise zone allocations.** Eliminates a reference to the old employment property tax classification under the 1983 enterprise zone law. This classification is not used by the border city zones.
- 28 **Enterprise zones; duration limits.** Eliminates obsolete language related to regular or competitive enterprise zones under the 1983 enterprise zone law.
- 29 **Enterprise zone; recapture.** Eliminates obsolete references to employment property and clarifies that the recapture provisions of the 1983 enterprise zone law apply only to border city enterprise zones, the only remaining zones under the 1983 law.
- 30 **Enterprise zones; expiration of designation.** Adds a reference to border city enterprise zones, reflecting that these are the only remaining enterprise zones from the 1983 law.
- 31 **Enterprise zones; additional development powers.** Adds a reference to border city enterprise zones, reflecting that these are the only remaining enterprise zones from the 1983 law and eliminates authority that related to an increase in the geographic area of a now expired enterprise zone.
- 32 **Enterprise zones; data practices.** Clarifies that the commissioner of revenue's authority to share data with cities that have border city enterprise zones applies regardless of the subdivision under

which state funding is provided.

- 33 Enterprise zones; boundary changes.** Adds a reference to border city enterprise zones in the statute allowing the commissioner of DEED to realign zone boundaries, reflecting that border zones are the only remaining enterprise zones from the 1983 law and eliminates obsolete language related to regular (now expired) enterprise zones under the 1983 law.
- 34 TIF; Internal Revenue Code references.** Eliminates the specific date reference (December 31, 1993) in the definition of the Internal Revenue Code used in the TIF law. This will adopt future changes in the Internal Revenue Code made by Congress for purposes of applying TIF rules. This is likely permissible under the *Wallace* case and its progeny because it will (typically) not have the effect of raising or lowering taxes, but more is a matter of administrative ease in determining the types of housing projects that may be funded with TIF.
- 35 Definition of tax increment.** Eliminates a reference to the now repealed homestead market value credit in the definition of tax increment.
- 36 TIF reference to rural preserves program.** Adds a reference to the new rural preserves property tax program in the section that prohibits using TIF for parcels that are in the green acres, open space, or metropolitan agricultural preserves program. The 2009 legislative changes divided the green acres program into two separate programs, green acres and rural preserves. This change clarifies that the prohibition applies to both programs.
- 37 TIF; cross references.** Eliminates references in the TIF law to the special tax authority (repealed by section 43) and the previously repealed special grant program.
- 38 TIF; cross reference.** Modifies a cross reference to reflect the repeal of pre-1979 TIF statutes by section 43.
- 39 TIF; adjustments to original net tax capacity.** Provides for adjustments to original net tax capacity to reflect the conversion of the market value homestead credit to an exclusion from taxable market value. This will treat the effect of granting the exclusion in the same way converting taxable property to an exempt use is treated (i.e., all or a portion of the reduction in tax capacity will be assigned to original net tax capacity). This section also provides for the reverse situation: if a pre-existing property receiving the homestead exclusion no longer qualifies for it, an adjustment to original tax capacity, similar to that for property removed from green acres, will be made (typically reducing captured tax capacity). A reference to the new rural preserves program is also added to this adjustment.
- 40 TIF; cross reference.** Eliminates a reference to the 2001 TIF grant program that was repealed in 2002.
- 41 Abatement; obsolete language.** Eliminates obsolete language in the economic development property tax abatement law that expired on July 1, 2004.
- 42 Metro area fiscal disparities law; cross reference.** Eliminates cross references to the obsolete pre-1979 HRA TIF laws in the metropolitan area fiscal disparities law. Authority to create new districts under these laws ended on August 1, 1979, and the last districts were required to be decertified in 2009.

43 Repealer.

Section	Description
272.02, subd. 83	Property tax exemption for IEDZ property
290.06, subd. 24 and 32	Jobs credits for the Northwest Airlines financing (this is obsolete) and for qualifying businesses in the IEDZ
297A.68, subd.41	Sales tax exemption for qualifying businesses in IEDZ
469.042, subd. 2 - 4	Obsolete HRA TIF authority - the authority to establish TIF districts under this law ended on August 1, 1979 and the last pre-1979 districts

	were decertified in 2009.
469.043	Authority for HRAs to provide partial property tax exemption. This authority was enacted in the original HRA act, but was rarely used. (This authority was originally restricted to redevelopment companies, entities that HRAs were authorized to create but rarely did. The authority to create redevelopment companies was repealed in the 1987 recodification of the HRA statute and the exemption authority was made generally applicable to HRAs, but it has been rarely, if ever, used since then.)
469.059, subd. 13	Obsolete Port Authority TIF authority - the authority to establish districts under this provision ended on August 1, 1979, and the last pre-1979 districts were decertified in 2009.
469.129	Authority to issue municipal development district TIF and refunding revenue bonds. The authority to issue the TIF bonds expired on August 1, 1979, and to issue revenue bonds on April 30, 1990.
469.134	Grandfather provision for pre-1979 TIF districts created under old special laws (for the city of Minneapolis) that pre-dated enactment of the general law allowing creation of municipal development districts. The TIF districts created under these old special laws were all decertified as of 2009.
469.162, subd. 2	Obsolete industrial revenue bond TIF provisions - the authority to establish these districts ended on August 1, 1979, and the last pre-1979 districts have been decertified (if any were ever created).
469.1651	Obsolete authority to issue revenue anticipation notes for hospitals - authority to issue these notes expired on August 1, 1990.
469.166, subd. 7, 8, 9, 10, 11, and 12	Obsolete provisions of the 1983 enterprise zone law - these enterprise zones and the tax incentives provided under them expired in the 1990s. The border city enterprise zones remain in effect and the bill modifies the relevant provisions of the law to limit it to these zones.
469.167, subd. 1 and 3	Authority to designate enterprise zones under the 1983 law
469.168	Eligibility requirements under the 1983 enterprise zone law
469.169, subd. 1, 2, 3, 5, 5a, 5d, 5e, 6, 7, 8, 9, 10, 11, and 13	Rules governing selection of enterprise zones under the 1983 law, including funding limits. The most recent allocations for border city enterprise zones are preserved, since these moneys have not been fully used by the border cities.
469.170	Provisions governing employment property tax treatment under the 1983 enterprise zone law - this treatment expired with the regular zones under the 1983 law (the treatment is not provided in border city enterprise zones).
469.171, subd. 2, 5, and 6b	Obsolete provisions of the 1983 enterprise zone law that do not relate to the still active border city enterprise zones. The provisions that relate to border city zones are recodified into section 469.171, subdivision 1, by section 25 of the bill.
469.173, subd. 1 and 3	Obsolete provisions of the 1983 enterprise zone law that do not relate to the still active border city enterprise zones.
469.1765	TIF guaranty fund - this provision was enacted as a mechanism to use TIF to help with contamination and pollution cleanup - but has never been used.
469.1791	TIF special taxing district - authority was enacted in 1998 to help TIF districts deal with funding shortfalls caused by property tax reform; it

	has never been used.
469.1799, subd. 2	Special levy authority for schools with pre-2001 property tax abatements. These abatements (given the ten-year duration limit) have now been paid off and this provision is obsolete.
469.301 - 469.304	Enterprise zone authority that was enacted in 1990s to qualify for federal designation the Clinton administration program.
469.321 - 469.329	Authority to designate IEDZ - this authority was passed in 2005, but the zone was never designated.
473.680	Authority to create TIF district as part of the Northwest Airlines financing in the early 1990s (never used and now obsolete, since the bonds have been paid off)