

STATE OF MINNESOTA

Office of the State Auditor



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State Auditor

TAX INCREMENT FINANCING LEGISLATIVE REPORT

TIF Reports for the Year Ended December 31, 2012
TIF Audits Concluded for the Year Ended December 31, 2013

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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TAX INCREMENT FINANCING LEGISLATIVE REPORT

TIF Reports for the Year Ended December 31, 2012
TIF Audits Concluded for the Year Ended December 31, 2013



January 31, 2014

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TAX INCREMENT FINANCING REPORT

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EXECUTIVE SUMMARY

Current Trends

- The total number of TIF districts certified in 2012 increased by 16 percent compared to 2011. (pg. 12)
- Economic development districts were again the largest share of new districts, representing about half of the districts certified in 2012. (pg. 12)
- Seventy economic development districts were created in 2011 and 2012, approximately three times the 23 economic development districts created in 2009 and 2010. (pg. 12)
- In 2012, 148 TIF districts were decertified, an 18 percent increase from 2011. More redevelopment and housing districts were decertified in 2012, but the number of economic development districts decertifying has dropped two years in a row. (pg. 13)
- In 2012, development authorities returned \$3,803,452 in tax increment revenue to county auditors for redistribution to the city, county, and school district as property taxes. (pg. 18)
- Using the temporary authority of the Jobs Stimulus Program, 37 development authorities reported creating 42 economic development districts. TIF plan estimates indicated about \$54.7 million of planned tax increment expenditures. (pg. 21)
- Over the three years of the Jobs Stimulus Program, data reported to the OSA showed that 42 authorities used a total of almost \$37.4 million of tax increment generated from 87 existing TIF districts for job creation. (pg. 21)

Long-Term Trends

- Between 1996 and 2004, the total number of TIF districts increased. From 2004 through 2012, the total number declined. The decline reflects, among other things, a growing number of decertifications of older districts. (pg. 11)
- After a slight decline in 2011, tax increment revenue dropped by 7 percent in 2012, continuing a downward trend that began after 2008. (pg. 17)

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SCOPE AND METHODOLOGY

This eighteenth Annual Legislative Report (Report) was compiled from information received from the 427 development authorities currently authorized to exercise tax increment financing (TIF) powers in Minnesota. The Report summarizes the data received from the 1,784 unaudited TIF reports for the calendar year ended December 31, 2012, and provides a summary of the violations cited in the limited-scope reviews concluded by the Office of the State Auditor (OSA) in 2013. This Report is provided annually to the chairs of the legislative committees with jurisdiction over TIF matters.¹

In 1995, the Minnesota Legislature assigned legal compliance oversight for TIF to the OSA.² The OSA's oversight authority extends to examining and auditing the use of TIF by political subdivisions, as authorized by the Minnesota Tax Increment Financing Act (TIF Act).³

The TIF Act requires an authority to file with the OSA annual financial reports for each of its TIF districts. This reporting requirement applies to all TIF districts regardless of when they were created. An authority must submit its reports on or before August 1 of each year, starting the year in which the district is certified.

A total of 427 development authorities had 1,784 TIF districts for which they were required to file TIF reports with the OSA for the year ended December 31, 2012. On August 20, 2013, the OSA sent letters, addressed to the governing boards of the municipalities, and to those development authorities who had not yet filed advising them that the required reports had not been filed.⁴

For authorities that had not filed their completed reports with the OSA by October 1, 2013, a notice was mailed to each of the applicable county auditors to withhold tax increment that otherwise would have been distributed to the authorities.⁵ All reports have been received.

¹ 1995 Minn. Laws, ch. 264, art. 5, § 34.

² Minn. Stat. § 469.1771.

³ The TIF Act can be found at: Minn. Stat. §§ 469.174 through 469.1799 inclusive, as amended. The OSA's oversight authority can be found at: Minn. Stat. § 469.1771.

⁴ Minn. Stat. § 469.1771, subd. 2a(a).

⁵ Minn. Stat. § 469.1771, subd. 2a(a).

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TAX INCREMENT FINANCING LEGISLATIVE REPORT

BACKGROUND

Tax increment financing (TIF) is a financing tool established by the Legislature to support local economic development, redevelopment, and housing development. As its name suggests, TIF finances development activity by “capturing” the incremental increase in property tax revenues, or “tax increments,” generated by the growth in the taxable value of property caused by the new development. The tax increments are captured within a TIF district comprised of the parcels on which development activity occurs. The tax increments are used to finance public improvements and other qualifying costs related to the new development, which would not otherwise occur without the use of TIF.

Tax increment financing is not a property tax abatement program. The owners of property located in the TIF district continue to pay the same amount of property taxes that they would have otherwise paid. Instead of being paid to the local taxing jurisdictions, that portion of the property taxes generated by the new development, and only that portion, is used to pay for public improvements and qualifying costs that made the new development possible.⁶ Examples of such costs include: land and building acquisition, demolition of structurally substandard buildings, removal of hazardous substances, site preparation, installation of utilities, and road improvements. The costs that may be paid from tax increment revenue depend on the type of development activity taking place, the type of TIF district created, and the year in which the TIF district was created.

Tax increment has been available as a financing tool in Minnesota since the 1940s. Early procedures for the use of tax increment varied widely. The TIF Act of 1979 established uniform procedures that limited the use of tax increment to only those parcels on which new development activity was occurring.⁷

A development authority creates the TIF district. An authority can be a city, an entity created by a city, or an entity created by a county.

Development authorities derive their authority from the Housing and Redevelopment Authorities (HRA) Act, the Port Authorities Act, the Economic Development Authorities (EDA) Act, and the Rural Development Financing Authorities Act. Together with the City Development District Act, these acts are referred to in this Report as the Development Acts.⁸ Any city with the authority to exercise the powers of the City Development District Act or the powers of a port

⁶ Minn. Stat. § 469.177, subd. 1(a). Property taxes already existing at the time the district is created continue to be paid in the same amount to the city, county, and school district, often referred to as the “frozen base.” *But see* Minn. Stat. §§ 469.174, subd. 23, and 469.175, subd. 7 (due to the extraordinary expense involved in cleaning up hazardous substances, the entire property tax payment may be used to pay it).

⁷ Minn. Stat. §§ 469.174 to 469.1799, as amended. The Act also provides procedures for establishing TIF districts and for the administration of districts, as well as providing additional development powers.

⁸ Minn. Stat. § 469.174, subd. 2, lists the statutory citations for the HRA Act, the Port Authorities Act, the EDA Act, the City Development Districts Act, and the Rural Development Financing Authorities Act.

authority acts as a development authority. Development powers and the purposes for which tax increment can be used vary between each of the Development Acts.

City council members may serve on the board of an HRA, an EDA, or a port authority established by the city they serve. Counties do not have independent development powers, but can establish county HRAs and EDAs on which county board members may serve.

The TIF Act is cross-referenced in the Development Acts primarily through the use of the term “project,” although the term is used differently in each of the Development Acts.⁹ In the HRA Act, for example, the term “project” can mean any combination of a housing project, a housing development project, a redevelopment project, or property/cash/assets/funds held or used in connection with the development or operation of a project.¹⁰ In the City Development District Act, however, the term “project” means a designated area within a city.¹¹ The Development Acts do not expressly limit the size of areas that can qualify as projects.

The Legislature limited the size of a TIF district indirectly by requiring it to be composed of only the parcels on which new development activity was occurring. The geographic area of a project was intended to be only modestly larger than the TIF district itself to permit tax increments to be used to connect utilities and other infrastructure from the developed area of the community to the site. The TIF Act, however, did not expressly limit the size of the geographic area of a project.

Development Authorities

In 2012, there were 427 active development authorities in Minnesota, compared to 426 in 2011. Two new city development authorities were created and three inactive development authorities began using tax increment again. Four authorities became inactive, no longer having active districts.

Of the 427 development authorities reporting for 2012, 323 were located in Greater Minnesota and 104 were located in the Seven-County Metropolitan Area (Metro Area). Maps 1 and 2 on the following pages show the locations of these authorities. Map 3 identifies the various counties throughout the State that have created a separate authority for development purposes.¹²

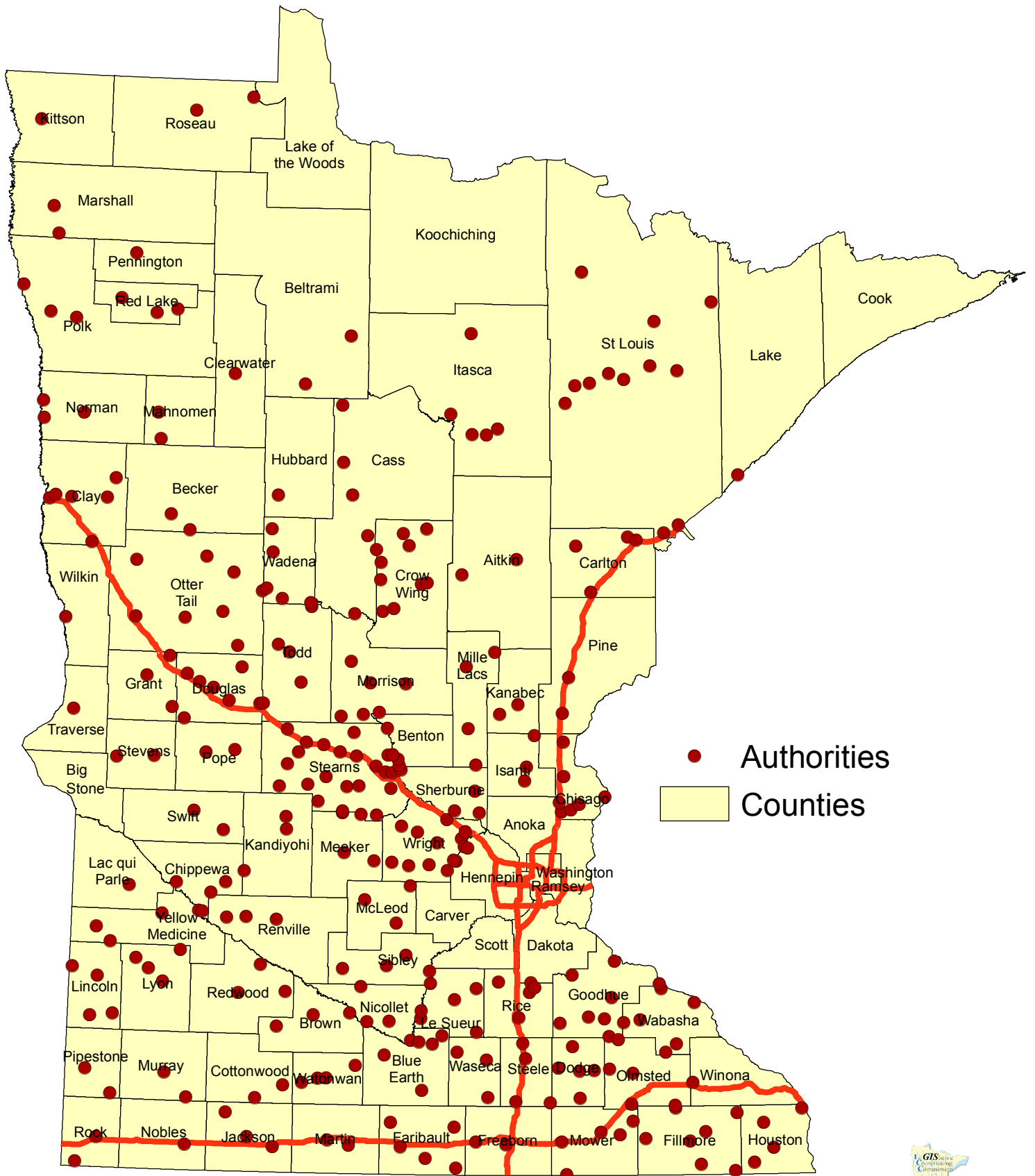
⁹ Minn. Stat. § 469.174, subd. 8.

¹⁰ Minn. Stat. § 469.002, subd. 12.

¹¹ Minn. Stat. § 469.125, subd. 9.

¹² This map does not include the following joint authorities: Bluff Country HRA and Southeast Minnesota Multi-County HRA.

Development Authorities in Greater Minnesota 2012



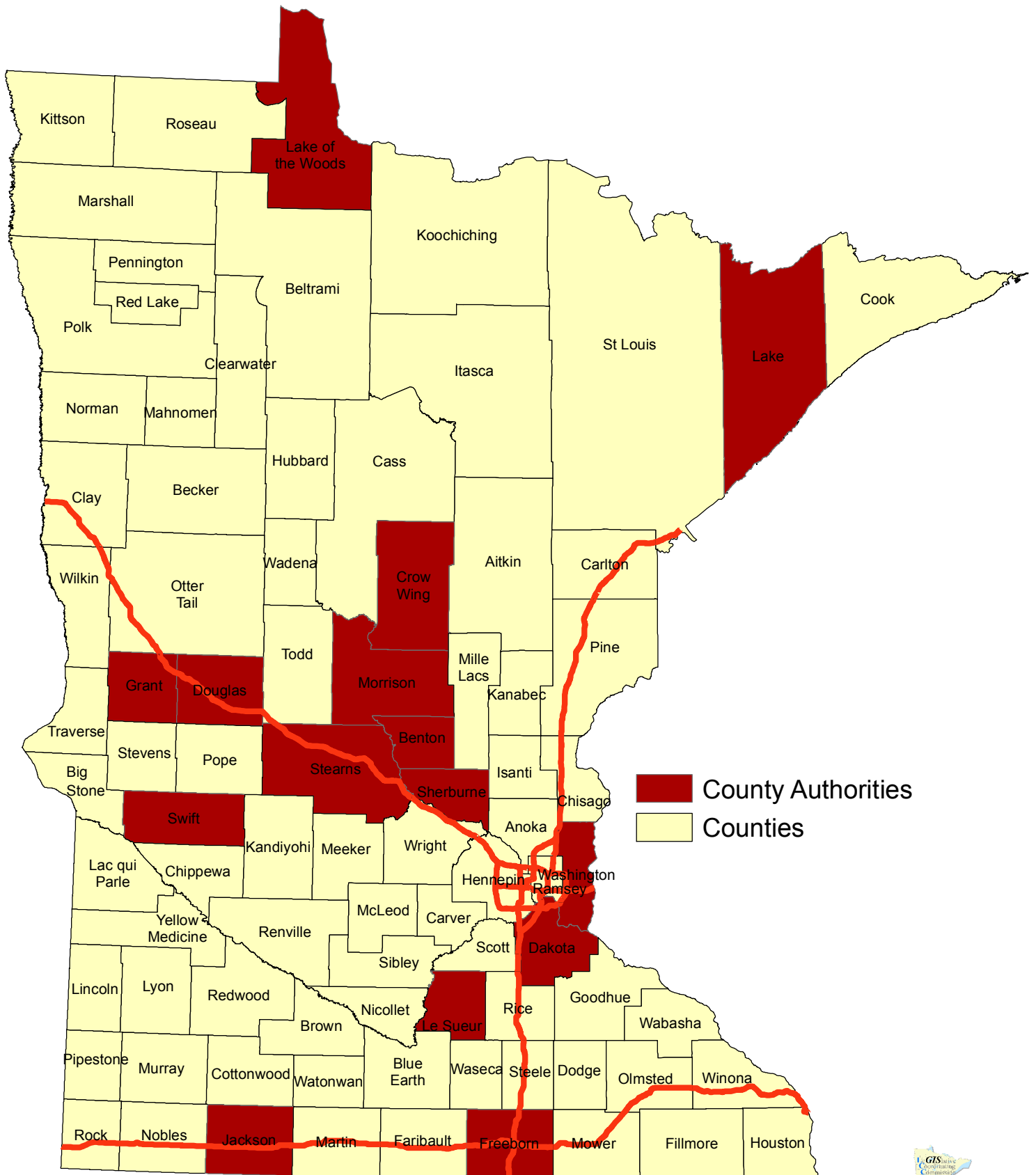
Development Authorities in Metro Area 2012



- Authorities - Metro Area
- Counties



County Development Authorities with Active TIF Districts in 2012



Creation of TIF Districts

The first step a development authority takes in creating a TIF district is to adopt a TIF plan. The TIF plan outlines the development activity to be funded with tax increment. Approval of the TIF plan authorizes the use of tax increment to pay TIF-eligible project costs.¹³

A development authority must obtain approval of the TIF plan from the governing body of the municipality in which the TIF district is to be located. A “municipality” is defined in the TIF Act to mean “the city, however organized, in which the district is located.”¹⁴ Before approving a TIF plan, the city must publish a notice for and hold a public hearing.¹⁵ For example, if a city’s port authority proposes creating a TIF district in the city, the city council must first approve the TIF plan for the district.¹⁶

Before the notice for a public hearing is published, the development authority must provide a copy of the proposed TIF plan to the county auditor and the clerk of the school board who, in turn, provide copies of these documents to the members of the county board of commissioners and the school board.¹⁷ The county board and school board may comment on the proposed district, but cannot prevent its creation.¹⁸

Types of TIF Districts

There are five different types of TIF districts authorized by the TIF Act:¹⁹

- Redevelopment districts;
- Economic development districts;
- Housing districts;
- Renewal and renovation districts; and
- Soils condition districts.

In addition, there are two other general types of districts: districts created prior to the enactment of the TIF Act (“pre-1979 districts”) and districts created by special law (“uncodified districts”). There is also one type of subdistrict--hazardous substance subdistricts--that can be created within a TIF district.

Each type of TIF district has different requirements for its creation, maximum duration limits, and restrictions on the use of tax increment revenue.

¹³ Minn. Stat. § 469.175, subd. 1.

¹⁴ Minn. Stat. § 469.174, subd. 6. Subdivision 6 also identifies several exceptions where the municipality is not a city.

¹⁵ Minn. Stat. § 469.175, subd. 3.

¹⁶ In many cases, the commissioners of the TIF authority include some or all of the council members.

¹⁷ Minn. Stat. § 469.175, subd. 2.

¹⁸ In those situations in which the county is the municipality that must approve the TIF plan, however, the county board may prevent creation of a TIF district.

¹⁹ Authority expired in 2012 for a sixth type, “compact development districts.” No districts of this type were ever created.

Redevelopment Districts – The purpose of a redevelopment district is to eliminate blighted conditions.²⁰ Qualifying tax increment expenditures include: acquiring sites containing substandard buildings, streets, utilities, paved or gravel parking lots, or other similar structures; demolishing and removing substandard structures; eliminating hazardous substances; clearing the land; and installing utilities, sidewalks, and parking facilities. This activity, paid for with tax increment, is generally considered a means to “level the playing field” so that blighted property can compete for development with bare land. Redevelopment districts are designed to conserve the use of existing utilities, roads, and other public infrastructure, and to discourage urban sprawl.

Economic Development Districts – The purpose of an economic development district is to support a project which an authority considers to be in the public interest because it will: (i) discourage commerce, industry, or manufacturing from moving to another state or city; (ii) increase employment in the State; or (iii) preserve and enhance the tax base.²¹ Economic development districts are short-term districts.²² Tax increment revenue from economic development districts is used primarily to assist manufacturing, warehousing, storage and distribution, research and development, telemarketing, and tourism. Commercial development (retail sales) is excluded by law, except in “small cities.”²³

Housing Districts – The purpose of a housing district is to encourage development of owner-occupied and rental housing for low- and moderate-income individuals and families by using tax increment revenue as a type of financing. Tax increment revenue can be used in the construction of low- and moderate-income housing, as well as to acquire and improve the housing site.

Renewal and Renovation Districts – The purpose of a renewal and renovation district is similar to that of a redevelopment district, except the amount of blight to be removed may be less, and the development activity is more closely related to inappropriate or obsolete land use.

Soils Condition Districts – The purpose of a soils condition district is to assist in the redevelopment of property which cannot otherwise be developed due to the existence of hazardous substances, pollutants, or contaminants. The presence of these materials requires removal or remedial action before the property can be used, and the estimated cost of the proposed removal and remediation must exceed the fair market value of the land before the remediation is completed.²⁴

Pre-1979 Districts – Districts created prior to the 1979 TIF Act have been identified as a separate type of district, but were required to decertify by August 1, 2009. This Report, however, continues to identify these districts in many of the tables and graphs because development authorities are required to file Annual TIF Reporting Forms until all tax increments from these districts have been properly spent or returned.

²⁰ Minn. Stat. § 469.174, subd. 10(a)(1).

²¹ Minn. Stat. § 469.174, subd. 12.

²² Minn. Stat. § 469.176, subd. 1b(a)(3).

²³ Minn. Stat. § 469.174, subd. 27, and Minn. Stat. § 469.176, subd. 4c.

²⁴ Minn. Stat. § 469.174, subd. 19.

Uncodified Districts – Special laws have been enacted that permit the generation of tax increment revenue from a geographic area not meeting the definition of a type of TIF district authorized by the TIF Act. This type of district is referred to as an “uncodified” district. Examples of uncodified districts are housing transition districts for the cities of Crystal, Fridley, St. Paul, and Minneapolis, and a district with distressed rental properties in Brooklyn Park.

Hazardous Substance Subdistricts – The purpose of a hazardous substance subdistrict (HSS) is to generate additional increment within a district to address the costs of removal and remediation of hazardous substances. An HSS must have an overlying TIF district, generally a redevelopment district. The site must have a hazardous substance problem that requires removal actions or remedial actions specified in a development response action plan.²⁵ The development response action plan must be submitted and approved by the Minnesota Pollution Control Agency (PCA).²⁶ The original net tax capacity (ONTC) of an HSS is determined as of the date the development authority certifies to the county auditor that it has entered into an agreement for the removal actions or remedial actions specified in the plan.²⁷ The ONTC of the parcels on which the HSS is located is reduced by the estimated costs of the removal actions.²⁸ In other words, the payment of costs for the removal actions or remedial actions of the HSS comes from the frozen base of the district.

Special Legislation

Special legislation has been enacted to allow exceptions to the TIF Act for individual districts. As of 2012, 122 TIF districts reported having been subject to one or more special laws. The most common reasons for enacting special legislation are: (1) extending the five-year deadline for entering into contracts or issuing bonds;²⁹ (2) extending the duration limits of a TIF district;³⁰ (3) creating an exception to requirements or findings needed to create a TIF district;³¹ and (4) creating an exception to the limitations on the use of tax increment.³²

Number of TIF Districts

In 2012, there were 1,784 TIF districts statewide. Of these, 1,711 (96 percent) were redevelopment, economic development, or housing districts. In 2012, 631 districts (35 percent) were located in the Metro Area and 1,153 (65 percent) were located in Greater Minnesota. Figure 1 on the following page shows the number of TIF districts by type and by location.

²⁵ Minn. Stat. § 469.174, subd. 16.

²⁶ Minn. Stat. § 469.174, subd. 17.

²⁷ Minn. Stat. § 469.174, subd. 7.

²⁸ Minn. Stat. § 469.174, subd. 7(b).

²⁹ See Minn. Stat. § 469.1763, subd. 3.

³⁰ See Minn. Stat. § 469.176, subd. 1b.

³¹ See Minn. Stat. § 469.174 and Minn. Stat. § 469.175.

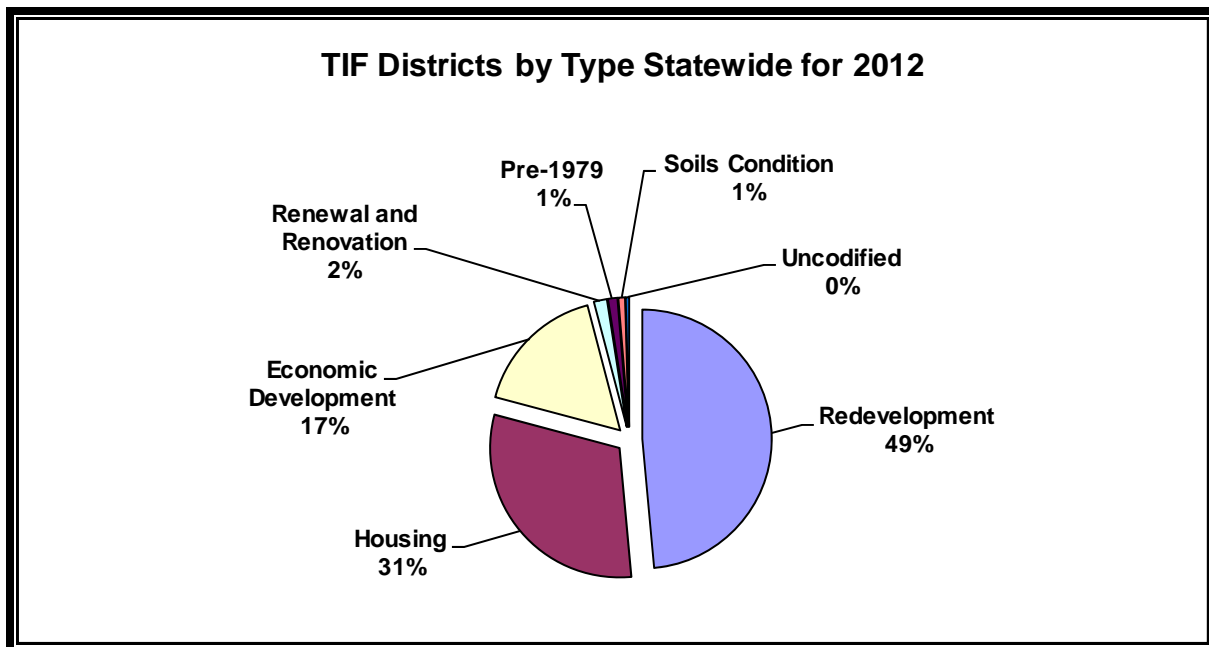
³² See Minn. Stat. § 469.176.

Figure 1.

TIF Districts by Type; Statewide, Greater MN, and Metro Area; 2012						
Type of District	Statewide	% of total	Greater MN	% of total	Metro Area	% of total
Redevelopment	866	49%	489	42%	377	60%
Housing	546	31%	396	34%	150	24%
Economic Development	299	17%	252	22%	47	7%
Renewal and Renovation	29	2%	10	1%	19	3%
Pre-1979	21	1%	4	0%	17	3%
Soils Condition	15	1%	2	0%	13	2%
Uncodified	8	0%	0	0%	8	1%
Total	1,784	100%	1,153	100%	631	100%
Hazardous Substance Subdistricts	28		1		27	

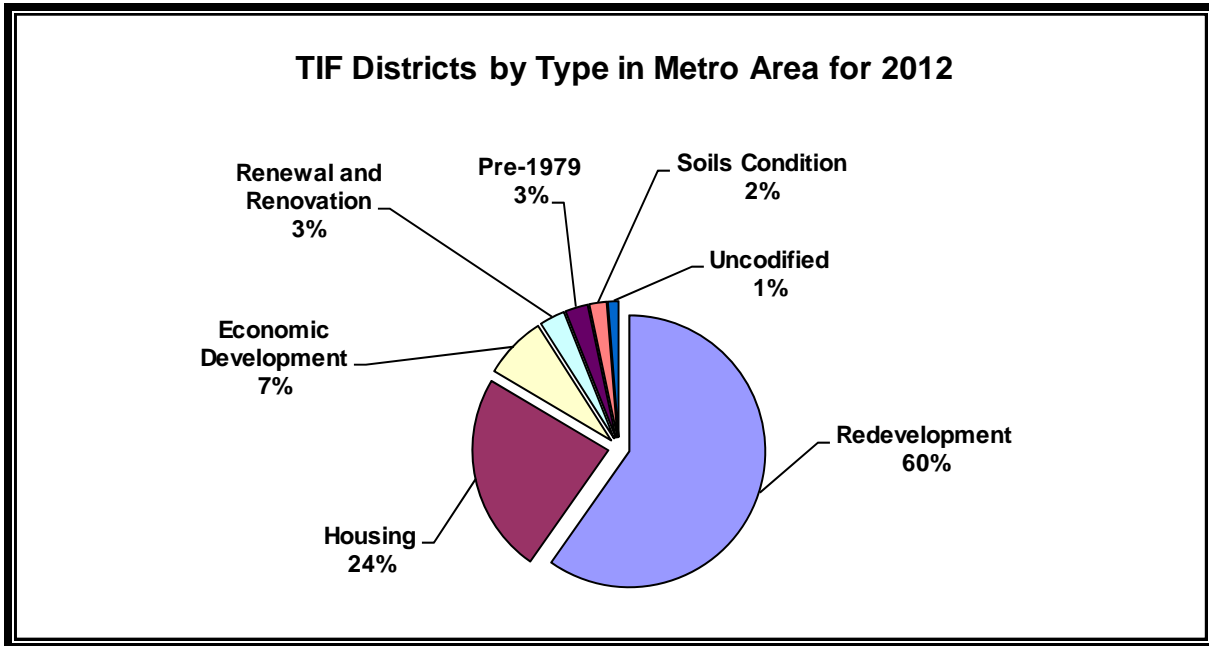
Figure 2 illustrates the percentage of TIF districts by type statewide. Redevelopment districts make up 49 percent of all districts, followed by housing districts at 31 percent and economic development districts at 17 percent.

Figure 2.



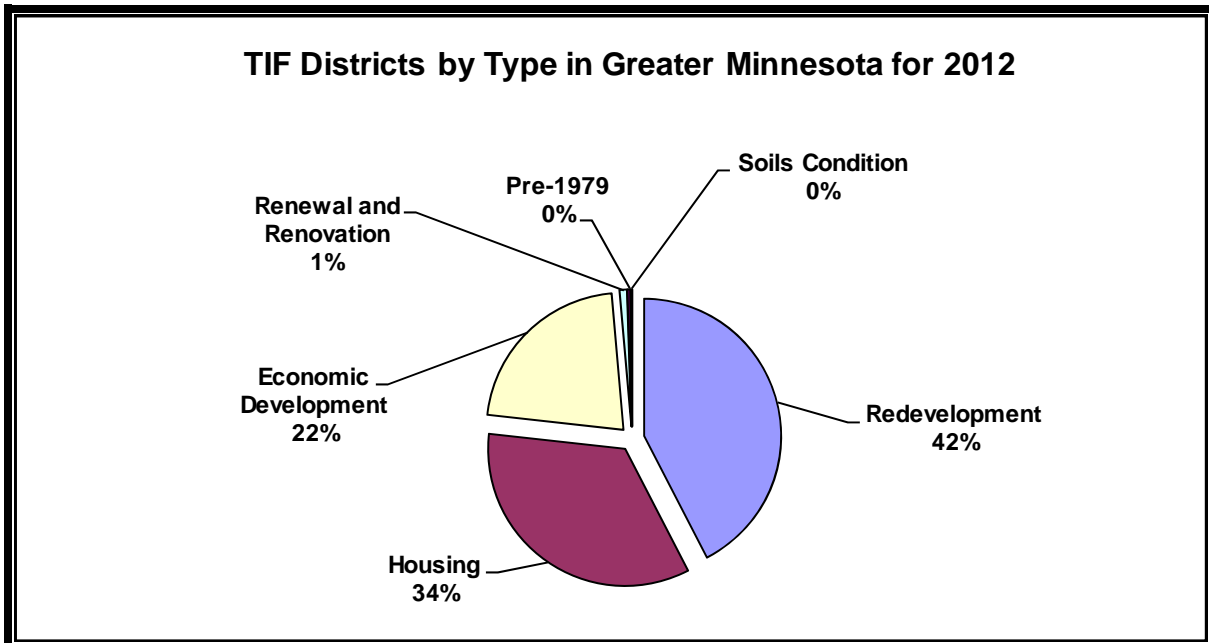
In the Metro Area, (see Figure 3), redevelopment districts are more common and constitute 60 percent of all districts, with housing districts at 24 percent and economic development districts at 7 percent.

Figure 3.



In Greater Minnesota, (see Figure 4), redevelopment districts represent 42 percent of the districts, housing districts make up 34 percent of the districts, and economic development districts make up 22 percent of the districts.

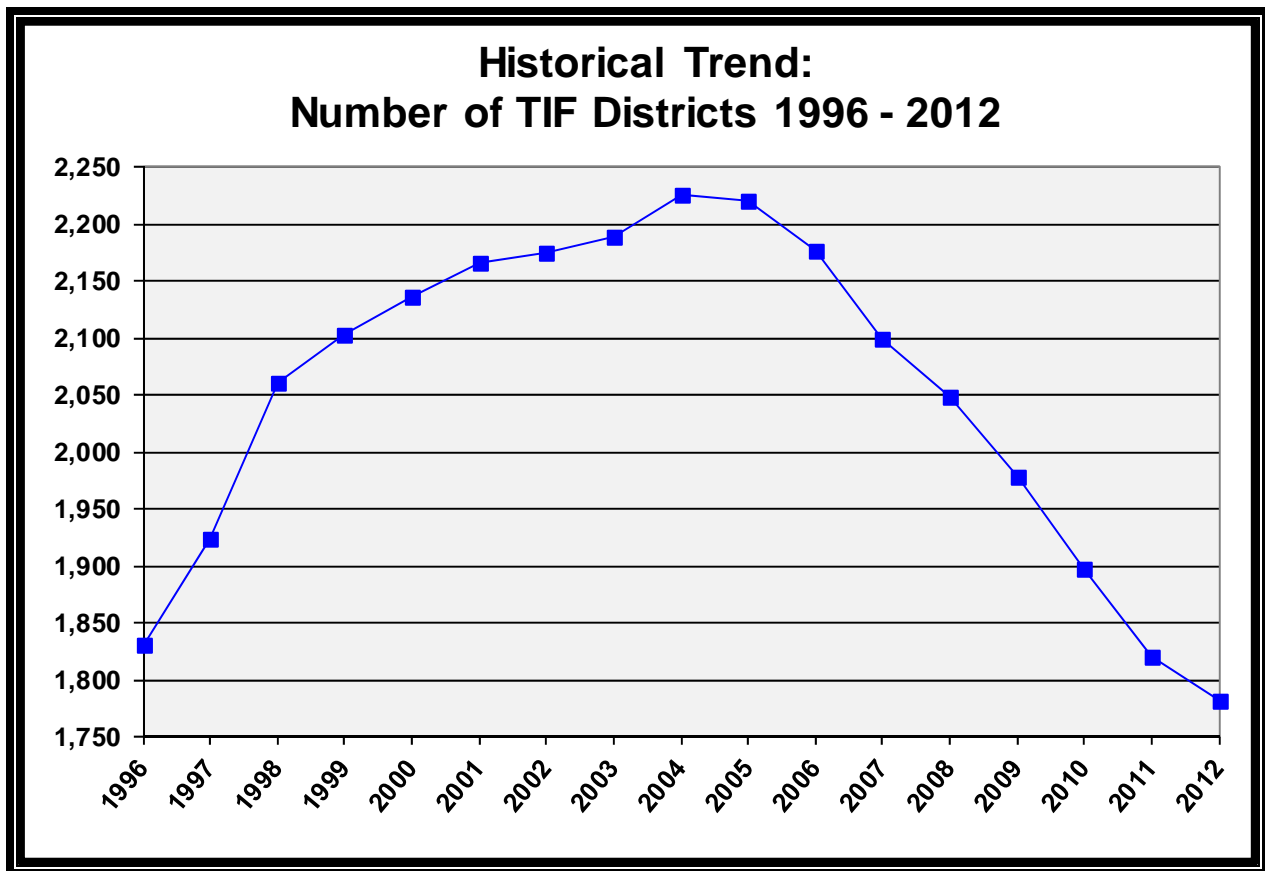
Figure 4.



Trends in the Number of TIF Districts

Figure 5 shows, for historical context, the total number of TIF districts each year from 1996, when the OSA began its oversight authority, to 2012. Between 1996 and 2004, the total number of TIF districts increased. From 2004 through 2012, the total number declined. The decline reflects, among other things, a growing number of decertifications of older districts. Following the enactment of the TIF Act, decertification activity was quite low due to the 26-year duration of many district types. In recent years, districts created in the 1980s have been reaching their maximum durations and decertifications are outpacing the creation of new districts.

Figure 5.



New Districts Certified

After a municipality approves the creation of a TIF district, the county auditor certifies the original net tax capacity.³³ From the date it is *certified*, the increase in property taxes is sent by the county auditor to the TIF authority to pay qualifying development costs.

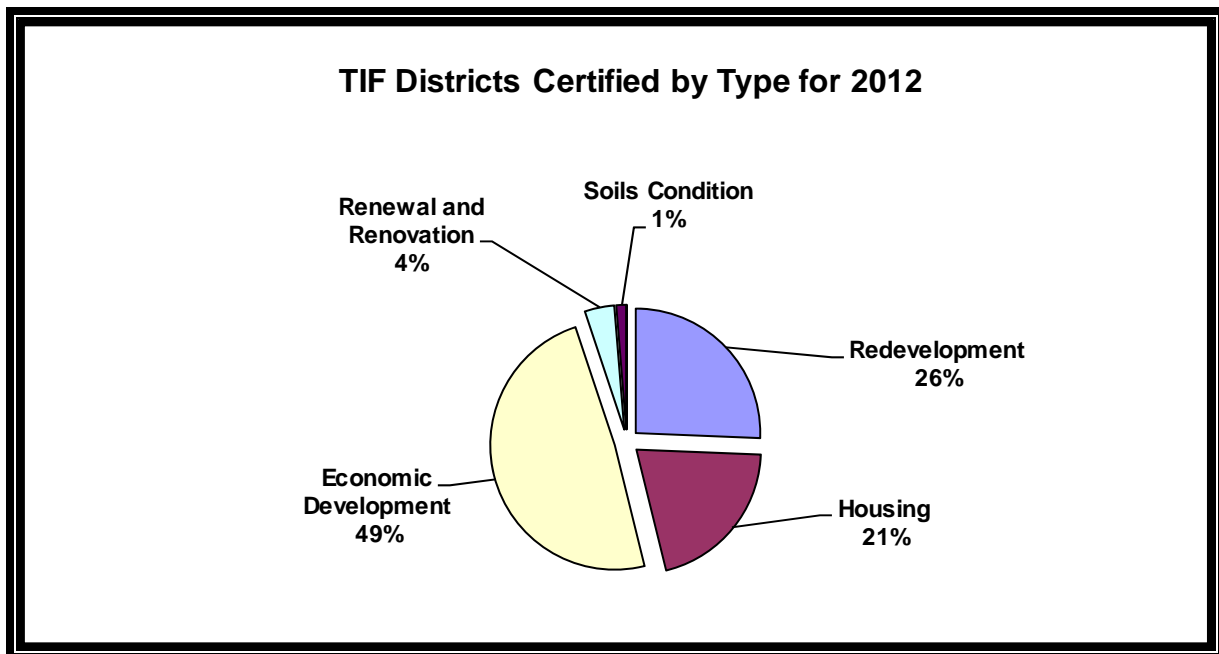
³³ Minn. Stat. § 469.177, subd. 1.

The total number of TIF districts certified in 2012 increased by 16 percent compared to 2011 (see Figure 6). Economic development districts were again the largest share of new districts, representing almost half of the districts certified in 2012 (see Figure 7).

Figure 6.

Number of TIF Districts Certified by Type, 2008 - 2012					
	2008	2009	2010	2011	2012
Redevelopment	28	29	15	19	20
Housing	26	14	11	12	16
Economic Development	34	11	12	32	38
Renewal and Renovation	0	1	0	4	3
Soils Condition	0	0	0	0	1
Uncodified	0	0	1	0	0
Total	88	55	39	67	78

Figure 7.

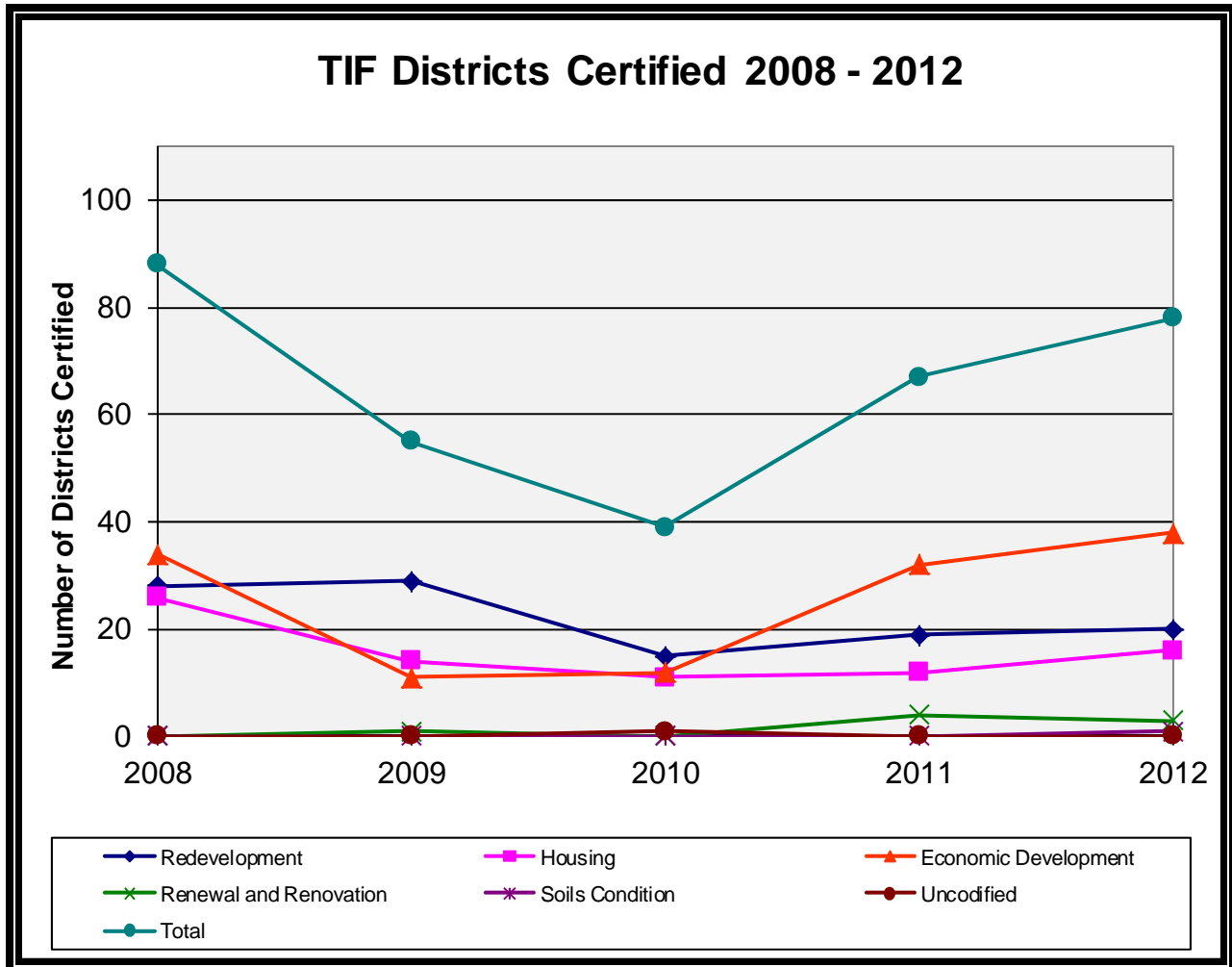


Certification Trends

The number of TIF districts certified by type from 2008 to 2012 is shown in Figure 8. Seventy economic development districts were created in 2011 and 2012, approximately three times the 23 economic development districts created in 2009 and 2010. The Jobs Stimulus Program, which

allowed development authorities to create new economic development districts for broader purposes, is in part responsible for the increase in districts certified. The increase also coincides with improvement in the economy.

Figure 8.



Districts Decertified

After a TIF district’s statutory term expires and the development costs have been paid, the district is decertified. Under certain circumstances, early decertification is required. Districts may also be decertified early at the discretion of the authority.

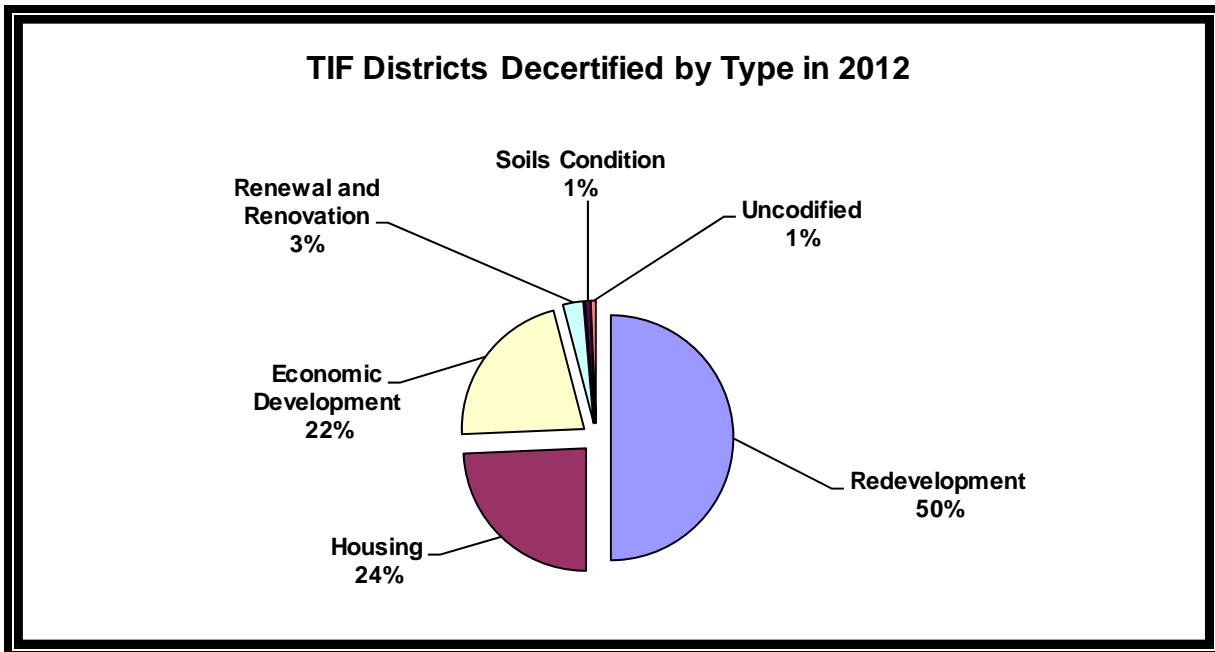
In 2012, 148 TIF districts were decertified, an 18 percent increase from 2011 (see Figure 9). More redevelopment and housing districts were decertified in 2012, but the number of economic development districts decertifying has decreased two years in a row. The Jobs Stimulus Program authorized the use of tax increment from existing districts for expanded purposes for 2010 to 2012. The existence of the Jobs Stimulus Program may have delayed the early decertification of some districts.

Figure 9.

Number of TIF Districts Decertified by Type, 2008 - 2012					
	2008	2009	2010	2011	2012
Redevelopment	37	39	71	58	74
Housing	15	16	21	22	36
Economic Development	63	68	58	42	32
Renewal and Renovation	1	0	0	3	4
Soils Condition	0	0	0	0	1
Uncodified	0	0	0	0	1
Pre-1979	7	36	1	0	0
Total	123	159	151	125	148

Figure 10 shows the number of TIF districts decertified by type in 2012 as a percent of the total.

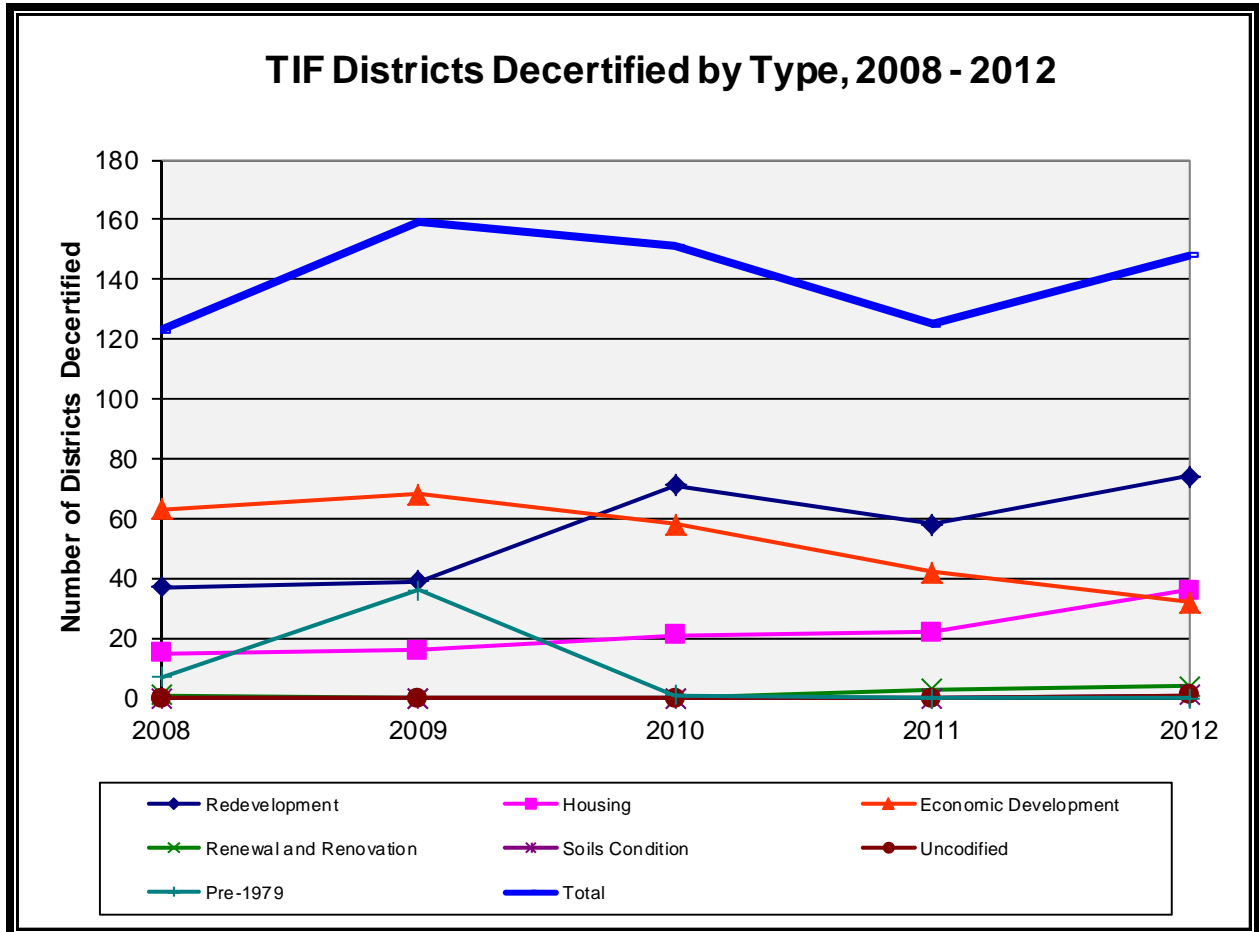
Figure 10.



Decertification Trends

The number of TIF districts decertified by type from 2008 to 2012 is further illustrated in Figure 11 below.

Figure 11.



Tax Increment Revenue

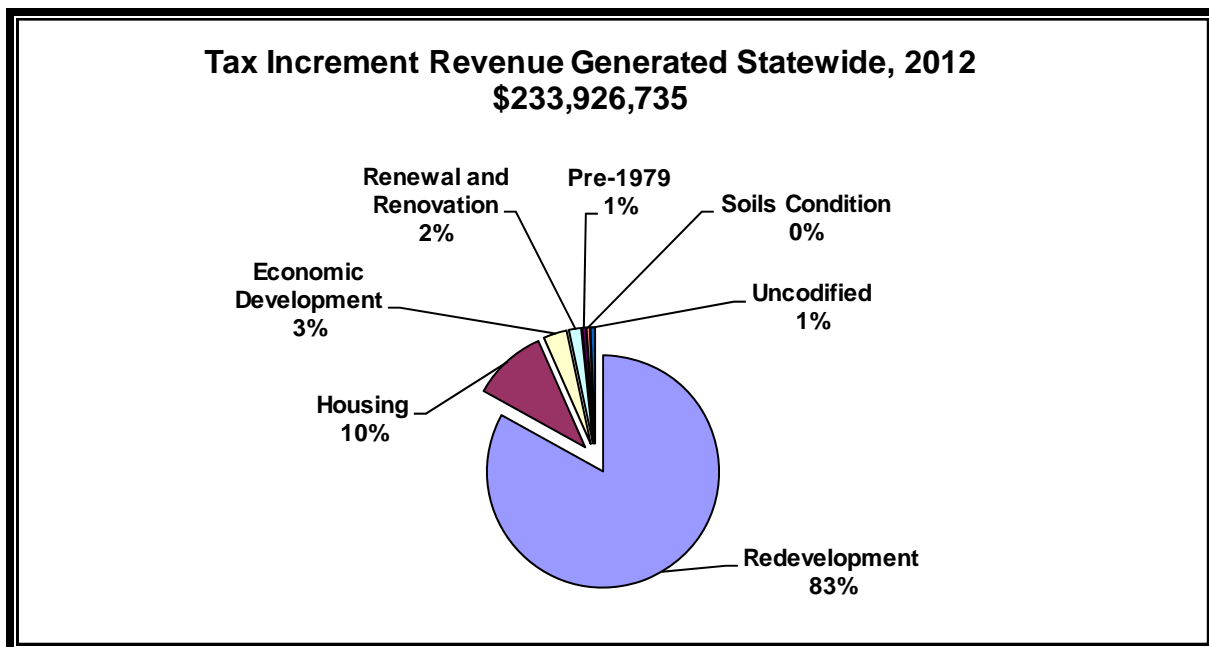
The amount of tax increment revenue generated from within a TIF district depends, in part, on the type of district, the development activity occurring within the district, the length of its term, and the location of the district. Figure 12 on the following page shows the amount of tax increment revenue generated by type and by location in 2012. Although most districts are located in Greater Minnesota, approximately \$193 million of the \$234 million of tax increment, or 83 percent, was generated in the Metro Area.

Figure 12.

Revenue Generated by Type; Statewide, Greater MN, and Metro Area; 2012						
Type of District	Statewide	% of total	Greater MN	% of total	Metro Area	% of total
Redevelopment	\$194,275,710	83%	\$25,804,015	64%	\$168,471,695	87%
Housing	\$24,200,006	10%	\$9,504,370	23%	\$14,695,636	8%
Economic Development	\$7,613,859	3%	\$4,837,968	12%	\$2,775,891	1%
Renewal and Renovation	\$4,006,429	2%	\$397,078	1%	\$3,609,351	2%
Pre-1979	\$1,237,718	1%	\$0	0%	\$1,237,718	1%
Soils Condition	\$1,090,723	0%	\$0	0%	\$1,090,723	1%
Uncodified	\$1,502,290	1%	\$0	0%	\$1,502,290	1%
Total	\$233,926,735	100%	\$40,543,431	100%	\$193,383,304	100%

Redevelopment districts made up 49 percent of the TIF districts statewide, and yet they generated 83 percent of total tax increment revenue. Figure 13 illustrates the tax increment revenue generated by type of district as a percent of the total.

Figure 13.



Figures 14 and 15 on the following page show the shares of tax increment revenue generated by district type, as a percent of the total, in the Metro Area and Greater Minnesota, respectively.

Figure 14.

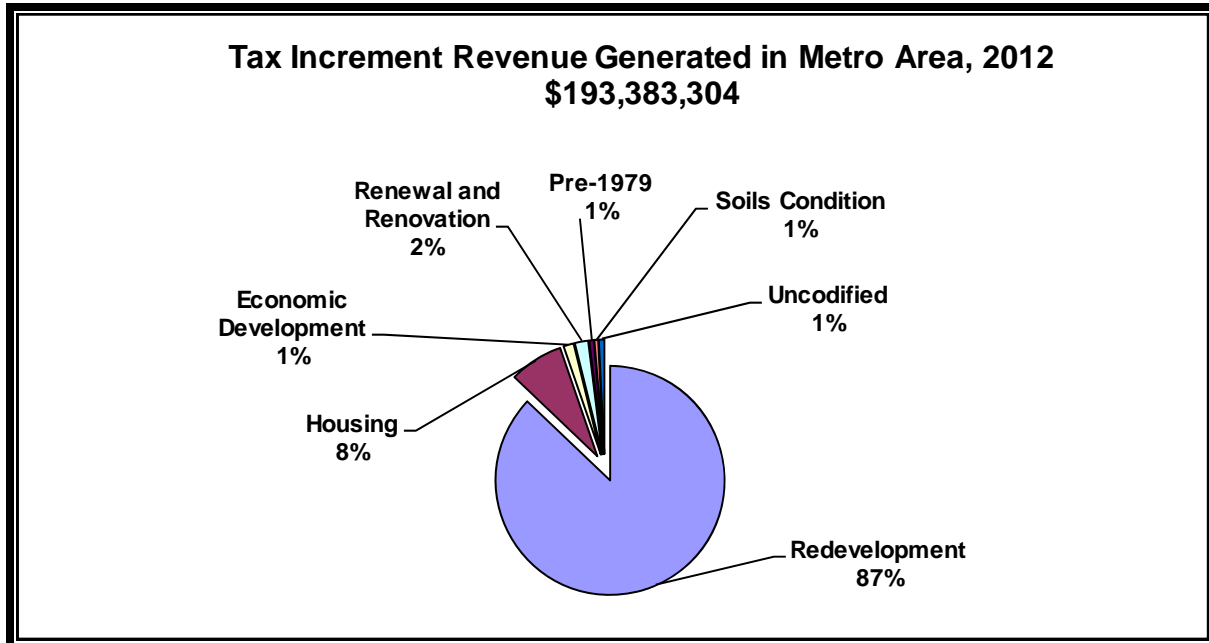


Figure 15.

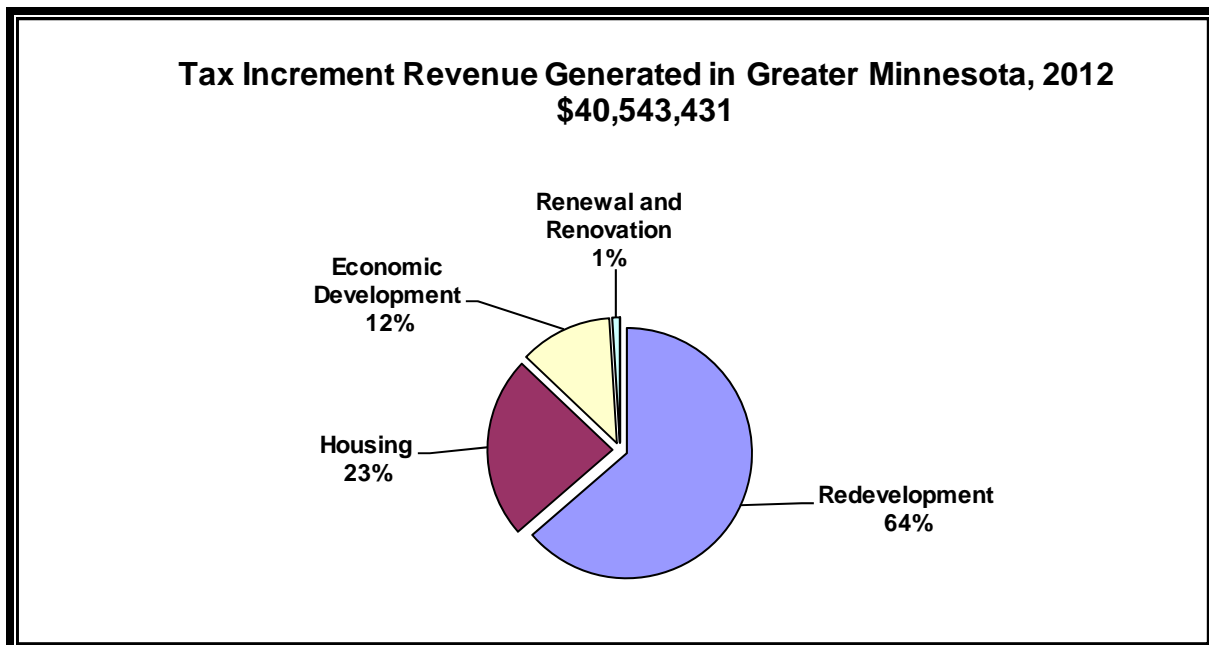
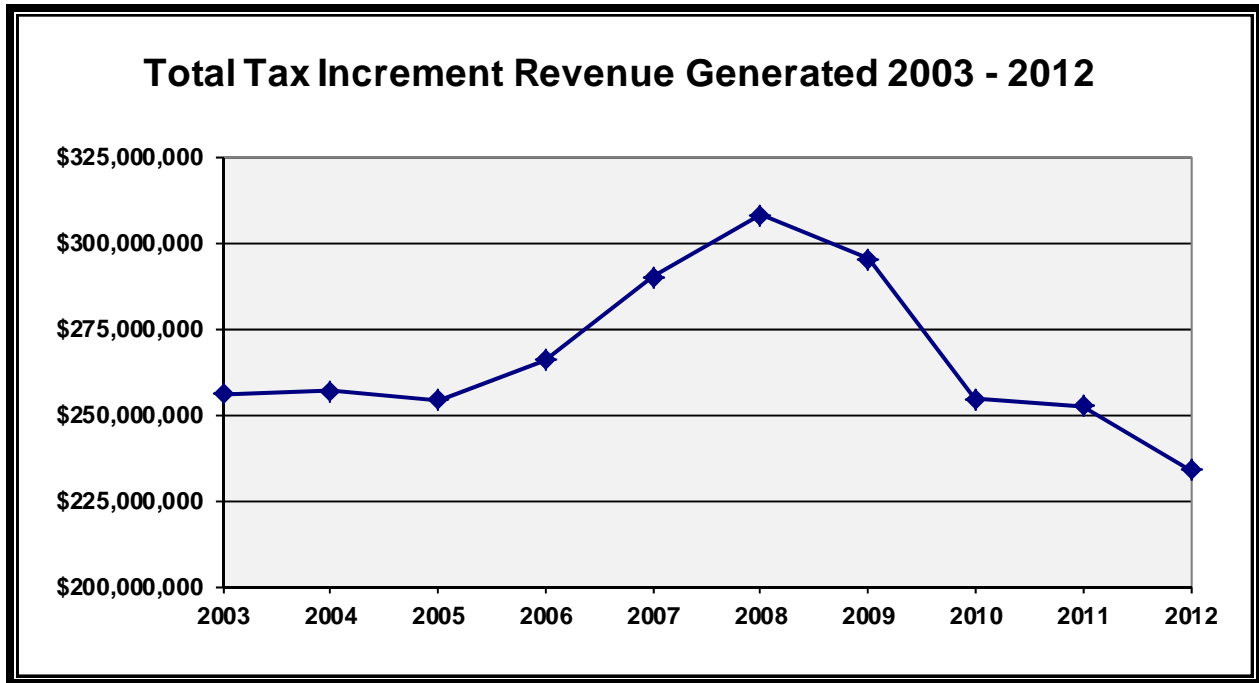


Figure 16 on the following page shows the amount of tax increment revenue generated annually over the last ten years. After a slight decline in 2011, tax increment revenue dropped by 7 percent in 2012, continuing a downward trend that began after 2008. This trend might be driven by the decertification of older districts. In general, older districts were larger than newer districts and generated more increment.

Figure 16.



Returned Tax Increment

In 2012, development authorities returned \$3,803,452 in tax increment revenue to county auditors for redistribution to the city, county, and school district as property taxes. Tax increment revenue must be returned when a district receives excess tax increment revenue (increment in excess of what the TIF plan authorizes for expenditures) or when tax increment revenue was improperly received (such as increment received after the district should have been decertified).

Reported Debt

Tax increment is property tax revenue generated from new development that would not occur but for the use of tax increment. Tax increment revenue is used primarily to pay for acquisition and site improvement costs necessary before new development can begin. Tax increment revenue, however, is not generated until after the new development is completed and assessed, and property taxes are being paid. Therefore, up-front qualifying costs are paid with debt obligations. If the new development does not generate the amount of tax increment revenue anticipated, the entity assuming the risk of the debt is the entity that is ultimately responsible for paying the debt. Debt obligations and how these obligations are secured are significant issues in financing economic development.

Bonds are usually issued by a municipality or development authority to finance development activity, like land acquisition, site improvements, and public utility costs. The TIF Act defines bonds broadly to include:³⁴

- General Obligation (G.O.) Bonds
- Revenue Bonds
- Interfund Loans
- Pay-As-You-Go (PAYG) Obligations
- Other Bonds

General Obligation Bonds – A G.O. bond pledges the full faith and credit of the municipality as security for the bond. If tax increment is not sufficient to make the required debt service payments, the municipality must use other available funds or levy a property tax to generate the funds to pay the required debt service payments.

Revenue Bonds – A revenue bond requires only the tax revenue pledged, generally the tax increment generated from the TIF district, to be used for the required debt service payments and does not pledge the full faith and credit of the municipality as security for the bond.

Interfund Loans – An interfund loan is created when an authority or municipality loans or advances money from its general fund or from any other fund for which it has legal authority. The loan or advance must be authorized by resolution of the governing body before money is transferred, advanced, or spent. The terms and conditions for repayment of the loan must be in writing and include, at a minimum, the principal amount, the interest rate, and maximum term.³⁵ The interfund loan may be forgiven if the tax increment generated is not sufficient to repay the interfund loan.

Pay-As-You-Go Obligations – Under PAYG, the development costs are initially paid by the developer pursuant to the terms of a (re)development agreement. After the qualifying costs are substantiated, the developer is then reimbursed pursuant to the terms of the PAYG note, if and when tax increment is generated by the TIF district. Generally, in PAYG financing, the developer accepts the risks of failed development. If sufficient tax increments are not generated as anticipated, the developer does not get reimbursed in full.

Other Bonds – Other bonds include all other bonds that a municipality or development authority may legally issue for which tax increment may be pledged to pay the required debt service payments.

In 2012, a total of over \$1.7 billion of outstanding debt was reported. PAYG obligations and general obligation bonds are the two primary debt obligations used to finance qualifying tax increment costs. Of these two types of debt, only the general obligation (GO) bonds, secured by the municipalities' full faith and credit, may become the taxpayers' responsibility. Of the reported debt, approximately 30 percent is secured by the municipalities' full faith and credit.

³⁴ Minn. Stat. § 469.174, subd. 3.

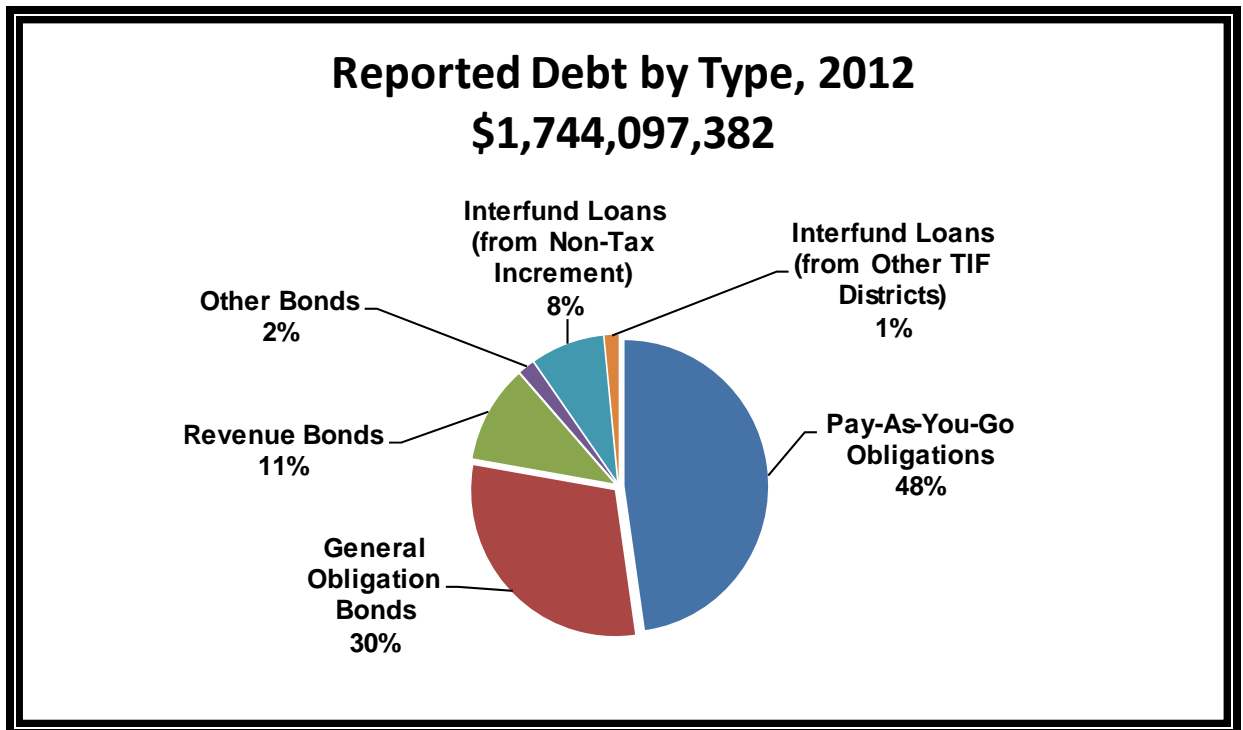
³⁵ Minn. Stat. § 469.178, subd. 7.

Figures 17 and 18 below shows the types of debt obligations being used to finance improvements to be paid with tax increment revenue.³⁶

Figure 17.

Reported Debt by Type, 2012	
Type of Debt	Amount Outstanding
Pay-As-You-Go Obligations	\$832,550,386
General Obligation Bonds	\$523,718,815
Revenue Bonds	\$187,149,245
Other Bonds	\$30,872,604
Interfund Loans (from Non-Tax Increment)	\$142,714,766
Interfund Loans (from Other TIF Districts)	\$27,091,566
Total	\$1,744,097,382

Figure 18.



³⁶ Figure 18 does not identify “Pooled Debt” as a separate category. Debt paid with pooled increment is integrated into these primary types of debt.

JOBS STIMULUS PROGRAM

In 2010, the Legislature established a Jobs Stimulus Program by granting temporary authority to use tax increment in ways not previously authorized. The purpose of the expanded authority was to stimulate the economy to create and retain jobs within the State, including construction jobs. The temporary expanded authority expired in 2012.

The expanded authority came in two forms: (1) authority to create an economic development district with fewer restrictions and broader authority,³⁷ and (2) authority to use available tax increment generated from existing districts as established in a spending plan.³⁸

New Economic Development Districts

The Jobs Stimulus Program allowed development authorities to create new economic development districts to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form to developments consisting of buildings and ancillary facilities if the project would create or retain jobs, including construction jobs.³⁹ Construction of the project had to begin no later than July 1, 2012.

Thirty-seven development authorities reported creating 42 economic development districts using the Jobs Stimulus Program. TIF plan estimates indicated about \$54.7 million of planned tax increment expenditures.⁴⁰ A summary of the projects in newly created economic development districts can be found in Appendix A.

Revenue from Existing Districts

The Jobs Stimulus Program also provided temporary authority to use available tax increment revenue from existing districts to provide improvements, loans, interest rate subsidies, or assistance in any form to private development consisting of the construction or substantial rehabilitation of buildings and ancillary facilities if doing so would create or retain jobs, including construction jobs. The Program also authorized direct investments in businesses to finance the development if it was necessary to make such development feasible. Development authorities were required to have written spending plans to authorize the uses and expenditures.

Spending plans and other information collected by the OSA indicated that 43 authorities initially made plans to use the Program's authority. Data reported to the OSA showed that 42 authorities used a total of almost \$37.4 million of tax increment generated from 87 existing TIF districts for job creation. The assistance was provided over three years: \$1,179,082 in 2010, \$18,139,532 in 2011, and \$18,052,122 in 2012. A summary of the projects assisted by increment from existing districts can be found in Appendix B.

³⁷ Minn. Stat. § 469.176, subd. 4c(d).

³⁸ Minn. Stat. § 469.176, subd. 4m.

³⁹ The request for certification of the district had to be made after June 30, 2009, and no later than June 30, 2012.

⁴⁰ One district that had planned approximately \$600,000 of expenditures has been decertified due to construction failing to commence.

FINDINGS AND RESPONSES

The OSA conducts informal and limited reviews of development authorities. Generally, if an authority is determined to not be in legal compliance with the TIF Act, an initial notice of noncompliance (Initial Notice) is sent to the governing body of the municipality that approved the TIF district in which the violation arose. The Initial Notice provides the findings, the bases for the findings, and describes the possible consequences of the noncompliance.

The municipality is required by law to respond in writing within 60 days after receiving the Initial Notice. In its response (Response), the municipality must state whether it accepts the findings, in whole or in part, and must indicate the basis for any disagreement with the findings. After consideration of the Response, if the findings are not resolved, the OSA provides its final notice of noncompliance (Final Notice) to the municipality. The OSA forwards information regarding unresolved findings of noncompliance to the appropriate county attorney who may bring an action to enforce the TIF Act. If the county attorney does not commence an action against the authority or otherwise resolve the finding(s) within one year after receiving a referral of a Final Notice, the Final Notice is referred to the Attorney General.

Summary of Findings and Responses

State law requires the OSA to provide a summary of the Responses it received from the municipalities and copies of the Responses themselves to the chairs of the legislative committees with jurisdiction over tax increment financing.⁴¹ This section of the Report summarizes the TIF legal compliance reviews and investigations concluded as of December 31, 2013. Initial Notices and Final Notices were sent to the following municipalities:

1. City of Taylors Falls – An Initial Notice was sent on April 10, 2013. A Response from the City of Taylors Falls was received on May 31, 2013. A Final Notice was sent on June 11, 2013. (Appendix C.)
2. City of Waubun – An Initial Notice was sent on April 26, 2013. A Response from the City of Waubun was received on July 8, 2013. A Final Notice was sent on July 9, 2013. (Appendix D.)

Complete copies of the Initial Notices and Final Notices and the municipalities' Responses are provided in Appendices C and D.

⁴¹ Minn. Stat. § 469.1771, subd. 1(c).

Failure to Decertify the District
and
Improper Receipt and Expenditure of TIF Revenue

City of Taylors Falls

TIF District 1-3 Post Office

In the Initial Notice, the OSA found that the City improperly received and spent tax increment after District 1-3 should have been decertified. In its Response, the City did not accept the OSA's Findings, asserting that TIF District 1-3 had a valid outstanding obligation and that it should have been able to remain open to continue to receive and spend tax increment. The City, however, did not provide the OSA with any documents or information to support its assertion. The City decertified the district and returned \$70,387 to the Chisago County Auditor, and provided the OSA with documentation supporting its return. In the Final Notice, the OSA acknowledged this finding was resolved.

Improper Receipt of Tax Increment

City of Waubun

TIF District 1

In the Initial Notice, the OSA found that the City improperly received \$3,968.78 of tax increment revenues from TIF District 1 after the statutorily-required decertification date for the TIF district had passed. In its Response, the City agreed. The City returned \$3,968.78 to the Mahnommen County Auditor and provided the OSA with documentation to substantiate its return. In the Final Notice, the OSA acknowledged this finding was resolved.

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APPENDIX A

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Jobs Stimulus Program
TIF Revenues from New Economic Development Districts
Minn. Stat. § 469.176, subd. 4c (d)

This summary is the final report on economic development districts established pursuant to the Jobs Stimulus Program, Minn. Stat. § 469.176, subd. 4c(d). This report is final because the statutory authorization to create new districts has expired.¹ The descriptions below of 42 economic development districts contain information reported to or identified by the Office of the State Auditor. The information presented here is for general informational purposes only because the information has not been verified.

City of Alden, TIF 1-1 Arnold Companies

The City of Alden established an economic development district to finance property acquisition and site improvements for a 20,000 square-foot sales and service facility to be operated by Arnold Companies for agriculture, light construction, and consumer products. The estimated amount of tax increment to be expended is \$213,536.

City of Apple Valley, TIF 14

The City of Apple Valley established an economic development district to facilitate the construction of four commercial buildings within the Valley Business Campus. The estimated amount of tax increment to be expended is \$3,100,000.

City of Baxter, Isle Drive TIF District

The City of Baxter established an economic development district to facilitate the improvement and extension of Isle Drive in conjunction with proposed medical office projects, including the construction of a 40,000 square-foot, two-story medical clinic. The estimated amount of tax increment to be expended is \$1,091,439.

City of Big Lake, TIF 1-6

The City of Big Lake established an economic development district to facilitate construction of a 20-unit assisted-living and advanced-care facility. The estimated amount of tax increment to be expended is \$294,548.

Bloomington HRA, Penn and American TIF District

The Bloomington HRA established an economic development district to finance an eight-acre mixed-use development. Phase I of the project is expected to include rental housing and retail uses; Phase II is expected to include restaurant, retail, and office uses. The estimated amount of tax increment to be expended is \$5,738,000.

¹ For the past two years, the Tax Increment Financing Legislative Reports have included descriptions of a number of districts that are not included in this final report. The districts are not included because, based upon additional information obtained by the OSA including information obtained from the authorities, it was determined that the districts were not using authority derived from the Jobs Stimulus Program. The districts not included in the report are located in Columbia Heights, Delano, Melrose, New York Mills, Rochester, and Saint Louis Park.

City of Cambridge, TIF Districts 6-11 and 6-12

TIF 6-11

- The City of Cambridge established an economic development district to facilitate construction of a dentistry clinic and an office building. The construction will take place in two phases. The estimated amount of tax increment to be expended is \$500,000.

TIF 6-12

- The City of Cambridge established an economic development district to facilitate the construction of a 42,000 square-foot facility on a site that will include manufacturing, office and warehouse space occupied by National Recycling, Inc., and Industrial Support Services, Inc. The estimated amount of tax increment to be expended is \$2,700,000.

City of Carver, TIF 1-8 Mills Fleet Farm

The City of Carver established an economic development district to finance the site preparation and streets and sidewalks costs related to the construction of a Mills Fleet Farm retail facility, including a gas station, car wash, and convenience store. The estimated amount of tax increment to be expended is \$1,676,084.

City of Chisago City, TIF 1-11 Hwy 8 and Sportsman Drive

The City of Chisago City established an economic development district to facilitate the construction of a strip mall and other retail facilities on the corner of Highway 8 and Sportsman Drive. The initial development will include a drive-in restaurant (McDonald's) and other retail business. The estimated amount of tax increment to be expended is \$1,500,000.

City of Cloquet, TIF 3-1 Daqota Systems

The City of Cloquet established an economic development district to facilitate construction of an 18,000 square-foot manufacturing facility for Daqota Systems, Inc. The proposed facility will be used for manufacturing and engineering related to factory automation, research and development, and energy-related engineering. The estimated amount of tax increment to be expended is \$256,000.

City of Edina, Southdale 2 TIF District

The City of Edina established an economic development district to facilitate renovations to the common areas of the Southdale Center shopping mall. The renovations will include new entrance structures, flooring, lighting, signage, restrooms, parking deck lighting, exterior seating, columns, and interior wall treatments. The estimated amount of tax increment to be expended is \$11,952,217.

City of Faribault, TIF 11 Mike's Garage

The City of Faribault established an economic development district to finance the land purchase, clean-up, and new construction of an automotive service station located on the City's main gateway corridor. The estimated amount of tax increment to be expended is \$127,045.

City of Fergus Falls, TIF 4-9

The City of Fergus Falls established an economic development district to assist with the purchase, remodeling, and expansion of a 34-unit assisted-living facility located at I-394 and Woodland Drive. The estimated amount of tax increment to be expended is \$374,432.

Freeport EDA, TIF 2 Swany White Mill

The Freeport EDA established an economic development district to facilitate the construction of a 3,600 square-foot building to replace the original flour mill that was destroyed in a fire. The building will include an office/retail area, a manufacturing area, and a warehouse with an enclosed dock. The estimated amount of tax increment to be expended is \$51,000.

City of Isanti, TIF 11

The City of Isanti established an economic development district to facilitate the construction of a hotel. The project commenced in June 2012, but the developer defaulted on the development agreement, and the project was not completed. No funds were expended from TIF District 11 for this project. The estimated amount of tax increment to have been expended was \$450,000; the actual amount of tax increment expended was \$0.

City of La Crescent, TIF 6-1

The City of La Crescent established an economic development district to facilitate the development of a 3,500 square-foot funeral home. The estimated amount of tax increment to be expended is \$51,894.

City of Lindstrom, TIF 1-6 NABPCO Auto Parts

The City of Lindstrom established an economic development district to facilitate the construction of a retail auto parts facility to relocate NABPCO Auto Parts. The relocation was needed for the realignment of Highway 8. The estimated amount of tax increment to be expended is \$85,000.

City of Little Falls, TIF 1-38 AirBorn Expansion and Relocation Project

The City of Little Falls established an economic development district to facilitate the construction of a 50,000 square-foot facility for AirBorn. The estimated amount of tax increment to be expended is \$3,952,936.

City of Long Prairie, TIF 1-10

The City of Long Prairie established an economic development district to assist Long Prairie Packing with the installation of a methane digester on an 8.16-acre parcel adjacent to Trunk Highway 71. The estimated amount of tax increment to be expended is \$1,324,709.

City of Maplewood, TIF 1-11 Maplewood Mall Project

The City of Maplewood established an economic development district to facilitate the construction of the exterior and interior renovations to the Maplewood Mall, including common areas within the 164,276 square-foot building. In addition, the project will include public improvements and infrastructure costs incurred by the City. The estimated amount of tax increment to be expended is \$1,379,900.

Marshall HRA, TIF Districts 1-11, 1-12, and 2-4

TIF 1-11

- The Marshall HRA established an economic development district to finance the construction of a multi-phase development for Ralco Nutrition. The project will consist of constructing a mixing facility, warehouse, office space, and a truck garage. The estimated amount of tax increment to be expended is \$2,446,990.

TIF 1-12

- The Marshall HRA established an economic development district to finance the expansion of the existing Bend-Rite Fabrication facility. The estimated amount of tax increment to be expended is \$81,979.

TIF 2-4

- The Marshall HRA established an economic development district to finance a portion of the costs associated with the construction of an 8,060 square-foot expansion of the existing Schwan's Ice Cream Plant. The estimated amount of tax increment to be expended is \$188,855.

City of Nisswa, TIF 1-12

The City of Nisswa established an economic development district for the purpose of renovating, expanding, and equipping an assisted-living facility, increasing capacity from 10 to 30 beds. The estimated amount of tax increment to be expended is \$54,653.

North Mankato Port Authority, TIF Districts 1-20, 1-21, and 1-22

TIF 1-20 Ziegler Caterpillar Project

- The North Mankato Port Authority established an economic development district to finance the construction of a sales, service, and warehouse facility for Ziegler Caterpillar. The estimated amount of tax increment to be expended is \$765,736.

TIF 1-21 Allstate Peterbilt Project

- The North Mankato Port Authority established an economic development district to finance the construction of a 17,260 square-foot truck and trailer parts and service facility for Allstate Peterbilt Group. The estimated amount of tax increment to be expended is \$228,063.

TIF 1-22 Lindsay Expansion Project

- The North Mankato Port Authority established an economic development district to finance a 20,000 square-foot expansion of Lindsay Window and Door. The estimated amount of tax increment to be expended is \$148,525.

City of Perham, TIF 2-35

The City of Perham established an economic development district to facilitate the construction of four 12-plex apartment buildings. The first building was completed in 2012; the second was completed in 2013; and construction of the third is underway. The estimated amount of tax increment to be expended is \$362,800.

City of Pipestone, TIF 1-12

The City of Pipestone established an economic development district to finance the development of a 35,000 square-foot Coborn's grocery superstore. The estimated amount of tax increment to be expended is \$652,300.

City of Prior Lake, TIF 1-4

The City of Prior Lake established an economic development district to finance a 7,000 square-foot expansion of the River Valley Vet Clinic. The estimated amount of tax increment to be expended is \$96,000.

City of Robbinsdale, TIF 8-A

The City of Robbinsdale established an economic development district to finance the redevelopment of parcels within the district that were occupied by structurally-substandard single-family homes which lacked access to municipal sanitary sewer and water. The parcels will contain new single-family homes. The estimated amount of tax increment to be expended is \$100,000.

City of Roseville, TIF 19 Applewood Pointe Senior Cooperative Housing

The City of Roseville created an economic development district to finance a multi-phase development comprised of a 94-unit senior cooperative building and an 80-unit assisted-living facility. The estimated amount of tax increment to be expended is \$2,450,551.

City of Saint Augusta, TIF 2-2 St. Cloud Truck Sales Project

The City of Saint Augusta established an economic development district to finance the construction of a 42,000 square-foot building that will contain truck repair, truck sales, and parts warehousing for St. Cloud Truck Sales. The city also plans to use tax increment to assist new projects and businesses that are able to locate or expand within the boundaries of the TIF district within the time constraints of the statute. The estimated amount of tax increment to be expended is \$1,232,143.

City of Saint Joseph, TIF 2-2 St. Joseph Meat Market Inc.

The City of Saint Joseph established an economic development district to finance the construction of a 3,000 square-foot addition to an existing processing facility. The estimated amount of tax increment to be expended is \$86,589.

Saint Louis Park EDA, Oak Hill II

The Saint Louis Park EDA established an economic development district to finance the construction of an approximately 21,450 square-foot office building. Construction did not commence by December 31, 2012, and the district was decertified on July 1, 2013. The estimated amount of tax increment to be expended under the TIF plan was \$605,323; the actual amount of tax increment expended was \$0.

City of Saint Michael, TIF 2-2

The City of Saint Michael established an economic development district to finance the installation of public infrastructure to support commercial development within the City, such as the Kwik Trip constructed in 2011 and a combination of retail, restaurant, hotel, and office space to be constructed. The estimated amount of tax increment to be expended is \$1,984,310.

Saint Paul HRA, Cossetta Project

The Saint Paul HRA established an economic development district to finance the expansion of an existing restaurant and food market known as Cossetta's Italian Market and Pizzeria. The project includes construction of a new building, renovation and internal reconfiguration of existing space, and related parking improvements. The estimated amount of tax increment to be expended is \$641,155. Tax increment in the amount of \$1,612,000 was also provided by loans of tax increment from eleven TIF districts (see Appendix B).

City of Sartell, TIF 5-4

The City of Sartell established an economic development district to finance the construction of 75 market-rate apartments in the City within the Grand View Estates South complex. The estimated amount of tax increment to be expended is \$876,213.

Sauk Rapids HRA, TIF 20 Torberg Apartments

The Sauk Rapids HRA established an economic development district to finance the construction of a market-rate rental-housing development consisting of 16 townhome units and 138 apartment units. Tax increment will be used to assist with the cost of site improvements and infrastructure. The estimated amount of tax increment to be expended is \$1,826,525.

City of Shoreview, TIF 7 Southview Senior Living

The City of Shoreview established an economic development district to finance demolition, site improvements, and other improvements necessary to construct a 105-unit congregate, assisted-living and memory-care facility. The estimated amount of tax increment to be expended is \$1,215,000.

City of Waconia, TIF 3 Cherry Street

The City of Waconia established an economic development district to finance the construction of a hotel expansion, a restaurant, and a medical office building. The estimated amount of tax increment to be expended is \$1,035,000.

Worthington EDA, TIF 15

The Worthington EDA established an economic development district to finance the construction of a 75-room hotel adjacent to the City's new conference center. The estimated amount of tax increment to be expended is \$841,746.

APPENDIX B

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Jobs Stimulus Program TIF Revenues from Existing Districts

Minn. Stat. § 469.176, subd. 4m

This summary is the final report on the use of tax increment to create jobs pursuant to Minn. Stat. § 469.176, subd. 4m, the Jobs Stimulus Program. The authority to spend tax increments under this Program expired December 31, 2012. The descriptions below of projects initiated by 43 TIF authorities contain information derived from reports made to the OSA and from other sources. The information is presented here for general informational purposes only because the information has not been verified.

City of Albany, TIF Districts 1-3, 1-10 and 1-11

The City of Albany approved a spending plan authorizing use of available increment from TIF Districts 1-3, 1-10, and 1-11 for land acquisition, demolition, and building/site improvements. The plan proposed assistance for key properties in the downtown area to redevelop or construct new buildings, including a new dental office and other commercial space. The plan also called for increment to be used for deferred and forgivable loans to finance exterior and façade improvements. The amount of tax increment to be made available from these districts was \$625,000.

The City reported using \$147,811 of tax increment from District 1-10 to assist 15 commercial rehabilitation projects in conjunction with the reconstruction of the main thoroughfare in the downtown.

City of Apple Valley, TIF District 13

The City of Apple Valley approved a spending plan authorizing use of available increments from TIF District 13 for any of the uses outlined in the statute. Up to \$4,000,000 of tax increment was to be made available from TIF District 13.

The City reported using \$1,576,523 of increment on projects that included: constructing a roadway and lowering a petroleum pipeline to provide for the construction of an initial 100,000 square feet to office/warehouse space valued in excess of \$13 million; rehabilitating a 41,000 square-foot substandard building; rehabilitating a 14,000 square-foot building; and building improvements totaling over \$438,000 on a third rehabilitation project.

Bloomington HRA, Oxboro 0-1 and Oxboro 0-3 TIF Districts

The Bloomington HRA approved a spending plan authorizing the use of available tax increment funds to provide assistance for housing and commercial projects, including parking facilities, in the Normandale Lakes District, South Loop District, and the Penn and American Phase I Redevelopment Area. The maximum amounts of tax increment to be available were \$600,000 and \$450,000 from the Oxboro 0-1 and Oxboro 0-3 TIF Districts, respectively.

The Bloomington HRA reported using \$600,000 from the Oxboro 0-1 district and \$400,000 from the Oxboro 0-3 district in support of the Penn and American economic development district created using

the Jobs Stimulus Program, and which comprises a mixed-use housing, commercial, and retail development.

City of Breckenridge, TIF District 4

The City of Breckenridge approved a spending plan authorizing the use of available tax increment to provide financing for exterior, façade, accessibility, code, and energy efficiency improvements to preserve existing buildings. At the time the spending plan was approved, the City had identified one specific project to receive assistance: A forgivable loan in the amount of \$100,000 to assist the Greenquist Building Project in funding several exterior improvements. Additional projects were to be discussed by the Council. The specific amount of tax increment to be made available from TIF District 4 was \$300,000.

The City reported using \$213,911 of increment via forgivable loans on commercial rehabilitation projects.

Brooklyn Center EDA, TIF District 2

The City of Brooklyn Center EDA approved a spending plan authorizing: (i) financing of the costs to link the Embassy Suites Hotel to the D-Barn of the Earle Brown Heritage Center to facilitate a spa and salon, and (ii) assistance for the renovation and redevelopment of the Brookdale Mall. The spending plan did not identify a specific amount of tax increment to be available.

The City of Brooklyn Center EDA reported using \$2,914,000 from TIF District 2. This includes transfers and \$2.4 million of interfund loans that involved TIF District 5. \$1.4 million of the loans to the developer have been forgiven and the remaining \$1 million will be forgiven upon completion of certain improvements.

Brooklyn Park EDA, TIF Districts 15, 16, and 18

The City of Brooklyn Park EDA approved a spending plan authorizing the use of available tax increment from TIF Districts 15, 16, and 18 to finance the City's Construction Assistance Program, providing financing for private development projects requiring a minimum of \$50,000. The spending plan did not identify a specific amount of tax increment to be available from the TIF districts.

The City of Brooklyn Park EDA reported using \$3,186,247 from TIF District 18. The TIF assistance provided grants to cover a portion of larger costs for five projects: Target Northern Campus, Metro Mold and Design, Cobalt Industrial REIT II, Blanks/USA, and Embassy Enterprises.

City of Cambridge, TIF District 6.8 SE Cambridge Industrial Area

The City of Cambridge approved a spending plan authorizing the use of available tax increment, up to \$72,000, from TIF District 6.8, for purposes consistent with the law. The spending plan did not identify a specific project.

The City reported using \$72,000 of increment for a loan to MAPE USA for an industrial remodeling.

City of Coon Rapids, TIF Districts 1-6, 1-29, and 3-1

The City of Coon Rapids approved spending plans to authorize the use of available tax increment from three TIF Districts as follows:

TIF District 1-6 MFI

- Financing up to \$3,000,000 was approved, including the following two projects.
- Financing to Autumn Glen Senior Living, LLC, in the amount of \$420,000 for the construction of a 100-unit senior housing campus.
- Financing to RMS Company in the amount of \$698,612 for the construction of an addition and related improvements to a manufacturing facility.

TIF District 1-29 Oak Manor

- Financing to Biovest International, Inc., in the amount of \$103,000 for the rehabilitation of its current facility to accommodate an increased production of its vaccine for non-Hodgkin's lymphoma.
- Financing to MEDRAD, Inc., in the amount of \$27,000 for the expansion of its current facility.

TIF District 3-1 Oppidan – Village 10

- Financing to MEDRAD, Inc., in the amount of \$313,000 for the expansion of its current facility.

The City reported using \$1,147,582 of tax increment, including \$127,000 from TIF District 1-29, \$707,582 from TIF District 1-6, and \$313,000 from TIF District 3-1.

City of Delano, Honeytree TIF District and Hwy 12 Hardees TIF District

The City of Delano approved a spending plan authorizing the use of available tax increment from two TIF Districts to finance an incentive program for new construction (residential or commercial), offering \$5,000 to write-down permitting fees. The City estimates available tax increment to be \$93,807 and \$62,150 for the Honeytree and Hwy 12 Hardees TIF Districts, respectively.

The City reported using \$95,300 from the Honeytree TIF District and \$30,000 from the Hwy 12 Hardees TIF District to pay a portion of the infrastructure fees related to development.

City of Detroit Lakes, Various TIF Districts

The City of Detroit Lakes approved a spending plan authorizing the use of available tax increment from seven TIF districts to provide financing for (i) commercial projects including, but not limited to, the DLM Downtown Properties Project; (ii) property acquisition, building demolition, site improvement, and utilities costs in the Crescent Redevelopment Area; and (iii) parking facilities including, but not limited to, the parking lots and improvements in the Central Business District. The specific amount of tax increment to be made available from the TIF districts was \$488,703.

The City reported using \$484,052 of tax increment from seven TIF districts for land acquisition, building demolition, and moving a major phone line to encourage downtown development. The amounts used from each district were: \$132,856 from TIF District 17-1 MMCDC Housing, \$14,684 from TIF District 18-1 Consolidated Abstract, \$56,300 from TIF District 5-2 Washington Square Mall, \$35,029 from TIF District 5-3 Lave Ave Plaza, \$133,929 from TIF District 8-2 Swift Eckrich Inc., \$26,612 from TIF District 8-3 Graystone, and \$84,642 from TIF District 8-8 MMCDC Long Bridge Heights.

Duluth EDA

The Duluth EDA approved a spending plan authorizing the use of available tax increments to finance potential future projects qualifying under the Jobs Stimulus Program. The spending plan did not identify a specific project or total amount of assistance to be made available, but limited the amount for any one development to \$350,000.

The Duluth EDA reported using \$2,648,823 from seven TIF districts for various projects, including: construction of an 18,800 square-foot industrial building; construction of a 20,000 square-foot manufacturing company; historic renovation of two downtown buildings; construction of a 28,000 square-foot mental health and wellness center; construction of a 24,000 square-foot precast concrete technology building; recommissioning an aircraft maintenance, repair, and overhaul facility; renovation/conversion of 7,000 square feet of warehouse space to Class A office space; and redevelopment of three commercial buildings (41,000 square feet) to provide office space for a regional headquarters facility. The amount used from each district was: \$530,000 from TIF District DD 3 West Duluth-Oneota; \$1,051,266 from TIF District 20 NW Corridor-United Health Care; \$88,154 from TIF District 10; \$322,403 from TIF District 14; \$40,000 from TIF District 16; \$67,000 from TIF District 21; and \$550,000 from TIF District 4.

Elk River HRA, TIF District 16 King and Main

The Elk River HRA approved a spending plan authorizing the use of available tax increment for construction or rehab of buildings for (i) outpatient medical clinics, (ii) Class I restaurants of at least 50 seats, (iii) green manufacturing or other renewable energy facilities, and (iv) general light industrial or manufacturing. The spending plan did not identify a specific project or amount of assistance to be made available.

The Elk River HRA reported using \$90,000 of tax increment for a loan to assist the Elk River Pizza Ranch project, which included the acquisition and substantial rehabilitation of a building.

City of Farmington, Downtown Redevelopment TIF District

The City of Farmington approved a spending plan authorizing the use of available tax increment from the Downtown TIF District to provide financing to a developer for the construction of a medical/office building. The specific amount of tax increment to be made available from the TIF districts was \$65,000.

The City reported using \$59,143 of tax increment to assist a local dentistry practice with the building of a new office building on an existing empty lot in downtown Farmington.

City of Fosston, TIF District 7 Post Office Project

The City of Fosston approved a spending plan authorizing the expenditure of available tax increment from TIF District 7 to provide financing to Overmoe & Nelson, Ltd. The funds were to be used to acquire and redevelop a site for a 2,160 square-foot office building. The specific amount of tax increment to be made available from the TIF district was \$24,900.

The City reported using \$24,900 of tax increment as planned for the acquisition, demolition, and redevelopment of the site for a 2,164 square-foot office building.

City of Glencoe, TIF District 15 Industrial Park Expansion

The City of Glencoe approved a spending plan authorizing the use of available tax increment from TIF District 15 to assist Midwest Research Swine, Inc., in financing certain equipment and improvements to laboratory space expected to be leased to Miromatrix Medical, Inc. The specific amount of tax increment to be made available from the TIF district was \$60,000.

The City reported using \$60,000 of tax increment for a five-year loan to be used to construct a clean room for Mirromatrix Medical of Minnesota.

Howard Lake HRA, TIF Districts 3 and 8

The Howard Lake HRA approved a spending plan authorizing the use of available tax increment from TIF District 3 and TIF District 8 to promote new development within the community. The tax increment will be used to reimburse sewer and water access charges, assist in land acquisition, and to buy down special assessments for qualifying projects. The HRA intends to use up to \$260,000 from TIF District 3 and up to \$40,000 from TIF District 8.

The Howard Lake HRA reported using \$149,000 of tax increment from TIF District 3 to finance the development of a crematorium within its industrial park.

City of Inver Grove Heights, TIF District 4-1 SE Quadrant

The City of Inver Grove Heights approved a spending plan authorizing the use of available tax increment from TIF District 4-1. The tax increment was to assist Inver Grove Heights Investment, LLC, in financing the development of the Argenta Hills area, including the completion of a 135,000 square-foot retail anchor store and 15,000 square-feet of additional commercial space. The specific amount of tax increment to be made available from the TIF district was \$1,250,000.

The City reported using \$1,250,000 of tax increment for a forgivable loan to IGH Investments, LLC, as planned.

City of Isanti, TIF Districts 8, 9, and 10

The City of Isanti approved multiple spending plans authorizing the use of available tax increments from three TIF districts for the amounts and purposes listed below.

TIF District 8 ICC Industrial Park

- Financing to Prairie Senior Cottages of Isanti, LLC, in the amount of \$200,000 for the land acquisition and construction of senior memory-care facility.
- Financing to H.M. Chris, LLC, in the amount of \$50,000 for land acquisition and for construction of a childcare center.
- Financing to Stawski & Stawski, Inc., in the amount of \$35,000 for the construction of a restaurant expansion to Wintergreen Golf and Grill.
- Financing to Isanti Hotel Partners, LLC, in the amount of \$70,000 for the construction of a hotel.

TIF District 9 CBD Revitalization

- Financing to Stawski & Stawski, Inc., in the amount of \$15,000 for the construction of a restaurant expansion to Wintergreen Golf and Grill.

- Financing to Isanti Hotel Partners, LLC, in the amount of \$50,000 for the construction of a hotel.

TIF District 10 Restart Industrial Park

- Financing to C.L. Hough, LLC, in the amount of \$50,000 for the construction of an industrial manufacturing expansion.
- Financing to Duncanson Enterprises, LLC, in the amount of \$16,500 for the construction of an approximately 2,800 square-foot addition.
- Financing to RMW Twins, LLC, in the amount of \$50,000 for construction of an approximately 2,650 square-foot restaurant.
- Financing to Isanti Hotel Partners, LLC, in the amount of \$30,000 for the construction of a hotel.

The City reported using \$455,488 of tax increments from the three TIF districts. \$355,653 was used from TIF District 8, \$43,030 from TIF District 9, and \$46,805 from TIF District 10. \$200,000 was used for the senior memory care facility. \$50,000 was used for the childcare center. \$50,000 was used for the restaurant expansion. \$16,500 was used for construction of the Duncanson Enterprises addition. \$127,856 was disbursed for construction of the Isanti Hotel Partners project, but were refunded to the TIF districts in May 2013 because the project was not completed. The C.L. Hough and the RMW Twins projects never commenced and no funds were disbursed.

City of Lindstrom, TIF District 1-2

The City of Lindstrom approved a spending plan authorizing the City to use available increments from TIF District 1-2 for any of the uses outlined in the statute. The specific amount of tax increment to be made available from the TIF district was \$475,000.

The City reported using \$400,000 of tax increment to finance the construction or substantial rehabilitation of commercial properties for two private developers.

City of Little Canada, TIF District 3-2 Rice Street Redevelopment

The City of Little Canada approved a spending plan authorizing the use of available tax increment from TIF District 3-2 to finance build-outs of rental space for a multi-tenant building.

The City reported using \$257,057 of tax increment to provide a loan to Graba Properties, LLC, for substantial rehabilitation of buildings.

Minnetonka EDA, TIF District 1-2 Boulevard Gardens

The Minnetonka EDA approved a spending plan authorizing the use of available tax increment from TIF District 1-2 to defray a portion of certain City utility charges owed by Glen Lake Senior Housing Development, LLC, in connection with construction of an approximately 150-unit senior rental housing development in the City. The specific amount of tax increment to be made available from the TIF District was \$100,000.

The City reported using \$100,000 of tax increment to assist the senior housing facility.

Monticello EDA, TIF District 1-22 Downtown District

The Monticello EDA approved a spending plan authorizing the use of available tax increments from TIF District 1-22 for purposes allowed under the law. Tax increment was to be used to help finance infrastructure costs associated with the Semper Development/Walgreens project.

The Monticello EDA reported using \$378,680 of tax increment for public improvements to roadways and sidewalks.

City of Montrose, TIF District 2-1 Jeff-Ex Proj

The City of Montrose approved a spending plan authorizing the use of available tax increment from TIF District 2-1 for (i) financing for new commercial construction, (ii) financing the rehabilitation of the former Stock Lumber building, and (iii) administration associated with TIF District 2-1. The specific amount of tax increment to be made available from the TIF district is \$23,200.

The City does not appear to have used tax increment for spending plan purposes.

City of New Brighton, TIF Districts 23, 25, 27, 28, 30, and 33

The City of New Brighton approved a spending plan authorizing the use of available tax increment in the amount of \$1,200,000 from six TIF districts for the construction of a 120-unit apartment building.

The City reported using \$1,200,000 from five TIF districts to assist the construction of a 124-unit apartment building. The amounts from each district were: \$25,000 from TIF District 23, \$160,071 from TIF District 25, \$35,293 from TIF District 27, \$510,093 from TIF District 28, and \$469,542 from TIF District 30.

City of New Prague, TIF District 6-1

The City of New Prague approved a spending plan authorizing the use of available tax increment from one or more existing TIF districts, specifically TIF District 6-1. The funds made available were to finance the construction of an approximately 88,922 square-foot manufacturing and production building, expanding Chart Industries. The estimated eligible project costs are \$550,000.

The City reported using \$440,788 of tax increment from TIF District 6-1.

City of Plymouth, TIF District 7-4 Hoyt - Tech Park

The City of Plymouth approved a spending plan authorizing the use of available tax increment from TIF District 7-4 to provide a loan or other form of financial assistance for the construction of a 67-unit affordable housing development. The specific amount of tax increment to be made available from the TIF district was \$600,000.

The City reported using \$600,000 for West View Estates to finance the development of the affordable housing project developed by Sand Companies.

City of Proctor, TIF District 2

The City of Proctor approved a spending plan authorizing the use of available tax increment from TIF District 2 for job-creating activities: \$45,000 to Midway Sewer Service for the construction of an addition to an existing building; \$30,000 to Proctor Milk House for remodeling activities and the

purchase of new walk-in freezers; and \$5,000 to Gimme Shelter for paving a dirt parking lot. The specific amount of tax increment to be made available from the TIF district was \$80,000.

The City reported using \$80,000 of tax increment from TIF District 2 for the planned projects.

City of Ramsey, TIF District 1 and TIF District 2

The City of Ramsey approved a spending plan authorizing the use of available tax increment from TIF District 1 and TIF District 2 to provide financing to F & C Ramsey, LLC, for the construction of a mixed-use development consisting of 230 market-rate rental housing units and approximately 3,000 square feet of retail space. The specific amount of tax increment to be made available from the TIF districts was \$3,900,000.

The City reported using \$3,921,875 of tax increment from two districts (\$1,420,000 from TIF District 1 and \$2,501,875 from TIF District 2), which included a \$1,420,000 loan and \$2,443,000 of public subsidy for the payment of City development fees to assist the planned project.

Richfield HRA, Interchange TIF District and Lyndale Gateway West TIF District

The Richfield HRA approved a spending plan authorizing the use of available tax increment from two TIF districts to finance the acquisition and redevelopment of the Lyndale Garden Center. The HRA made \$650,000 of tax increment available to Lyndale Garden Center from the TIF districts. Financing for the acquisition and rehabilitation of two additional properties was approved, with \$250,000 of tax increment approved for Pizza Luce VII, Inc., and \$50,000 of tax increment approved for BWPenn66, LLC.

The Richfield HRA reported using \$1,196,994 of tax increment from the two districts (\$200,000 from the Interchange TIF District and \$996,994 from the Lyndale Gateway West TIF District), which included providing \$200,000 in loans to Pizza Luce and \$996,994 of assistance for the acquisition and rehabilitation or demolition of the former Lyndale Garden Center.

Saint Cloud EDA, TIF Districts 2, 10, 12, 18, 20, 21, 34/72, 70, 80, and 83

The City of Saint Cloud approved a spending plan authorizing the City to use available increments from ten different TIF districts for any of the uses outlined in the statute.

The EDA reported using \$239,017 of tax increment from three districts: a forgivable loan of \$79,017 from TIF District 10 to Executive Express to expand its existing facility; a forgivable loan of \$110,000 from TIF District 34/72 to Arctic Cold Storage to renovate 8,000 square feet and construct an 18,800 square-foot refrigerated warehouse; and a \$50,000 forgivable loan and a \$57,400 repayment loan from TIF District 70 to Jason L. Friesz General Dentistry to redevelop and expand a long-vacated building.

City of Saint Joseph, TIF District 1-4 St. Joseph Development, LLC

The City of Saint Joseph approved a spending plan authorizing the use of available tax increment from TIF District 1-4: (i) to assist St. Joseph Meat Market with an expansion to the current facility and (ii) to assist Mill Stream Shops/Lofts to construct improvements to their facility to accommodate a new restaurant. The City anticipated providing assistance in the form of a deferred loan, which would be

forgiven if the owner continues ownership for ten years. The specific amount of tax increment to be made available from the TIF district was \$60,000.

The City reported using \$50,371 of tax increment for improvements to a building to ready the space for a restaurant.

Saint Louis Park EDA, Various TIF Districts

The City of Saint Louis Park EDA approved a spending plan authorizing the use of available tax increment from nine TIF districts to fund the City's Construction Assistance Program. The program was created to spur the immediate construction, expansion, or rehabilitation of commercial/industrial/mixed-use buildings. The specific amount of tax increment to be made available from the TIF district was \$1,600,000.

The EDA reported using \$595,000 of tax increment from two TIF districts: a forgivable loan of \$70,000 from the Mill City District to CKJ Properties, LLC, to repair and renovate a multi-tenant commercial property; a forgivable loan of \$25,000 from the Victoria Ponds District to CAR Properties for the renovation and repair of a small retail building; and a forgivable loan of \$500,000 from the Victoria Ponds District to Hardcoat Inc., for renovations and a 1,500 square-foot addition.

Saint Paul HRA

The Saint Paul HRA approved, and has since amended, a spending plan authorizing the use of available tax increment to fund housing projects, health care facilities, and other various uses. The specific amount of tax increment to be made available, as amended, was \$6,452,267.

The HRA reported using \$6,452,267 of tax increment from 14 districts on four projects: The Frogtown Square project received \$1,419,552 in loans from three TIF districts for a mixed-use development that includes 50 units of affordable senior housing, 11,700 square feet of commercial space, and surface and underground parking. The J&J Produce (Urban Farm) project received \$1,510,000 in loans and grants from six TIF districts for a building expansion. The Schmidt Brewery project received \$1,910,715 in loans from nine TIF districts for acquisition, renovation, and pollution mitigation at the brewery. The Cossetta's project received \$1,612,000 in loans from eleven districts to build a new expansion.

Saint Paul Port Authority, Westminster Junction, Energy Lane, and Great Northern TIF Districts

The Saint Paul Port Authority approved two spending plans authorizing the use of available increments from three TIF districts. The specific amounts of tax increment to be made available from the TIF districts were \$1,300,000 of available increment from the Westminster Junction District, \$618,000 from the Energy Lane District, and \$400,000 from Great Northern Business Center South.

The Port Authority reported using \$2,300,000 of tax increment from three districts. A forgivable loan of \$600,000 (including \$500,000 from the Great Northern Business Center South District and \$100,000 from the Energy Lane Business Center District) was provided to Gerdau Ameristeel US, Inc., toward a \$50 million investment in a new steel caster and building. A forgivable loan of \$1,800,000 (including \$500,000 from the Energy Lane Business Center District and \$1,300,000 from the Westminster Junction Business Center District) was provided to assist in the construction of an approximately 60,000 square-foot office warehouse facility in the River Bend Industrial Park.

City of Saint Peter, TIF District 1-15 Washington Terrace

The City of Saint Peter approved a spending plan authorizing the use of available tax increment from TIF District 1-15 to assist the private redevelopment project being undertaken by Kwik Trip, specifically to provide safe vehicular access and reconstruction of utilities. The specific amount of tax increment to be made available was \$300,000.

The City reported using \$287,612 of tax increment for public improvements and the project resulted in the demolition of two dilapidated structures and construction of the new convenience store.

Sauk Rapids HRA, TIF Districts 16 and 18

The City of Sauk Rapids HRA approved two spending plans authorizing the use of available increments from TIF District 16 and TIF District 18. The original plan identified providing up to \$149,999 for the construction of a commercial building and infrastructure within the real property known as VL Properties. The amended spending plan increased the authorization of tax increment from TIF District 16 to \$280,000 and authorized the use of approximately \$50,000 from TIF District 18.

The HRA reported using \$352,370 of tax increment (\$298,154 from TIF District 16 and \$54,216 from TIF District 18). The increment from TIF District 18 and \$108,254 of the increment from TIF District 16 assisted with site improvements for a 154-unit apartment/townhome development. TIF District 16 also provided \$40,000 for site improvements for a manufacturing facility expansion and \$149,900 for site improvements for a convenience store.

City of Shoreview, TIF District 5 Mun Dev Dist 2 Victoria Ctr – Shoreview Mall

The City of Shoreview approved a spending plan authorizing the use of available tax increment from TIF District 5 (i) to create a business loan program; (ii) to write-down the costs of the permitting fee for new construction projects; (iii) to provide funds to facilitate commercial (re)development; and (iv) to offset the cost of public infrastructure needed to support development - including Owasso Blvd, Lexington Ave, and Red Fox Road. The estimated amount of tax increment to be made available was \$1,653,078.

The City reported using \$1,665,289 of tax increment from TIF District 5. The uses included \$845,000 of acquisition assistance for the Red Fox Retail Center, \$500,000 of acquisition assistance for Trader Joes, \$170,612 of site remediation assistance for Luther Properties (Sinclair/TCF), and \$149,677 of improvements for Red Fox Road.

Slayton EDA, TIF District 1-3

The Slayton EDA approved a spending plan authorizing the use of available tax increment from TIF District 1-3 to be used for grants to Slayton businesses for construction or rehabilitation to the property, energy efficiency improvements, sidewalk improvement, or capital improvement. The specific amount of tax increment to be made available was \$44,000.

The EDA reported using \$30,236 of tax increment for grants to businesses to purchase energy-efficient lighting and heating systems.

City of Stillwater, TIF District 1 Downtown

The City of Stillwater approved a spending plan authorizing the use of available tax increment from TIF District 1 to help fund the City's Downtown Façade Program and Commercial Building Fund. The specific amount of tax increment to be made available was \$3,000,000.

The City reported using \$224,800 of tax increment for façade renovations within the downtown historic district.

City of West St. Paul, TIF District 1-1 South Robert Street

The City of West St. Paul approved a spending plan authorizing the use of available tax increment from TIF District 1-1. The specific amount of tax increment to be made available was \$150,000.

The EDA reported using \$150,000 of tax increment for redevelopment of three residential sites as part of its "housing replacement program." The EDA purchased lots, demolished the existing structures, and sold the lots to housing developers at a write-down.

White Bear Township EDA, TIF Districts 1, 2, 9, and 12 through 20

The White Bear Township EDA approved a spending plan authorizing the use of tax increment to redevelop the Ayde property (1201 Birch Lake Boulevard North) and any other private development in the town for which the EDA found that the private development would create or retain jobs. The spending plan did not identify a specific amount of assistance.

The EDA reported using \$466,000 of tax increment from three TIF districts for site cleanup and construction of a 30,000 square-foot manufacturing facility for Tecweigh/Tecnetics Industries, Inc.

City of Winsted, TIF District 6 Downtown Redevelopment

The City of Winsted approved a spending plan authorizing the use of available tax increment from TIF District 6 to fund a beautification program to promote renovation and redevelopment in the downtown area. The specific amount of tax increment to be made available was \$40,000.

The City reported using \$10,000 of tax increment from the District for renovation and redevelopment activity in the downtown area.

Zumbrota EDA, TIF Districts 1-2 and 1-14

The Zumbrota EDA approved a spending plan authorizing the use of available tax increment to assist Commercial Water Distributing with acquisition and building upgrades and assist Zumbrota Bearing and Gear with financing an approximately 8,000 square-foot addition to its existing warehouse. In addition, the EDA was authorized to spend available increment on any other private development in the City that met the requirements of the statute. The spending plan did not identify a specific amount of assistance.

The EDA reported using \$348,900 of tax increment from the districts (\$54,279 from TIF District 1-2 and \$294,621 from TIF District 1-14). Zumbrota Bearing and Gear was granted \$33,675.83 from TIF District 1-2 and \$56,324.17 from TIF District 1-14 for their expansion. Commercial Water Distributing was granted \$20,000 from TIF District 1-2 and \$238,900 from TIF District 1-14 for acquisition of one acre of land and renovations to their existing building.

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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April 10, 2013

The Honorable Michael Buchite, Mayor
The Honorable Ross Rivard, Council Member
The Honorable John Tangen, Council Member
The Honorable Larry Julik-Heine, Council Member
The Honorable Mary Jo Murphy, Council Member

City of Taylors Falls

637 First Street
Taylors Falls, MN 55084

Re: Taylors Falls TIF District 1-3—Initial Notice of Noncompliance

Dear Mayor Buchite and Council Members:

The Office of the State Auditor (OSA) reviewed recent Annual Reporting Forms filed by the City of Taylors Falls (City) for Tax Increment Financing District 1-3 Post Office (TIF District). After reviewing the information provided in these forms and examining audited financial statements and other documents obtained from the City in 2007, the OSA finds that the City is not in compliance with the TIF Act.¹ This Initial Notice of Noncompliance (Initial Notice) contains two related findings.

All data relating to this examination, including this Initial Notice and the City's Response (Response), are not public until the OSA has issued its final report.²

State law requires the City to send its Response in writing within 60 days after receipt of the Initial Notice. The Response must state whether the City accepts the finding, in whole or in part, and the basis for any disagreement.³ After reviewing the Response, the OSA is required to forward information on unresolved issues to the Chisago County Attorney for review.⁴

If the City pays to Chisago County (County) an amount equal to the amount found to be in noncompliance, the OSA will consider the findings to be resolved. Minnesota law provides that the City will receive its proportionate share of the redistribution of the funds that have been

¹See Minn. Stat. §§ 469.174 to 469.1799 inclusive, as amended.

²See Minn. Stat. § 6.715 (Information relating to an examination is confidential and/or protected nonpublic until the audit is complete); Minn. Stat. § 13.03, subdivision 4 (c) (To the extent data is sent to another government entity, the data retains the same classification.).

³Minn. Stat. § 469.1771, subd. 1 (c).

⁴Minn. Stat. § 469.1771, subd. 1 (b).

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Taylors Falls
April 10, 2013
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returned to the County, if the City makes the payment within 60 days after the City receives this Initial Notice.⁵

FINDINGS OF NONCOMPLIANCE

The OSA's findings of noncompliance regarding the TIF district are as follows:

Finding 1. TIF District 1-3 Post Office—Failure to Decertify the District

The TIF Act requires a TIF District to be decertified and the pledge of tax increment discharged when sufficient money has been set aside to pay, based on the increment to be collected through the end of the calendar year, qualifying obligations incurred within the first five years of the district.⁶

The TIF District was certified on October 6, 1995. No outstanding debt was reported in the 2007 TIF Report and the District had a positive cash/fund balance of \$7,939 on December 31, 2007, indicating that the TIF District should have been decertified at the end of 2007.

We find that the City of Taylors Falls failed to decertify District 1-3 when all obligations it had incurred had been paid, as required by Minn. Stat. § 469.1763, subd. 4(b).

Finding 2. TIF District 1-3 Post Office—Improper Receipt and Expenditure of TIF Revenue

The City received and spent TIF increments collected in 2008 through 2012. The increments were received after the date on which the District was required to have been decertified as stated in Finding 1. The increment collected for 2008 through 2011 totaled \$49,081, plus \$989 of interest, according to Annual Reporting Forms. Increment for 2012 of \$12,378 was reported by the county, but interest for 2012 has not yet been identified. Expenditures for 2008 through 2011 totaled \$20,942 and included: \$111 of interest in 2008; \$515 of administrative costs and \$1,280 of MnDOT site costs in 2009; \$12,235 of interest and \$437 of administrative costs in 2010; and \$3,947 of site costs and \$2,417 of administrative costs in 2011. An additional amount of \$1,000 was identified in 2009 as a county reimbursement cost but was removed by an adjustment in 2010.

⁵Minn. Stat. § 469.1771, subd. 5.

⁶Minn. Stat. § 469.1763, subd. 4 (b).

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Mayor and Council, City of Taylors Falls
April 10, 2013
Page 3

An adjustment in the 2010 Annual Reporting Form removing land sale proceeds totaling \$35,121 is of particular concern. This adjustment purports to show that the District no longer had a positive cash/fund balance and was the rationale for adding \$12,235 of interest costs in 2010 and \$9,806 of interest for prior years. A revised interfund loan schedule was recently provided by the City's financial advisor to corroborate the outstanding balance and interest costs. These adjustments and revised schedule, however, apparently conflict with each other and are inconsistent with previously recorded activity.

City resolutions from 1995 and 1996 state that the land sales proceeds were to go to the TIF fund to repay the interfund loan for the purchase of the land. The resolution dated December 11, 1995, authorizing the interfund loan explicitly instructs that repayment shall occur upon sale of the property. (*See Exhibit A attached to this letter.*) A 1996 resolution, as corrected by a resolution dated April 13, 1998, again directed the repayment. (*See Exhibit B attached to this letter.*) A City TIF Transaction Report recorded the \$35,500 repayment on August 14, 1996, along with the \$621 of interest. (*See Exhibit C attached to this letter.*) With the loan paid and accounted for over the years as paid, and with no evidence or justification to support such a revision, a retroactive adjustment in 2010 to re-characterize the status of these funds is improper.

We find that the City of Taylors Falls improperly received and spent tax increment after District 1-3 should have been decertified as required by Minn. Stat. § 469.1763, subd. 4(b). An amount equal to all tax increment and interest received after December 31, 2007, must be returned.

When the City provides documentation that it returned **\$70,387 plus interest received in 2012** to the Chisago County Auditor, the OSA will consider this finding resolved. This amount is the outstanding balance of \$7,939 on December 31, 2007, plus the \$50,070 of increment and interest received from 2008 through 2011, plus the \$12,378 of increment received in 2012, for a total of \$70,387 before including any interest received in 2012. In addition, the City must **immediately decertify the District.**

CONCLUSION

The Response to these findings must be submitted in writing to the OSA within 60 days after receipt of this Initial Notice. The OSA is available to review and discuss the findings within this letter at any time during the preparation of the Response. After reviewing the Response, the OSA will issue the Final Notice.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Taylors Falls
April 10, 2013
Page 4

If you have any questions, please contact me at (651) 296-7979 or Jason.Nord@osa.state.mn.us.
We look forward to receiving your Response.

Sincerely,

/s/ Jason Nord

Jason Nord
Assistant State Auditor
TIF Division Director

cc: Jo Everson, City Clerk/Treasurer

Attachments: Exh. A: Resolution 95-12-03
Exh. B: Resolution 98-04-11, a resolution correcting resolution 96-08-04
Exh. C: City of Taylors Falls, TF Transaction Report, 05/22/07

COPY

RESOLUTION 95-12-03

A RESOLUTION RATIFYING THE BORROWING OF MONEY FROM
THE CITY WATER FUND TO PURCHASE REAL PROPERTY

WHEREAS, the Taylors Falls City Council has approved the purchase of certain real property described as lots 5,6,15 and 16, Block 19, Taylors Falls, Chisago County, Minnesota, from Joseph and Katharine Seversen for \$36,500.00 and

WHEREAS, \$1,000.00 was paid to the Seversens through the United States Postal Service, leaving a balance of \$35,500.00 which was paid to the Seversens at a closing on December 8, 1995; and

WHEREAS, there were insufficient funds in the City's General Fund to pay the said \$35,500.00; and


WHEREAS, \$35,500.00 was withdrawn from the City Water Fund for the purchase of said property pursuant to a previous motion by the Taylors Falls City Council with the understanding that it would be repaid with interest at the rate set forth below.

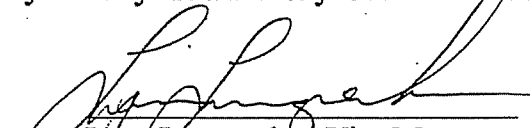
NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE CITY COUNCIL OF TAYLORS FALLS:

1. The withdrawal of \$35,500.00 from the City's Fund for the purchase of Lots 5,6,15, and 16, Block 19, Taylors Falls, Chisago County, Minnesota is approved and ratified.
2. Upon the sale of said property by the City of Taylors Falls, \$35,500.00 together with interest thereon at the rate of three (3) percent per annum from and after December 8, 1995, shall be deposited in the City's water Fund as reimbursement for the funds which have been borrowed.
3. The proceeds of said sale shall be first applied to this obligation. Any additional sums owing shall be paid from the City's General Fund.

The foregoing resolution was adopted by the Taylors Falls City Council this 11th day of December, 1995.

Attested:


Linda Grandstrand
City Clerk


Lynn Longnecker, Vice Mayor

RESOLUTION 98-04-11

A RESOLUTION CORRECTING
RESOLUTION 96-08-07

WHEREAS the Taylors Falls City Council approved Resolution 96-08-07 on August 12, 1996, a resolution to repay the Water Fund from the TIF District 1-3 Fund (401); and

WHEREAS certain inaccuracies were discovered in the resolution needing correction;

SO THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF TAYLORS FALLS, to approve the following resolution as the true and corrected Resolution 96-08-04:

WHEREAS, the Taylors Falls City Council has previously approved the withdrawal of \$35,500.00 from the City's Water Fund for the purchase of certain real property described as lots 5,6,15 and 16, Block 19, Taylors Falls, Chisago County, Minnesota, from Joseph and Katharine Seversen, on December 12, 1995; and

WHEREAS, the City of Taylors Falls has established a Tax Increment Financing District 1-3 , which includes the said property, for the purpose of constructing a new Post Office complex; and


WHEREAS, the said property has been purchased by Ehlen and Associates on July 10, 1996, for this reason, and \$35,121.25 has been deposited in the TIF District 1-3 Fund (401); and

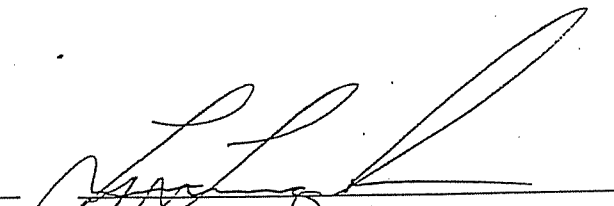
WHEREAS, Resolution 95-12-03 states that upon the sale of said property by the City of Taylors Falls, this money, along with any additional sums owing, together with interest thereon at a rate of three (3) percent per annum shall be deposited in the City's Water Fund as reimbursement for the funds borrowed;

SO THEREFORE BE IT RESOLVED BY THE CITY COUNCIL OF TAYLORS FALLS, that the sum of \$35,500.00, and \$621.25 in interest shall hereby be transferred to the Water Fund from the TIF District 1-2 Fund (401).

DATED THIS 13th OF APRIL, 1998

ATTESTED:


Linda Grandstrand, Clerk


Lynn Longnecker, Mayor

CITY OF TAYLORS FALLS

05/22/07 10:36 AM

Page 1

TF Transaction Report



FUN	Act Code	Tran Date	Amount	Search Name	Comments	CHECK #
FUND 401 TAX INCREMENT DISTRICT 1-3 FUN						
Act Code 401-10100						
401	401-10100	12/13/1995	\$35,500.00		LOAN TRANSFER FOR TIF 1-3	
401	401-10100	12/31/1995	\$3,083.25		TRNSFR FUNDS FOR TIF'S	
401	401-10100	8/14/1996	-\$35,500.00		TO REPAY P.O. LOAN \$\$	
401	401-10100	8/14/1996	-\$621.25		INTEREST REPAYMENT	
401	401-10100	12/31/1996	-\$337.14		ALLOCATE 1996 INTEREST	
401	401-10100	4/1/1998	-\$968.19		TO ALLOCATE INTEREST	
401	401-10100	4/1/1998	\$968.19		TO REMOVE TIF INTEREST	
401	401-10100	4/15/1998	-\$27.00		TO RECLASS TIF EXP	
401	401-10100	4/16/1998	\$20,207.96		TO RECORD '96 TIF ACTVTY	
401	401-10100	4/16/1998	\$84.61		TO SET UP DUE TO	
401	401-10100	5/13/1998	-\$75.00		TO SPLT TRNGG EXP W/TIFS	
401	401-10100	1/31/1999	\$26.93		INTEREST EARNING AJE	
401	401-10100	3/17/1999	-\$1,543.51		TO REC PYM LOAN TO WATER	
401	401-10100	12/31/1999	-\$2,663.49		TO REC INTEREST EXP TIFS	
401	401-10100	1/31/2000	\$43.09		INTEREST ALLOCATION	
401	401-10100	1/31/2000	-\$3,098.49		TO TRNS TIF \$	
401	401-10100	2/14/2002	\$41.94		ALLOCATE INTEREST EARNINGS	
401	401-10100	2/14/2002	-\$2,662.95		RECORD INTEREST ON INTERFUN	
401	401-10100	1/29/2003	-\$1,584.04		TO RECORD INTERFUND LOAN AC	
401	401-10100	1/29/2003	\$8.82		TO ALLOCATE INTEREST	
401	401-10100	12/31/2003	\$668.15		TO REVERSE INTERFUND LOANS	
401	401-10100	12/31/2003	-\$7,042.54		TO REVERSE INTERFUND LOANS	
401	401-10100	1/29/2004	\$24.33		TO POST INT EARNINGS	
401	401-10100	1/30/2004	-\$668.15		TO CORRECT POSTING ERR	
401	401-10100	1/30/2004	\$6,692.80		TO CORRECT POSTING ERR	
401	401-10100	2/20/2004	-\$4,936.79		TO CORRECTING POSTING ERR	
401	401-10100	3/3/2004	-\$8.82		TO RESET BEG BALANCE	
401	401-10100	3/3/2004	\$4,945.61		TO PAY OFF INTERFUND LOANS	
401	401-10100	12/31/2004	-\$5,911.35		TO RECORD INTERFUND LOAN PY	
401	401-10100	1/12/2005	\$21.23		TO ALLOCATE INTEREST	
401	401-10100	12/31/2005	\$43.83		TO ALLOCATE INTEREST	
401	401-10100	1/24/2006	-\$7,013.75		TO REC INTERFUND LOAN	
401	401-10100	12/31/2006	\$76.17		TO TRANSFER INTEREST EARNIN	
401	401-10100	12/31/2006	-\$8,000.00		TO RECORD INTERFUND LOAN PA	
Act Code 401-13200						
401	401-13200	2/14/2002	\$2,420.00		TO RECORD DUE FROM OGU FOR	
401	401-13200	2/15/2002	-\$2,420.00		MISC ENTRIES	
Act Code 401-20700						
401	401-20700		-\$35,500.00		AUDITOR'S CHANGES	
401	401-20700		-\$3,083.25		AUDITOR'S CHANGES	
401	401-20700	12/31/1996	\$35,500.00		ADJUST TRANSFERS & DUE TO	
401	401-20700	4/16/1998	-\$84.61		TO SET UP DUE TO	
401	401-20700	4/16/1998	-\$2,675.00		TO RECLASS TIF ACTVTY	
401	401-20700	4/16/1998	-\$19,870.82		TO RECORD '96 TIF ACTVTY	
401	401-20700	3/17/1999	-\$947.26		TO REC PYM LOAN TO WATER	
401	401-20700	12/31/1999	\$1,330.44		TO REC INTEREST EXP TIFS	
401	401-20700	1/31/2000	\$1,831.96		TO TRNS TIF \$	
401	401-20700	2/14/2002	\$1,488.02		RECORD INTEREST ON INTERFUN	
401	401-20700	1/29/2003	\$22,010.52		TO ADJ BAL SHEET ACTS TO 0	
Act Code 401-25300						

FUN	Act Code	Tran Date	Amount	Search Name	Comments	CHECK #
401	401-25300	4/16/1998	-\$337.14		TO RECORD '96 TIF ACTVTY	
401	401-25300	1/29/2003	-\$22,010.52		TO ADJ BAL SHEET ACTS TO 0	
401	401-25300	3/3/2004	\$8.82		TO RESET BEG BALANCE	
Act Code 401-31050						
401	401-31050	7/8/1998	\$1,625.05	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	12/23/1998	\$1,385.36	CHISAGO COUNTY	NOVEMBER SETTLEMENT	
401	401-31050	7/9/1999	\$2,165.48	CHISAGO COUNTY	JUNE TAX SETTLEMENT	
401	401-31050	12/3/1999	\$783.13	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	7/10/2000	\$1,572.30	CHISAGO COUNTY	JUNE TAX SETTLEMENT	
401	401-31050	12/4/2000	\$1,897.92	CHISAGO COUNTY	NOVEMBER TAX SETTLEMENT	
401	401-31050	7/9/2001	\$1,501.45	CHISAGO COUNTY	JUNE TAX SETTLEMENT	
401	401-31050	12/3/2001	\$1,325.06	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	2/14/2002	-\$2,420.00		TO RECORD DUE FROM OGU FOR	
401	401-31050	2/15/2002	\$2,420.00		MISC ENTRIES	
401	401-31050	7/8/2002	\$927.58	CHISAGO COUNTY	JUNE TAX SETTLEMENT	
401	401-31050	12/6/2002	\$805.61	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	7/8/2003	\$6,186.61	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	12/5/2003	\$983.29	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	2/20/2004	\$4,936.79		TO CORRECTING POSTING ERR	
401	401-31050	7/8/2004	\$2,922.78	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	12/3/2004	\$3,193.84	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	7/7/2005	\$3,437.76	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	12/7/2005	\$3,767.53	CHISAGO COUNTY	TAX SETTLEMENT	
401	401-31050	7/10/2006	\$3,916.61	CHISAGO COUNTY	JUNE TAX SETTLEMENT	
401	401-31050	12/6/2006	\$4,393.95	CHISAGO COUNTY	NOV TAX SETTLEMENT	
Act Code 401-34109						
401	401-34109	7/11/1996	\$35,121.25	JOHNSON, CASTERTON &	PURCHASE OF P.O. PROPERTY	
Act Code 401-36210						
401	401-36210	12/31/1996	\$337.14		ALLOCATE 1996 INTEREST	
401	401-36210	4/1/1998	-\$968.19		TO REMOVE TIF INTEREST	
401	401-36210	4/1/1998	\$968.19		TO ALLOCATE INTEREST	
401	401-36210	1/31/1999	\$0.00		INTEREST EARNING AJE	
401	401-36210	1/31/1999	-\$26.93		INTEREST EARNING AJE	
401	401-36210	1/31/2000	-\$43.09		INTEREST ALLOCATION	
401	401-36210	2/14/2002	-\$41.94		ALLOCATE INTEREST EARNINGS	
401	401-36210	1/29/2003	-\$8.82		TO ALLOCATE INTEREST	
401	401-36210	1/29/2004	-\$24.33		TO POST INT EARNINGS	
401	401-36210	1/12/2005	-\$21.23		TO ALLOCATE INTEREST	
401	401-36210	12/31/2005	-\$43.83		TO ALLOCATE INTEREST	
401	401-36210	12/31/2006	-\$76.17		TO TRANSFER INTEREST EARNIN	
Act Code 401-46500-300						
401	401-46500-300	12/12/1995	\$3,083.25	EHLERS & ASSOCIATES, I	FINANCIAL ASSISTANCE	010427
401	401-46500-300	4/9/1996	\$272.50	BRIGGS & MORGAN	LEGAL SVCS	010668
401	401-46500-300	5/14/1996	\$887.18	DPRA	CLEAN UP SERVICES	010729
401	401-46500-300	7/8/1996	\$3,283.80	DPRA	SOIL SAMPLE ANALIZATION	010837
401	401-46500-300	10/14/1997	\$60.00	EHLERS & ASSOCIATES, I	COMPLILE OSA FORMS	011869
401	401-46500-300	3/9/1998	\$240.00	EHLERS & ASSOCIATES, I	TIF ASSISTANCE	012238
401	401-46500-300	4/14/1998	\$900.00	EHLERS & ASSOCIATES, I	NOLDE TIF ASSISTANCE	012367
401	401-46500-300	4/15/1998	\$27.00		TO RECLASS TIF EXP	
401	401-46500-300	5/13/1998	\$75.00		TO SPLT TRNNG EXP W/TIFS	
401	401-46500-300	8/10/1998	\$195.00	EHLERS & ASSOCIATES, I	STATE FORMS/TIF DISTRICTS	012639
401	401-46500-300	9/13/1999	\$173.00	KERN, DEWENTER, VIERE	TIF REPORTS	013646
401	401-46500-300	9/13/1999	\$120.00	EHLERS & ASSOCIATES, I	TIF REPORTS	013641
401	401-46500-300	8/14/2000	\$390.63	EHLERS & ASSOCIATES, I	TIF REPORTS	014552
401	401-46500-300	8/13/2001	\$187.50	EHLERS & ASSOCIATES, I	TIF REPORTS	015402
401	401-46500-300	8/12/2002	\$125.00	EHLERS & ASSOCIATES, I	TIF REPORTS	016185
401	401-46500-300	8/14/2003	\$118.13	EHLERS & ASSOCIATES, I	STATE REPORTING FORM	017413
401	401-46500-300	9/13/2004	\$202.50	EHLERS & ASSOCIATES, I	TIF REPORTS	018298
401	401-46500-300	9/12/2005	\$199.37	EHLERS & ASSOCIATES, I	2004 TIP REPORTS	019187

FUN	Act Code	Tran Date	Amount	Search Name	Comments	CHECK #
401	401-46500-300	8/28/2006	\$306.25	EHLERS & ASSOCIATES, I	TIF REPORTS	020023
	Act Code 401-46500-351					
401	401-46500-351	8/11/1997	\$24.61	CHISAGO COUNTY PRES	TIF DIST PUBLICATION	011680
401	401-46500-351	7/13/1998	\$29.90	CHISAGO COUNTY PRES	PUBLISHING OF FORM	012557
401	401-46500-351	9/13/1999	\$19.05	CHISAGO COUNTY PRES	TIF PUBLICATION	013637
401	401-46500-351	9/11/2000	\$24.19	CHISAGO COUNTY PRES	PUBLISHING	014580
401	401-46500-351	9/10/2001	\$18.00	CHISAGO COUNTY PRES	PUBLICATIONS	015424
401	401-46500-351	9/9/2002	\$24.15	CHISAGO COUNTY PRES	LEGALS	016199
401	401-46500-351	9/8/2003	\$18.38	LEDGER PUBLICATIONS	TIF PUBLICATON	017456
401	401-46500-351	9/8/2003	\$24.00	CHISAGO COUNTY PRES	PUBLISHING	017436
401	401-46500-351	9/13/2004	\$24.00	CHISAGO COUNTY PRES	PUBLICATIONS	018288
401	401-46500-351	9/12/2005	\$36.00	CHISAGO COUNTY PRES	TAX DISCLOSURE LEGALS	019177
401	401-46500-351	9/11/2006	\$26.40	CHISAGO COUNTY PRES	PUBLICATIONS	020040
401	401-46500-351	12/11/2006	\$54.50	CHISAGO COUNTY PRES	LEGALS/TAX AD	020292
	Act Code 401-46500-500					
401	401-46500-500	12/8/1995	\$35,500.00	CASTERTON LAW OFFICE	PURCHASE OF SEVERSON PROP	010371
401	401-46500-500	5/9/1996	\$14,427.34	CROSS COUNTRY EXCAV	CLEAN-UP	010681
401	401-46500-500	4/16/1998	\$2,675.00		TO RECLASS TIF ACTVTY	
	Act Code 401-46500-600					
401	401-46500-600	1/29/2003	\$483.51		TO RECORD INTERFUND LOAN AC	
401	401-46500-600	12/31/2003	-\$72.53		TO REVERSE INTERFUND LOANS	
401	401-46500-600	12/31/2003	-\$595.62		TO REVERSE INTERFUND LOANS	
401	401-46500-600	12/31/2003	\$5,966.19		TO REVERSE INTERFUND LOANS	
401	401-46500-600	3/3/2004	-\$4,945.61		TO PAY OFF INTERFUND LOANS	
401	401-46500-600	12/31/2004	\$4,886.49		TO RECORD INTERFUND LOAN PY	
401	401-46500-600	1/24/2006	\$6,233.22		TO REC INTERFUND LOAN	
	Act Code 401-46500-610					
401	401-46500-610	12/31/1996	\$621.25		ADJUST TRANSFERS & DUE TO	
401	401-46500-610	12/31/1999	\$1,333.05		TO REC INTEREST EXP TIFS	
401	401-46500-610	1/31/2000	\$1,266.53		TO TRNS TIF \$	
401	401-46500-610	2/14/2002	\$1,174.93		RECORD INTEREST ON INTERFUN	
401	401-46500-610	1/29/2003	\$1,100.53		TO RECORD INTERFUND LOAN AC	
401	401-46500-610	12/31/2003	\$1,076.35		TO REVERSE INTERFUND LOANS	
401	401-46500-610	12/31/2004	\$1,024.86		TO RECORD INTERFUND LOAN PY	
401	401-46500-610	1/24/2006	\$780.53		TO REC INTERFUND LOAN	
	Act Code 401-46500-650					
401	401-46500-650	3/17/1999	\$2,490.77		TO REC PYM LOAN TO WATER	
401	401-46500-650	12/29/2003	\$6,692.80	NOLDE, TIM	TIF PAYMENT	017728
401	401-46500-650	1/30/2004	-\$6,692.80		TO CORRECT POSTING ERR	
	Act Code 401-46500-810					
401	401-46500-810	8/14/1996	\$35,500.00		TO REPAY P.O. LOAN \$\$	
401	401-46500-810	8/14/1996	\$621.25		INTEREST REPAYMENT	
401	401-46500-810	12/31/1996	-\$36,121.25		ADJUST TRANSFERS & DUE TO	
	Act Code 401-50000-700					
401	401-50000-700	12/31/2006	\$8,000.00		TO RECORD INTERFUND LOAN PA	
FUND 401 TAX INCREMENT DISTRIC			\$144,931.8			
			4			
			\$144,931.84			

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CITY OF TAYLORS FALLS

CHISAGO COUNTY, MINNESOTA

637 FIRST STREET
TAYLORS FALLS, MINNESOTA 55084-1144
(651) 465-5133 ♦ (651) 465-4603 FAX
EMAIL ♦ TFCLERK@FRONTIERNET.NET
WEB SITE ♦ WWW.CI.TAYLORS-FALLS.MN.US

May 29, 2013

JASON NORD
Office of the State Auditor
525 Park Street
Saint Paul, MN 55103

Dear Mr. Nord:

The City is in receipt of your letter dated April 10, 2013 in which you made certain findings regarding TIF District 1-3.

The City does not accept your findings. Specifically, "Finding 1", the failure to decertify the TIF district, is dependent upon the validity of the City's existing obligation as it relates to the five year limit you mentioned under Minnesota Statutes, Section 469.1763. The City believes it has a valid, outstanding obligation. Therefore, the requirement to decertify the district does not apply.

Regarding "Finding 2", the improper receipt and expenditure of TIF revenue, the City did remove \$35,121 of land sale income from the district funds in the last three years. The land sale income was clearly received by the City prior to the date that such income was considered TIF. In addition, the City did invest those same funds in redevelopment costs for a piece of property within the district boundaries. The City did not use the land sale income to pay for costs unrelated to the district's original purpose.

The other part of Finding 2 addresses the validity of the City's interfund loans. As you are aware, the OSA did review the City's TIF districts in 2007 and in one piece of correspondence did state that the City had valid interfund loans in place for both of its TIF districts (see page 3 of the OSA letter dated September 18, 2007). It is a surprise to the City that the OSA would not have raised concerns at that time about the 1995 and 1996 City resolutions you mention in your letter, especially since your recent letter states that the district should have been decertified at the end of 2007.

The City understands your statement in your recent letter that there have been numbers "inconsistent with previously recorded activity". However, the City also believes that the OSA direction on annual reporting has also been inconsistent over time. The OSA has told cities in the past that TIF districts should not have negative cash balances. This emphasis on negative cash balances is part of the reason the City kept the land sale proceeds in its TIF accounts. Later, the OSA direction on negative balances changed.

The OSA also asked cities in the 2010 reporting forms to eliminate non-TIF from its funds. The City did remove the land sale proceeds as non-TIF, but the City still had an outstanding obligation that had not been paid along with interest on this obligation.

Even though the City does not agree with the OSA findings, the City does not have the resources to hire a legal counsel to defend its positions over the long process of appeal outlined in the TIF law. In addition, the

MAYOR
Michael D. Buchite

COUNCIL MEMBERS
Ross Rivard
John Tangen
Larry Julik-Heine
Mary Jo Murphy

STAFF
Jo Everson, Clerk-Treasurer
Adam Berklund, Coordinator-ZA
Jack Kramer, Building Official

City is automatically at a disadvantage because it risks its share of the TIF if some amounts are required to be paid back in the future to the County Auditor. More than \$70,000 is a large amount of cash for a small community like Taylors Falls.

Therefore the City will pay the County Auditor the \$70,387 in TIF by June 7, 2013 and will decertify the TIF district immediately. As you stated in your letter, we assume the OSA will consider this matter resolved. We do request that you include the City's responses to the findings in any public documents related to your inquiry. The City's reputation is important to us.

Sincerely,



Michael D. Buchite
Mayor

MAYOR
Michael D. Buchite

COUNCIL MEMBERS
Ross Rivard
John Tangen
Larry Julik-Heine

STAFF
Jo Everson, Clerk-Treasurer
Adam Berklund, Coordinator-ZA
Jack Kramer, Building Official



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

June 11, 2013

The Honorable Michael Buchite, Mayor
The Honorable Ross Rivard, Council Member
The Honorable John Tangen, Council Member
The Honorable Larry Julik-Heine, Council Member
The Honorable Mary Jo Murphy, Council Member

City of Taylors Falls

637 First Street
Taylors Falls, MN 55084

Re: Taylors Falls TIF District 1-3—Final Notice of Noncompliance

Dear Mayor Buchite and Council Members:

On April 10, 2013, the Office of the State Auditor (OSA) sent to the City of Taylors Falls (City) an Initial Notice of Noncompliance (Initial Notice) regarding the City's TIF District 1-3. The OSA received the City's Response (Response) on May 31, 2013.

This letter is the Final Notice of Noncompliance (Final Notice) of the OSA. It provides the OSA's final conclusion regarding the findings (Findings) raised in the Initial Notice.

FINDINGS OF NONCOMPLIANCE

Findings 1 and 2. TIF District 1-3 Post Office—Failure to Decertify the District—RESOLVED

TIF District 1-3 Post Office—Improper Receipt and Expenditure of TIF Revenue—RESOLVED

In the Initial Notice, the OSA found the City failed to decertify District 1-3 when all obligations it had incurred had been paid. In related Finding 2, the OSA found the City improperly received and spent tax increment after the date on which District 1-3 should have been decertified. The TIF Act requires a "district to be decertified and the pledge of tax increment discharged when the outstanding bonds have been defeased."¹

¹ Minn. Stat. § 469.1763, subd. 4(b).

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Taylors Falls
June 11, 2013
Page 2

The City resolved this matter by immediately decertifying the TIF District and by returning \$70,387.00 to the Chisago County Auditor.² Because corrective action has been taken, Finding 1 and Finding 2 are both considered resolved.

Despite returning the \$70,387.00, the City said it did not accept OSA's Findings, asserting a belief that TIF District 1-3 had a valid outstanding obligation and that it should have been able to remain open to continue to receive tax increment. The City, however, did not provide the OSA with any documents or information to support its belief. The City simply noted its removal of \$35,121 of land sale income from TIF District funds on its 2010 Annual TIF Reporting Forms.

The removal of the land sale from the 2010 Annual TIF Reporting Forms is irrelevant to our Findings. As referenced in the Initial Notice, Resolution 95-12-03 shows that the proceeds of the sale of the land (the land sale income) were pledged to pay the interfund loan used to purchase the land. (*See* exhibit A attached to the Initial Notice ("The proceeds of said sale shall be first applied to this obligation.")). Resolution 98-04-11 (correcting Resolution 96-08-04) shows that payment of the interfund loan from the proceeds of the sale was approved. (*See* exhibit B attached to the Initial Notice (authorizing transfer of \$35,500 and \$621.25 in interest to Water Fund as reimbursement for loan to purchase property)). The City's transaction report shows that the interfund loan was in fact paid on August 14, 1996. (*See* exhibit C attached to the Initial Notice).

Whether the sale proceeds were treated as TIF or non-TIF is not relevant to the Findings. In either case, the loan was paid. The interfund loan is not an outstanding obligation. No outstanding obligations were reported in the 2007 Annual TIF Report and the TIF District had a positive cash/fund balance on December 31, 2007. The TIF District should have been decertified by end of calendar year 2007.

The City raised several additional issues to explain its failure to decertify. The City implied that the format of the new 2010 Annual TIF Reporting forms supports its position. The 2010 Annual Reporting Forms were revised to conform to the 2009 Amendments to the TIF Act. The Forms collected only tax-increment data and excluded other sources and uses of funds. The 2010 Forms may have prompted the City to identify and remove land sale proceeds, but the forms could not and did not revive the TIF obligation. A change in the information being collected by the OSA does not change the fact that the interfund loan was repaid with land sale proceeds on August 14, 1996.

The City suggested that the OSA is questioning the validity of its interfund loans. We are not. As noted by the City, the OSA performed an on-site examination in 2007 of certain records of two TIF districts in Taylors Falls, one of the districts being TIF District 1-3 and issued a letter

² There is no current evidence indicating that interest was earned in 2012, but if it was, it should also be returned.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Taylors Falls
June 11, 2013
Page 3

dated September 18, 2007. Specifically, the OSA reviewed the validity of the City's interfund loans. At that time the OSA praised the City for exercising good government practices in how those loans were documented. However, it is not relevant to the issue raised here. Our current Findings are based on violations that occurred after the date of that review.

As requested by the OSA in the Initial Notice, the City decertified the district and returned \$70,387.00 to the Chisago County Auditor, providing the OSA with documentation supporting its return. Because corrective action has been taken, Finding 1 and Finding 2 are considered to be resolved.

The OSA appreciates the City's resolution of these Findings. Its Response will be included in the OSA's annual report to the Legislature. If you have questions, or if I can be of assistance, please contact me at (651) 296-7979 or Jason.Nord@osa.state.mn.us.

Sincerely,

/s/ Jason Nord

Jason Nord
Assistant State Auditor
TIF Division Director

cc: Jo Everson, City Clerk/Treasurer

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APPENDIX D

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

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state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

April 26, 2013

The Honorable Andrew Berg, Mayor
The Honorable Thomas Bement, Council Member
The Honorable Betsy McDougall, Council Member
The Honorable Jean Horack, Council Member
The Honorable Mary Riegert, Council Member

City of Waubun

P.O. Box 187
Waubun, MN 56589

Re: Waubun TIF District No. 1—Initial Notice of Noncompliance

Dear Mayor Berg and Council Members:

The Office of the State Auditor (OSA) reviewed the last three years of Annual Reporting Forms filed by the City of Waubun (City) for Redev TIF Dist 1 (TIF District) along with comprehensive annual financial reports (CAFRs) of the City for the same years. Based on this review, the OSA finds that the City is not in compliance with the TIF Act.¹ This Initial Notice of Noncompliance (Initial Notice) contains the OSA's finding (Finding) and comment regarding the filings.

All data relating to this examination, including this Initial Notice and the City's Response (Response), are not public until the OSA has issued its final report.²

State law requires the City to send its Response in writing within 60 days after receipt of the Initial Notice. The Response must state whether the City accepts the Finding, in whole or in part, and the basis for any disagreement.³ After reviewing the Response, the OSA is required to forward information on unresolved issues to the Mahnomen County Attorney for review.⁴

If the City pays to Mahnomen County (County) an amount equal to the amount found to be in noncompliance, the OSA will consider the Finding to be resolved. Minnesota law provides that the City will receive its proportionate share of the redistribution of the funds that have been

¹See Minn. Stat. §§ 469.174 to 469.1799 inclusive, as amended.

²See Minn. Stat. § 6.715 (Information relating to an examination is confidential and/or protected nonpublic until the audit is complete); Minn. Stat. § 13.03, subdivision 4 (c) (To the extent data is sent to another government entity, the data retains the same classification.).

³Minn. Stat. § 469.1771, subd. 1 (c).

⁴Minn. Stat. § 469.1771, subd. 1 (b).

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Waubun
April 26, 2013
Page 2

returned to the County, if the City makes the payment within 60 days after the City receives this Initial Notice.⁵

FINDING OF NONCOMPLIANCE

The OSA's finding of noncompliance regarding the TIF district is as follows:

Finding 1. Redev TIF Dist 1— Improper Receipt of Tax Increment

The TIF Act requires a TIF District to be decertified and the pledge of tax increment discharged when sufficient money has been set aside to pay, based on the increment to be collected through the end of the calendar year, qualifying obligations incurred within the first five years of the district.⁶

Redev TIF Dist 1 was certified on June 30, 1990. Annual Reporting Forms for 2010 and 2011 appear to be inaccurate and therefore cannot be relied upon. The 2010 CAFR, however, indicates that the debt service of the TIF bond was paid. With no apparent outstanding obligations on December 31, 2010, the TIF District should have been decertified at the end of 2010. The City, however, continued to receive tax increment and waited until September 13, 2011, to adopt a resolution decertifying the District. According to the City of Waubun's records, \$7,396 of tax increment was received by the City in 2011. According to the county auditor, \$3,968.78 of tax increment was distributed to the City in 2011.⁷ Given the significant disarray in Waubun's records and accounts, we accept the County's number as more accurate even though the smaller number benefits Waubun.

We find that the City of Waubun was late when it decertified Redev TIF Dist 1 on September 13, 2011. Decertification should have occurred by December 31, 2010, when all obligations it had incurred had been paid, as required by Minn. Stat. § 469.1763, subd. 4(b). The City improperly received tax increment after the District should have been decertified. An amount equal to \$3,968.78, and any other remaining assets of the district, must be returned.

When the City provides documentation that it returned **\$3,968.78**, and any other remaining assets of the district, to the Mahnomens County Auditor, the OSA will consider this Finding resolved.

⁵Minn. Stat. § 469.1771, subd. 5.

⁶ Minn. Stat. § 469.1763, subd. 4 (b).

⁷ The deficient Annual Reporting Forms make it difficult to determine if the district held any additional assets at the end of 2010.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Waubun
April 26, 2013
Page 3

ADDITIONAL COMMENT

In addition to making the Finding set forth above, the OSA makes the following observation:

Additional Comment: Inadequate TIF Reporting

Annual Reporting Forms for 2010 and 2011 were largely inaccurate and unreliable.⁸ The City failed to properly report prior year information which is critical for adequate reporting. The 2011 Annual Reporting Form, due on August 1, 2012, was submitted only after repeated contacts by the OSA and after the OSA sent a letter to the Mayor and Council, dated February 19, 2013.

The City is not required to respond to this comment, but may do so if it wishes.

CONCLUSION

The Response to this Finding must be submitted in writing to the OSA within 60 days after receipt of this Initial Notice. The OSA is available to review and discuss the Finding within this letter at any time during the preparation of the Response. After reviewing the Response, the OSA will issue the Final Notice.

If you have any questions, please contact me at (651) 296-7979 or Jason.Nord@osa.state.mn.us. We look forward to receiving your Response.

Sincerely,

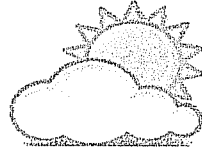
/s/ Jason Nord

Jason Nord
Assistant State Auditor
TIF Division Director

cc: Germaine Riegert, City Clerk

⁸ Significant changes to the reporting forms occurred in 2010 in response to 2009 changes in the reporting statute. In response to the changes, the OSA afforded extra education and advice to ensure the forms were properly completed.

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Ojibwe's Rising Sun

CITY OF WAUBUN
P O BOX 187
WAUBUN MN 56589-0187
Phone: 218-473-3050 Fax: 218-473-3051
www.cityofwaubun.com

July 2, 2013

Mr. Jason Nord
Office of the State Auditor
TIF Division
525 Park St. Suite 500
St Paul MN 55103

Dear Mr. Nord:

The Waubun City Council has reviewed your findings and accepts them as stated. Full repayment of \$3,968.78 was sent to the Mahnomens County Auditor on May 22, 2013.

It is my understanding that closes out Tax Increment Financing District No. 1 for the City of Waubun.

If you have further concerns, please call me at your convenience.

Sincerely,

A handwritten signature in cursive script, appearing to read "Germaine Riegert".

Germaine Riegert
City Clerk-Treasurer

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REBECCA OTTO
STATE AUDITOR

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July 9, 2013

The Honorable Andrew Berg, Mayor
The Honorable Thomas Bement, Council Member
The Honorable Betsy McDougall, Council Member
The Honorable Jean Horack, Council Member
The Honorable Mary Riegert, Council Member

City of Waubun

P.O. Box 187
Waubun, MN 56589

Re: Waubun TIF District No. 1—Final Notice of Noncompliance

Dear Mayor Berg and Council Members:

On April 26, 2013, the Office of the State Auditor (OSA) sent the City of Waubun (City) an Initial Notice of Noncompliance (Initial Notice) regarding the tax increment financing (TIF) district Redev TIF Dist 1. The OSA received the City's response (City Response) on July 8, 2013, in a letter from Germaine Riegert, City Clerk-Treasurer.

This letter is the Final Notice of Noncompliance (Final Notice) of the Office of the State Auditor. It summarizes the initial finding and the City Response and provides the OSA's final conclusion regarding the issue raised by the review. A detailed discussion of the basis for the finding can be found in the Initial Notice.

FINDING OF NONCOMPLIANCE

One finding of noncompliance was made.

Finding 1. Redev TIF Dist 1— Improper Receipt of Tax Increment -- RESOLVED

In the Initial Notice, the OSA found that the City of Waubun improperly received \$3,968.78 of tax increment after the District should have been decertified. In the City's response, the City accepted this finding and noted that full repayment of \$3,968.78 was sent to the Mahnommen County Auditor on May 22, 2013. The OSA has confirmed this repayment and considers this finding resolved.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Waubun
July 9, 2013
Page 2

CONCLUSION

The OSA appreciates the City's cooperation in the resolution of this matter. If you have any questions, or would like additional information, please contact me at (651) 296-7979 or Jason.Nord@osa.state.mn.us.

Sincerely,

/s/ Jason Nord

Jason Nord
Assistant State Auditor
TIF Division Director

cc: Germaine Riegert, City Clerk