

STATE OF MINNESOTA

Office of the State Auditor



**Rebecca Otto
State Auditor**

TAX INCREMENT FINANCING LEGISLATIVE REPORT

**TIF Reports for the Year Ended December 31, 2015
TIF Audits Concluded for the Year Ended December 31, 2016**

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 150 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 of 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 700 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 Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

This document can be made available in alternative formats upon request. Call (651) 296-2551 [voice] or 1-800-627-3529 [relay service] for assistance; or visit the State Auditor's web site: www.auditor.state.mn.us.

TAX INCREMENT FINANCING LEGISLATIVE REPORT

**TIF Reports for the Year Ended December 31, 2015
TIF Audits Concluded for the Year Ended December 31, 2016**



March 28, 2017

**Tax Increment Financing Division
Office of the State Auditor
State of Minnesota**

Assistant State Auditor/Director

Jason Nord

Staff

Kurt Mueller, *Auditor*

Lisa McGuire, *Auditor*

Barbara Lerschen, *Analyst*

This page left intentionally blank.

TAX INCREMENT FINANCING REPORT

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
SCOPE AND METHODOLOGY	iii
BACKGROUND	1
Development Authorities	2
Map 1 - Development Authorities in Greater Minnesota, 2015	3
Map 2 - Development Authorities in Metro Area, 2015.....	4
Map 3 - County Development Authorities, 2015.....	5
Creation of TIF Districts.....	6
Types of TIF Districts.....	6
Special Legislation.....	8
Number of TIF Districts.....	9
Figure 1 - TIF Districts by Type; Statewide, Greater MN, & Metro Area; 2015	9
Figure 2 - TIF Districts by Type Statewide, 2015.....	9
Figure 3 - TIF Districts by Type in Metro Area, 2015.....	10
Figure 4 - TIF Districts by Type in Greater Minnesota, 2015	10
Trends in the Number of TIF Districts	11
Figure 5 - Historical Trend: Number of TIF Districts, 1996 - 2015	11
New Districts Certified	12
Figure 6 - Number of TIF Districts Certified by Type, 2015	12
Figure 7 - TIF Districts Certified by Type, 2015	12
Certification Trends	13
Figure 8 - Number of TIF Districts Certified by Type, 2011 - 2015.....	13
Districts Decertified.....	13
Figure 9 - Number of TIF Districts Decertified by Type, 2015	13
Figure 10 - TIF Districts Decertified by Type, 2015.....	14
Decertification Trends	14
Figure 11 - Decertifications 2011 - 2015: Full Duration vs. Early Decertification	15
Tax Increment Revenue	15
Figure 12 - Revenue Generated by Type; Statewide, Greater MN, and Metro Area; 2015.....	15
Figure 13 - Tax Increment Revenue Generated Statewide, 2015	16
Figure 14 - Tax Increment Revenue Generated in Metro Area, 2015	16
Figure 15 - Tax Increment Revenue Generated in Greater MN, 2015.....	17
Tax Increment Revenue Trends	17
Figure 16 - Total Tax Increment Revenue Generated, 2006 - 2015	17
Returned Tax Increment	18
Reported Debt	18
Figure 17 - Reported Debt by Type, 2015.....	19
Figure 18 - Reported Debt by Type, 2015.....	20
FINDINGS AND RESPONSES	21

This page left intentionally blank.

EXECUTIVE SUMMARY

Current Highlights and Trends

- In 2015, 416 development authorities submitted reports to the Office of the State Auditor (OSA) for 1,719 TIF districts. Of these districts, 1,100 (64 percent) were located in Greater Minnesota and 619 (36 percent) were located in the Metro Area. (pg. 9)
- In 2015, redevelopment districts made up 48 percent of all TIF districts statewide, followed by housing districts at 31 percent, and economic development districts at 18 percent. (pg. 9)
- In 2015, 95 new TIF districts were certified, which was three percent less than the number of new districts certified in 2014. (pg. 12)
- In 2015, 117 TIF districts were decertified, a decrease of 11 percent from 2014. (pg. 13)
- In 2015, approximately \$194 million of tax increment revenue was generated statewide. Although most districts are located in Greater Minnesota, approximately \$162 million of tax increment, or 83 percent, was generated in the Metro Area. (pg. 15)
- In 2015, redevelopment districts made up 48 percent of the TIF districts statewide and generated 78 percent, or \$152 million, of total tax increment revenue. (pg. 15)
- In 2015, development authorities returned \$24,740,123 in tax increment revenue to county auditors for redistribution as property taxes to the city, county, and school district. (pg. 18)
- In 2015, there was a total of nearly \$1.7 billion of outstanding debt. Pay-as-you-go (PAYG) obligations made up 55 percent of the debt reported. General obligation (GO) bonds, which are secured by the municipalities' full faith and credit, made up about 24 percent of the total debt. (pg. 19)

Long-Term Trends

- Between 1996 and 2004, the number of TIF districts increased each year. From 2004 through 2014, the total number declined. The decline reflected, among other things, large numbers of decertifications as older districts created in the wake of the 1979 TIF Act reached their statutory duration limits. For the first time since 2004, a leveling-off in the number of TIF districts being reported was seen in 2015, with just four more districts being reported than were reported in 2014. (pg. 11)
- Over the last five years, the number of TIF districts certified has generally increased. There were 27 percent more new districts certified in 2014 and 2015 (193 districts) than were certified in 2012 and 2013 (152 districts). (pg. 13)

- From 2011 to 2015, housing districts decertified early more frequently than other statutory types of districts, with 79 percent decertifying early. Redevelopment districts decertified early 48 percent of the time. Economic development districts, with their shorter maximum durations, decertified early only 23 percent of the time. (pg. 14)
- Looking at the ten-year period from 2006 to 2015, the amount of tax increment revenue generated statewide has declined in every year since 2008, except in 2014, and has dropped from a high of \$307.8 million in 2008 to a ten-year low of \$194.3 million in 2015. (pg. 17)

SCOPE AND METHODOLOGY

This 21st Annual Legislative Report (Report) was compiled from information received from the 416 development authorities currently authorized to exercise tax increment financing (TIF) powers in Minnesota. The Report summarizes information reported by these development authorities for 1,719 districts for the calendar year ended December 31, 2015. The Report also provides a summary of any violations cited in the limited-scope reviews conducted by the Office of the State Auditor (OSA) in 2016. 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 development authorities to file with the OSA annual financial reports for each of their TIF districts. This reporting requirement applies to all TIF districts regardless of when they were created. Reports must be submitted on or before August 1 of each year, starting the year in which a district is certified. Reporting continues until the year following the year in which the district is both decertified and all remaining revenues derived from tax increment have been expended or returned to the county auditor. For many districts, the expenditure or return of increments may occur in a later year than the decertification of the district.

TIF reports for the year ended December 31, 2015, were required from a total of 1,721 TIF districts. Two reports were not submitted from two development authorities: Hills and St. Clair.⁴

¹ Minn. Stat. § 469.1771, subd. 1(c).

² 1995 Minn. Laws, ch. 264, art. 5, § 34. The OSA's oversight of TIF began in 1996.

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 Hills did not file reports for 2013 and 2014, and St. Clair did not file a report for 2014. The TIF Act provides for tax increment to be withheld when reports are not filed.

This page left intentionally blank.

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 enables development authorities to finance development activities using the incremental property taxes, or “tax increments,” generated by the increased taxable value of the new development. The capture of tax increments occurs within TIF districts comprised of the parcels on which development activity occurs. In order for a municipality to finance development with TIF, it must find that the development would not otherwise be expected to occur without the use of TIF.

Owners of property located in the TIF district pay property taxes. Only the portion of the property taxes generated by new development (the tax increment) is used to pay for public improvements and qualifying costs that make the new development possible.⁵

The expenditures that qualify to be paid from this tax increment 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. Examples of qualifying costs include: land and building acquisition, demolition of structurally substandard buildings, removal of hazardous substances, site preparation, installation of utilities, and road improvements.

A development authority initiates the creation of a TIF district, and the municipality must approve it for it to move forward. An authority can be a city, an entity created by a city, or an entity created by a county.⁶ Development authorities derive their authority from various development acts that underlie and are incorporated into the TIF Act by reference: the Housing and Redevelopment Authorities (HRA) Act, the Port Authorities Act, the Economic Development Authorities (EDA) Act, the City Development District Act, and the Rural Development Financing Authorities Act.⁷

The TIF Act is 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.⁸ 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.⁹ In the City Development District Act, however, the term “project” means a designated area within a city.¹⁰ The development acts do not expressly limit the size of areas that can qualify as projects.

⁵ Property taxes on existing value at the time the district is created, often referred to as the “frozen base,” continue to be distributed to the city, county, and school district. However, due to the extraordinary expense involved in cleaning up hazardous substances, the entire property tax payment may be captured for hazardous substance subdistricts. Minn. Stat. §§ 469.174, subds. 7(b) and 23; 469.175, subd. 7.

⁶ Counties and towns may also be development authorities in certain instances.

⁷ Minn. Stat. § 469.174, subd. 2 (listing the statutory citations for the various development acts).

⁸ Minn. Stat. § 469.174, subd. 8.

⁹ See Minn. Stat. § 469.002, subd. 12.

¹⁰ See Minn. Stat. § 469.125, subd. 9.

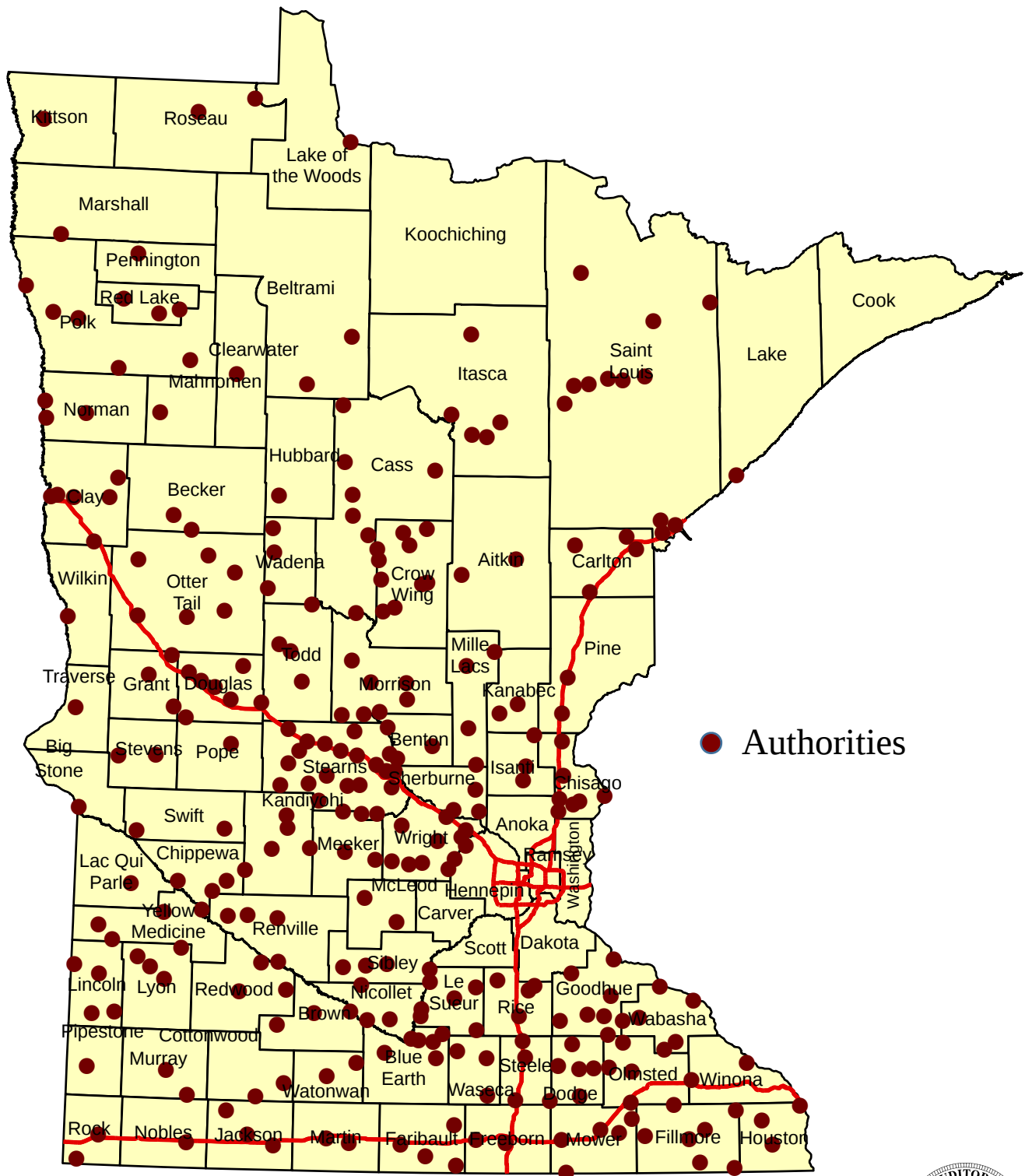
Development Authorities

In 2015, there were 416 active development authorities in Minnesota; five new city development authorities were created, three inactive development authorities became active again, and eight authorities became inactive.

In 2015, of the 416 development authorities reporting, 314 were located in Greater Minnesota and 102 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 counties that have a separate authority for development purposes.¹¹

¹¹ This map does not include the following joint authorities: Bluff Country HRA and Southeast Minnesota Multi-County HRA.

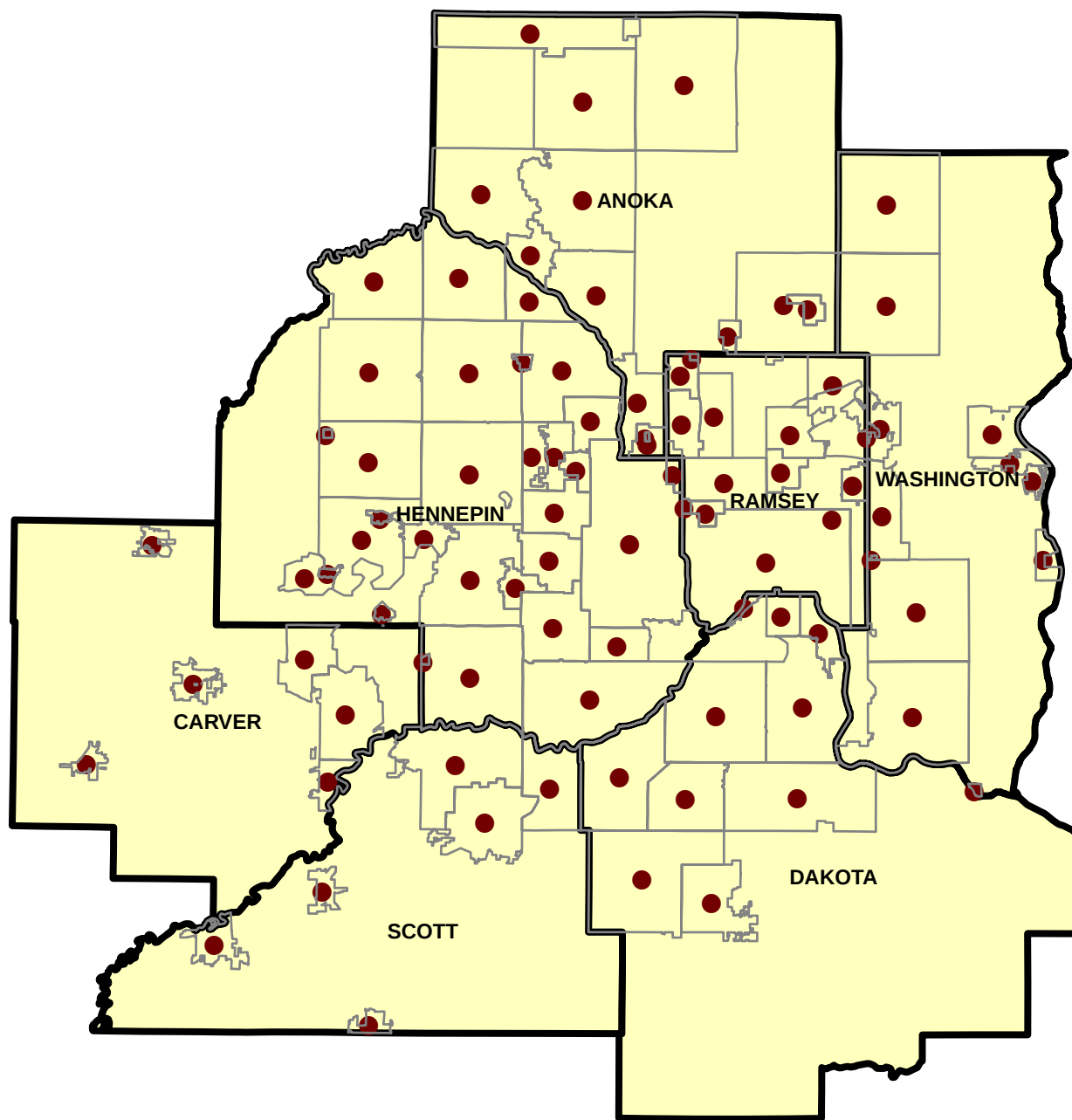
Development Authorities in Greater Minnesota, 2015



● Authorities



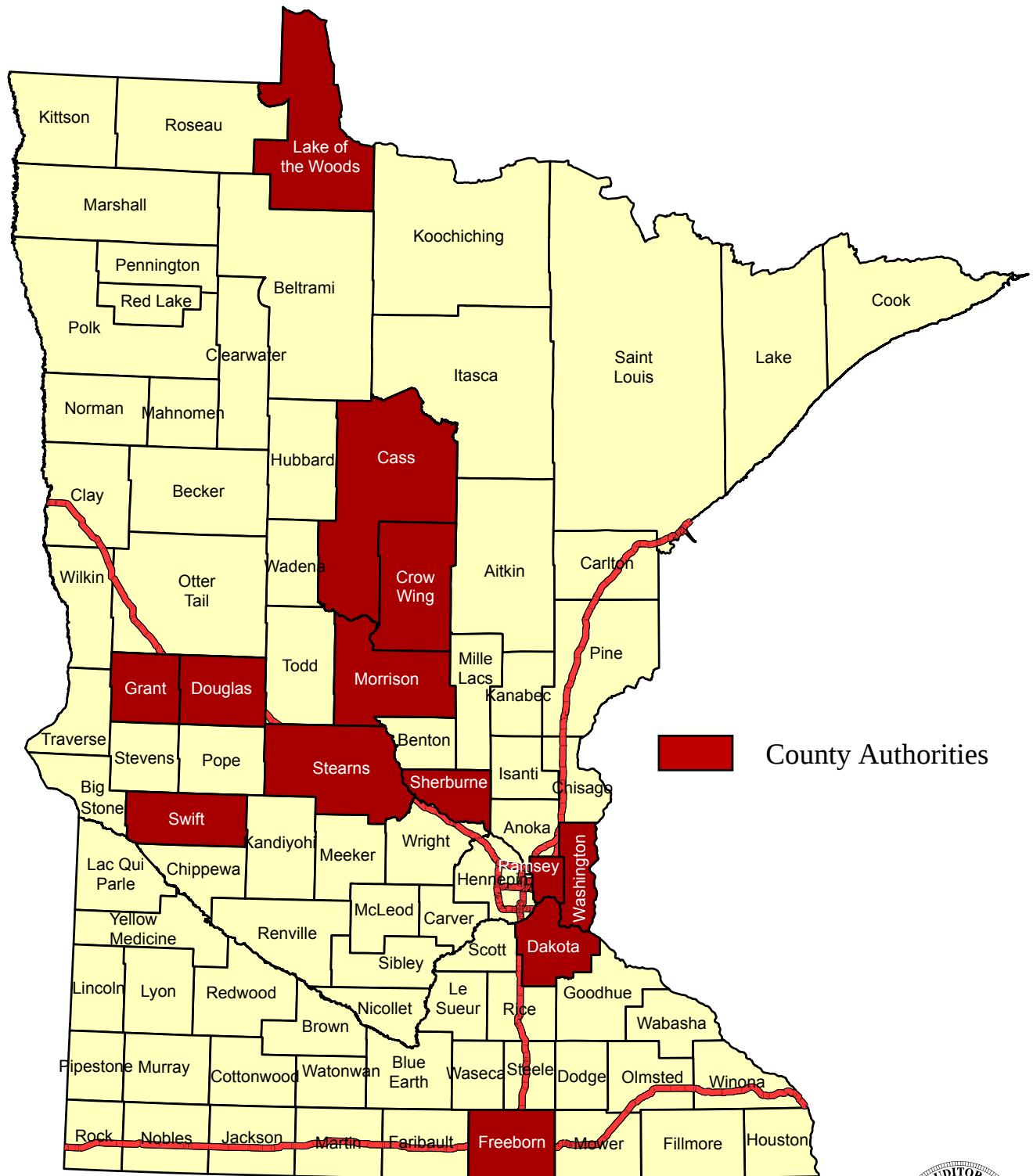
Development Authorities in Metro Area, 2015



● Authorities



County Development Authorities, 2015



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.¹² Approval of the TIF plan authorizes the use of tax increment to pay TIF-eligible project costs.

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. Before approving a TIF plan, the municipality must publish a notice and hold a public hearing.¹³ 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.¹⁴

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, must provide copies of these documents to the members of the county board of commissioners and the school board.¹⁵ The county board and school board may comment on the proposed district, but cannot prevent its creation.¹⁶

Types of TIF Districts

Five different types of TIF districts are currently authorized by the TIF Act:

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

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 that can be created within a TIF district, a hazardous substance subdistrict.

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

Redevelopment Districts – The purpose of a redevelopment district is to eliminate blighted conditions.¹⁷ Redevelopment districts are designed to conserve the use of existing utilities, roads, and other public infrastructure, and to discourage urban sprawl. Qualifying tax increment

¹² Minn. Stat. § 469.175, subd. 1.

¹³ Minn. Stat. § 469.175, subd. 3.

¹⁴ In many cases, the commissioners of the TIF authority include some or all of the council members.

¹⁵ Minn. Stat. § 469.175, subd. 2.

¹⁶ When the county is the municipality that must approve the TIF plan, the county board may prevent the creation of a TIF district.

¹⁷ Minn. Stat. § 469.174, subd. 10(a)(1).

expenditures include: acquiring sites containing substandard buildings, streets, utilities, parking lots, or other similar structures; demolishing and removing substandard structures; eliminating hazardous substances; clearing the land; and installing utilities, sidewalks, and parking facilities. These TIF-financed activities are generally considered a means to “level the playing field” so that blighted property can compete with bare land for development. These districts have a statutory maximum duration limit of 25 years after first receipt of tax increment.¹⁸

Economic Development Districts – The purpose of an economic development district is to: (1) discourage commerce, industry, or manufacturing from moving to another state or city; (2) increase employment in the state; or (3) preserve and enhance the tax base.¹⁹ Tax increment revenue from economic development districts is used primarily to assist manufacturing, warehousing, storage and distribution, research and development, telemarketing, and tourism. Use of tax increment in these districts for commercial development (retail sales) is excluded by law, except in “small cities.”²⁰ Economic development districts are short-term districts with a limit of eight years after first receipt of tax increment.²¹

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. Tax increment revenue can be used in the construction of low- and moderate-income housing and to acquire and improve the housing site. These districts have a statutory maximum duration limit of 25 years after first receipt of tax increment.²²

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 relates more to inappropriate or obsolete land use. The statutory maximum duration limit for these districts is 15 years after first receipt of tax increment.²³

Soils Condition Districts – The purpose of a soils condition district is to assist in the redevelopment of land which cannot otherwise be developed due to the presence of hazardous substances, pollutants, or contaminants. The estimated cost of the proposed removal and remediation must exceed the fair market value of the land before the remediation is completed.²⁴ The statutory maximum duration limit for these districts is 20 years after first receipt of tax increment.²⁵

¹⁸ Minn. Stat. § 469.176, subd. 1b(a)(4). Note that a duration of 25 years *after* first receipt of tax increment permits 26 years of collection.

¹⁹ Minn. Stat. § 469.174, subd. 12.

²⁰ Minn. Stat. § 469.174, subd. 27, and Minn. Stat. § 469.176, subd. 4c.

²¹ Minn. Stat. § 469.176, subd. 1b(a)(3). Note that a duration of eight years *after* first receipt of tax increment permits nine years of collection.

²² Minn. Stat. § 469.176, subd. 1b(a)(4). Note that a duration of 25 years *after* first receipt of tax increment permits 26 years of collection.

²³ Minn. Stat. § 469.176, subd. 1b(a)(1). Note that a duration of 15 years *after* first receipt of tax increment permits 16 years of collection.

²⁴ Minn. Stat. § 469.174, subd. 19.

²⁵ Minn. Stat. § 469.176, subd. 1b(a)(2). Note that a duration of 20 years *after* first receipt of tax increment permits 21 years of collection.

Pre-1979 Districts – These districts were created prior to the 1979 TIF Act and have all been decertified. A few still have assets and continue to report. The assets may still be used to pay administrative expenses, to pay bonds, and to pool for deficits.²⁶

Uncodified Districts – Special laws have been enacted to address unique problems that permit the generation of tax increment revenue from a geographic area that does not meet the statutory definition of a TIF district. 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 addressing distressed rental properties in Brooklyn Park.

Hazardous Substance Subdistricts – The purpose of a hazardous substance subdistrict (HSS) is to finance the cleanup of hazardous substance sites within a TIF district so that development or redevelopment can occur.²⁷ The subdistrict may be established at the time of approval of the TIF plan, or added later by modification, and requires certain findings and a development response action plan approved by the Minnesota Pollution Control Agency (PCA).²⁸ The HSS captures additional increment by reducing the original net tax capacity (ONTC) by the estimated costs of the removal actions.²⁹ The payment of these costs comes from the frozen property tax base of the district and yields immediate increment without requiring any increase in property value. The additional increment may be used only to pay or reimburse specified costs, such as removal or remedial actions, pollution testing, purchase of environmental insurance, and related administrative and legal costs.³⁰ The statutory maximum duration limit for an HSS can extend beyond that of the overlying district and is 25 years from the date the extended period began or the period necessary to recover the costs specified in the development response plan, whichever occurs first.³¹

Special Legislation

Special legislation has been enacted to allow exceptions to the TIF Act for individual districts. As of 2015, 116 TIF districts reported having special laws. The most common types of special legislation include: (1) extending the five-year deadline for entering into contracts or issuing bonds; (2) extending the duration limits of a TIF district; (3) creating an exception to requirements or findings needed to create a TIF district; and (4) creating an exception to the limitations on the use of tax increment.

²⁶ Minn. Stat. § 469.176, subd. 1c.

²⁷ Minn. Stat. § 469.174, subds. 16 and 23; Minn. Stat. § 469.175, subd. 7.

²⁸ Minn. Stat. § 469.174, subd. 17.

²⁹ Minn. Stat. § 469.174, subd. 7(b).

³⁰ Minn. Stat. § 469.176, subd. 4e.

³¹ Minn. Stat. § 469.176, subd. 1e.

Number of TIF Districts

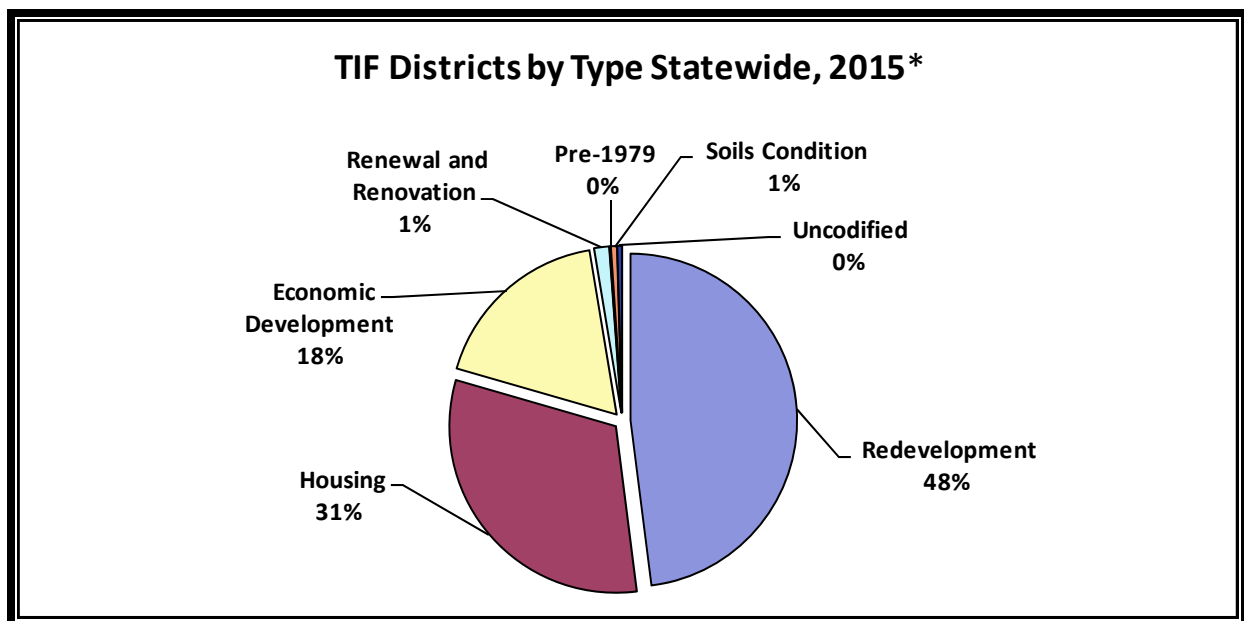
In 2015, 416 development authorities submitted reports to the OSA for 1,719 TIF districts. Of these districts, 1,100 (64 percent) were located in Greater Minnesota and 619 (36 percent) were located in the Metro Area. (See Figure 1.)

Figure 1.

TIF Districts by Type; Statewide, Greater MN, & Metro Area; 2015			
Type of District	Statewide	Greater MN	Metro Area
Redevelopment	825	453	372
Housing	541	385	156
Economic Development	308	252	56
Renewal and Renovation	25	7	18
Pre-1979	2	1	1
Soils Condition	10	2	8
Uncodified	8	0	8
Total	1,719	1,100	619
Hazardous Substance Subdistricts	26	2	24

In 2015, redevelopment districts made up 48 percent of all TIF districts statewide, followed by housing districts at 31 percent, and economic development districts at 18 percent. Combined, redevelopment, economic development, and housing districts made up 97 percent of all districts. (See Figure 2.)

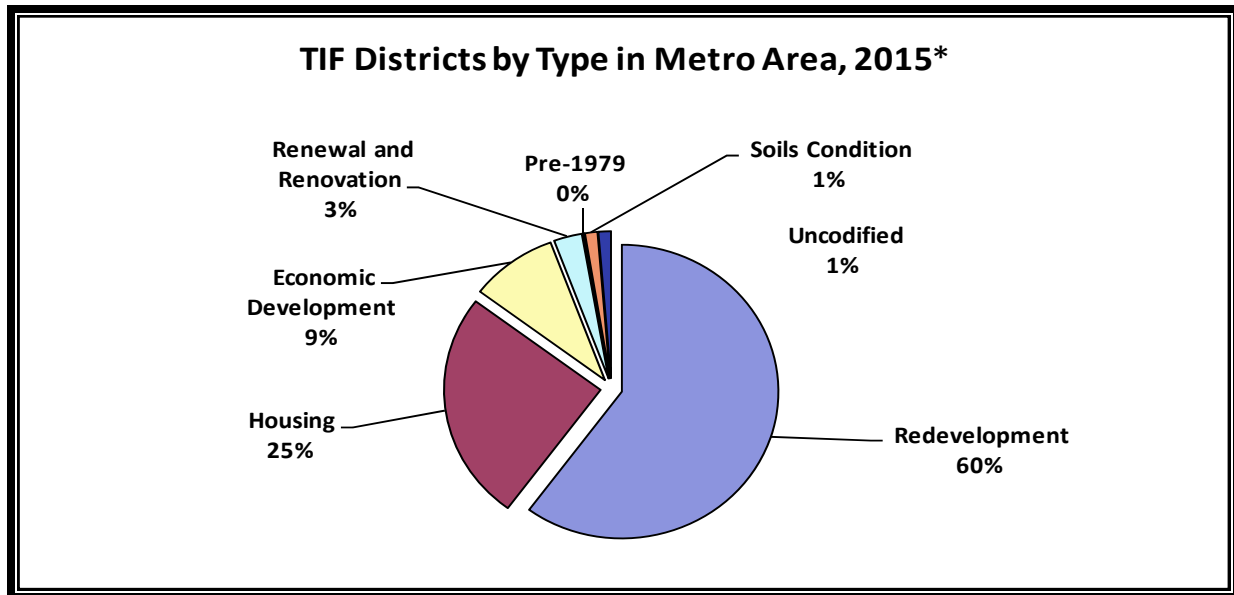
Figure 2.



*Due to rounding, the sum of the percentages is less than 100 percent.

In the Metro Area, redevelopment districts made up 60 percent of all districts, followed by housing districts at 25 percent and economic development districts at nine percent. (See Figure 3.)

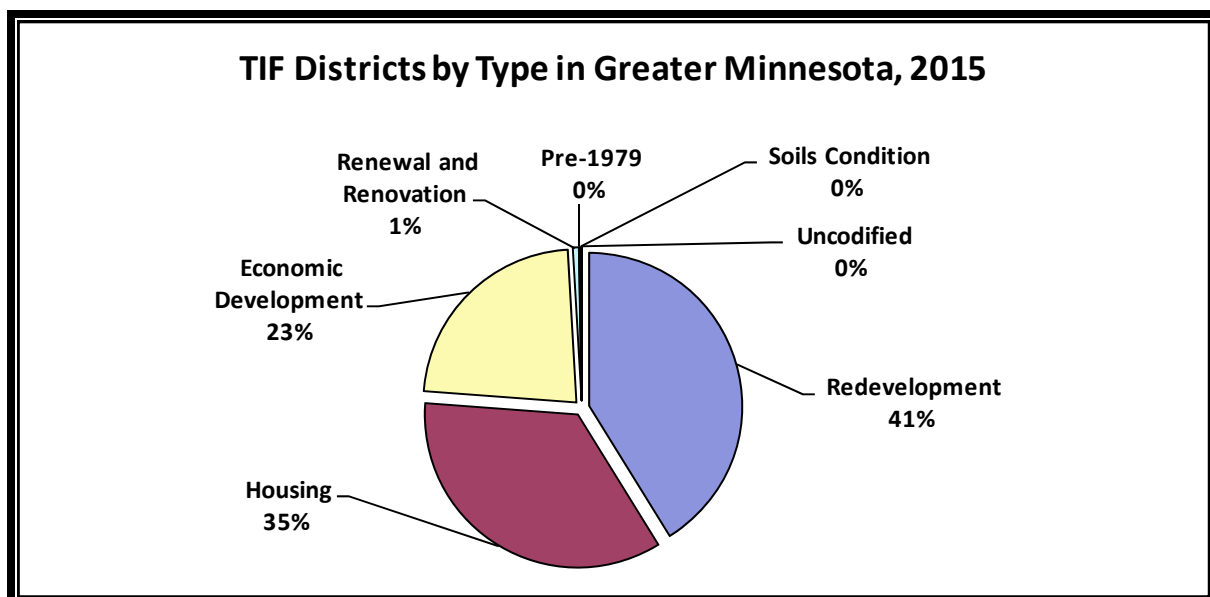
Figure 3.



*Due to rounding, the sum of the percentages is less than 100 percent.

In Greater Minnesota, redevelopment districts were the largest type of district, followed by housing and economic development districts. However, redevelopment districts made up a smaller portion compared to the Metro Area and housing and economic development districts made up larger portions. (See Figure 4.)

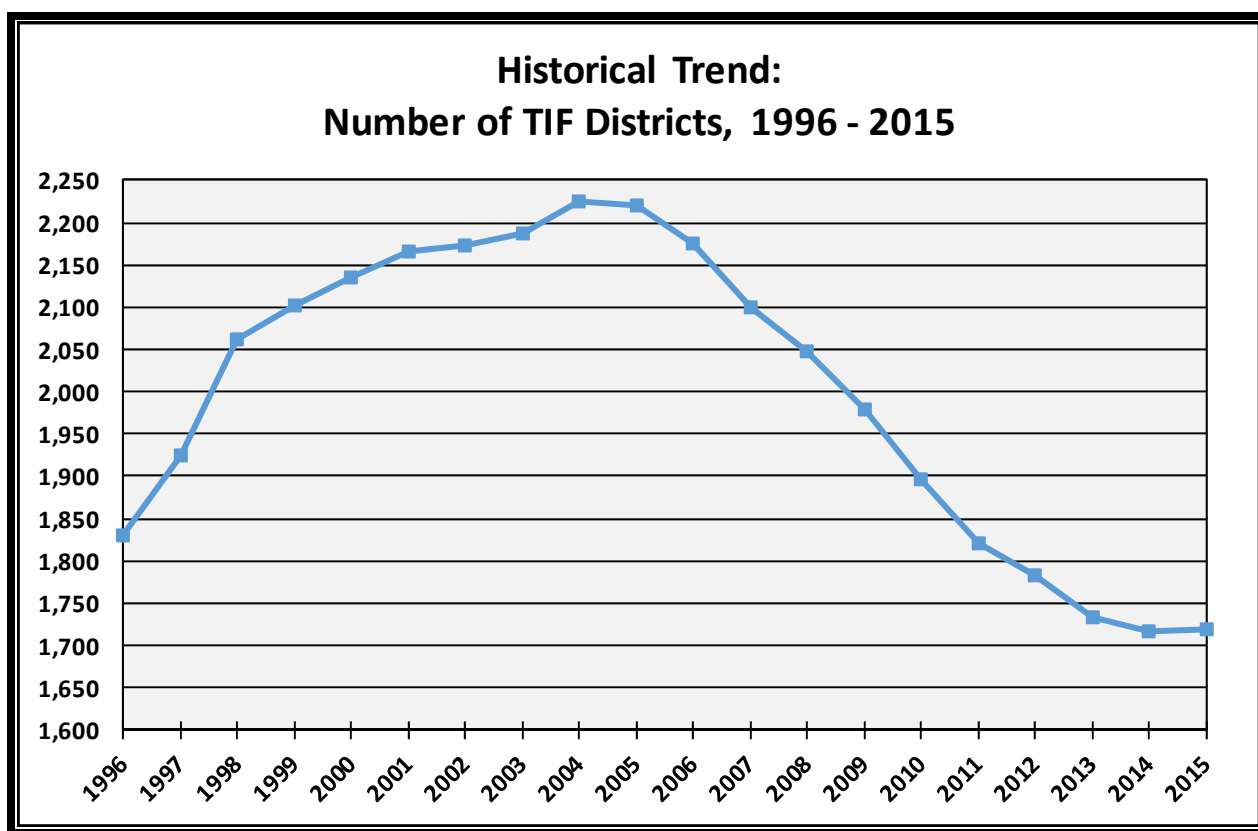
Figure 4.



Trends in the Number of TIF Districts

The OSA began its oversight of TIF in 1996, and Figure 5 shows the total number of districts required to report to the OSA for each year since 1996. Between 1996 and 2004, the number of TIF districts increased each year. From 2004 through 2014, the total number declined. The decline reflected, among other things, large numbers of decertifications as older districts created in the wake of the 1979 TIF Act reached their statutory duration limits. For the first time since 2004, a leveling-off in the number of TIF districts being reported was seen in 2015, with just four more districts being reported than were reported in 2014. The number of districts being reported includes districts that are decertified but must continue to report due to remaining tax increment assets.

Figure 5.



New Districts Certified

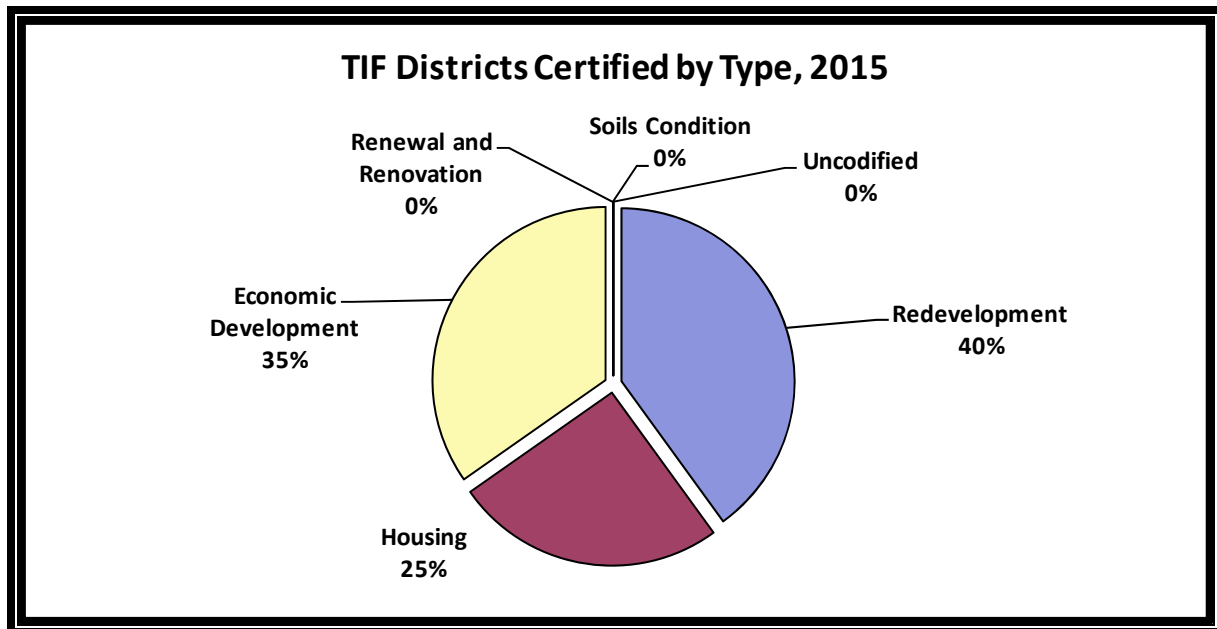
In 2015, 95 new TIF districts were certified, which was three percent less than the number of new districts certified in 2014. (See Figure 6.)

Figure 6.

Number of TIF Districts Certified by Type, 2015	
Redevelopment	38
Housing	24
Economic Development	33
Renewal and Renovation	0
Soils Condition	0
Uncodified	0
Total	95

In 2015, redevelopment districts and economic development districts accounted for the largest portions of all new districts at 40 percent and 35 percent, respectively. (See Figure 7.)

Figure 7.



Certification Trends

Over the last five years, the number of TIF districts certified has generally increased. Although 2015 had three fewer certifications than 2014, these two years experienced a much higher level of certifications than previous years in the five-year period from 2011 to 2015. There were 27 percent more new districts certified in 2014 and 2015 (193 districts) than were certified in 2012 and 2013 (152 districts). (See Figure 8.)

Figure 8.

Number of TIF Districts Certified by Type, 2011 - 2015					
	2011	2012	2013	2014	2015
Redevelopment	19	20	27	34	38
Housing	12	16	17	27	24
Economic Development	32	38	27	35	33
Renewal and Renovation	4	3	2	1	0
Soils Condition	0	1	0	1	0
Uncodified	0	0	1	0	0
Total	67	78	74	98	95

Districts Decertified

The decertification of a TIF district generally occurs for one of four reasons: the district has met its statutory maximum duration limit, the district has met a duration limit specified by the authority in the TIF plan for the district, the district has no remaining outstanding debt and must decertify early under the Six-Year Rule, or the authority voluntarily decides to decertify the district early.³²

In 2015, 117 TIF districts were decertified, a decrease of 11 percent from 2014. (See Figure 9.)

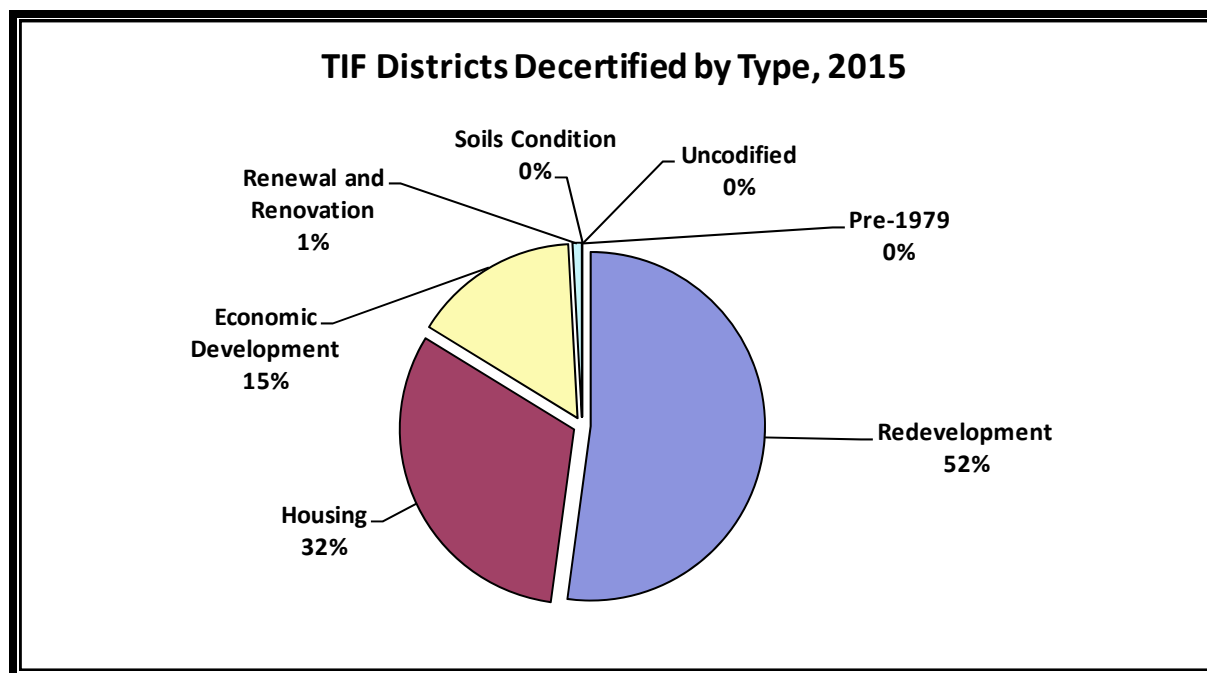
Figure 9.

Number of TIF Districts Decertified by Type, 2015	
Redevelopment	61
Housing	37
Economic Development	18
Renewal and Renovation	1
Soils Condition	0
Uncodified	0
Pre-1979	0
Total	117

³² The Six-Year Rule's decertification requirement is found in Minn. Stat. § 469.1763, subd. 4(b).

In 2015, 52 percent of decertified districts were redevelopment districts, while housing and economic development districts accounted for 32 percent and 15 percent, respectively. (See Figure 10.)

Figure 10.



Decertification Trends

While many decertifications occur as a result of a district reaching its duration limit (as set by statute or by the authority in its TIF plan), authorities frequently decertify districts early, either by choice or pursuant to the Six-Year Rule that requires decertification once all in-district obligations have been satisfied.³³ From 2011 to 2015, housing districts decertified early more frequently than other statutory types of districts, with 79 percent decertifying early. Redevelopment districts decertified early 48 percent of the time. Economic development districts, with their shorter maximum durations, decertified early only 23 percent of the time. For districts that decertified early, redevelopment districts decertified an average of 11 years early and housing districts averaged 13 years early. (See Figure 11.)

³³ In-district obligations are determined pursuant to the Five-Year Rule (Minn. Stat. § 469.1763, subd. 3), which generally limits “in-district” obligations to those established in the first five years. The Six-Year Rule, (Minn. Stat. § 469.1763, subd. 4), generally requires that beginning in the sixth year, an authority must use a certain portion of increment to pay, or set aside to pay, the in-district obligations, and to decertify when the in-district obligations are paid or when enough increment has been set aside for their payment.

Figure 11.

Decertifications 2011 - 2015: Full Duration vs. Early Decertification				
District Type / (Max Duration)³⁴	Decertified Districts	Lasted Full Duration	Decertified Early	
			Percent	Average Years
Redevelopment (25 yrs)	324	52%	48%	11
Housing (25 yrs)	147	21%	79%	13
Economic Development (8 yrs)	134	77%	23%	3
Renewal and Renovation (15 yrs)	15	53%	47%	8
Soils Condition (20 yrs)	2	0%	100%	17

Durations are measured by comparing “year of actual decertification” to “year of required decertification” based on the maximum duration limit and/or the year identified in the TIF plan as the maximum. Early decertifications may be voluntary or may be required by the Six-Year Rule in statute. Year of required decertification is self-reported by the development authority.

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 duration limit, and the location of the district. In 2015, approximately \$194 million of tax increment revenue was generated statewide. Although most districts are located in Greater Minnesota, approximately \$162 million of tax increment, or 83 percent, was generated in the Metro Area. (See Figure 12.)

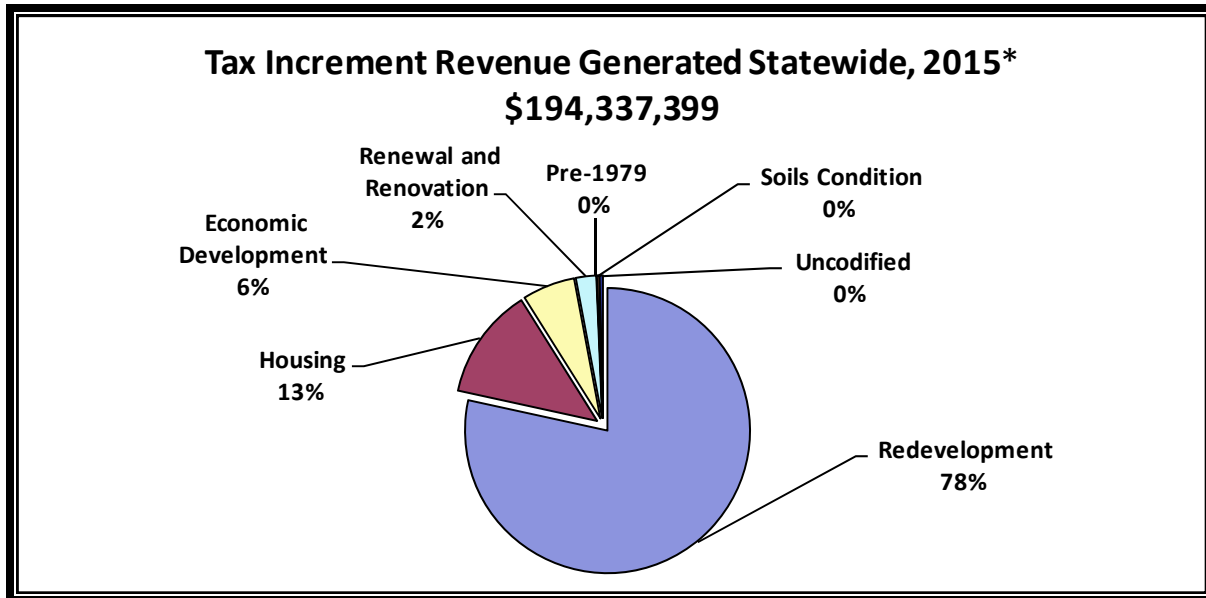
Figure 12.

Revenue Generated by Type; Statewide, Greater MN, & Metro Area; 2015			
Type of District	Statewide	Greater MN	Metro Area
Redevelopment	\$ 152,390,730	\$ 17,084,174	\$ 135,306,556
Housing	\$ 24,592,247	\$ 9,130,891	\$ 15,461,356
Economic Development	\$ 11,591,880	\$ 6,093,884	\$ 5,497,996
Renewal and Renovation	\$ 4,482,568	\$ 316,474	\$ 4,166,094
Pre-1979	\$ -	\$ -	\$ -
Soils Condition	\$ 546,359	\$ 43,402	\$ 502,957
Uncodified	\$ 733,615	\$ -	\$ 733,615
Total	\$ 194,337,399	\$ 32,668,825	\$ 161,668,574

In 2015, redevelopment districts made up 48 percent of the TIF districts statewide and generated 78 percent, or \$152 million, of total tax increment revenue. Figure 13 illustrates the tax increment revenue generated by type of district.

³⁴ The durations listed are the number of years after first receipt of tax increment that a district may collect. The year of first receipt is an additional year of tax increment for each type of district.

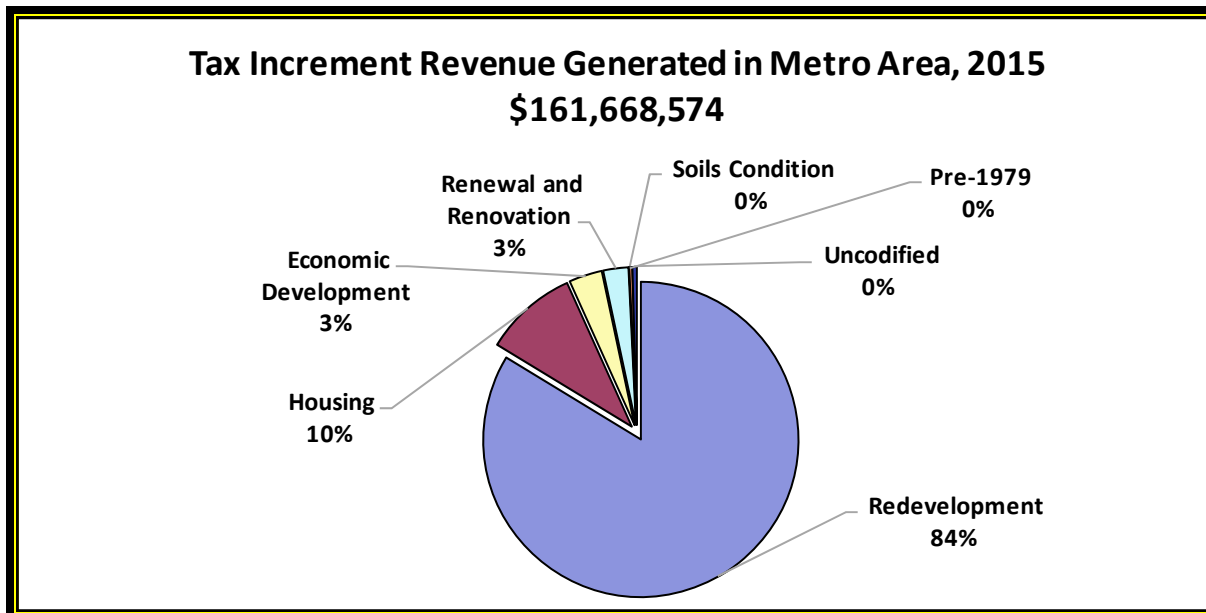
Figure 13.



*Due to rounding, the sum of the percentages is less than 100 percent.

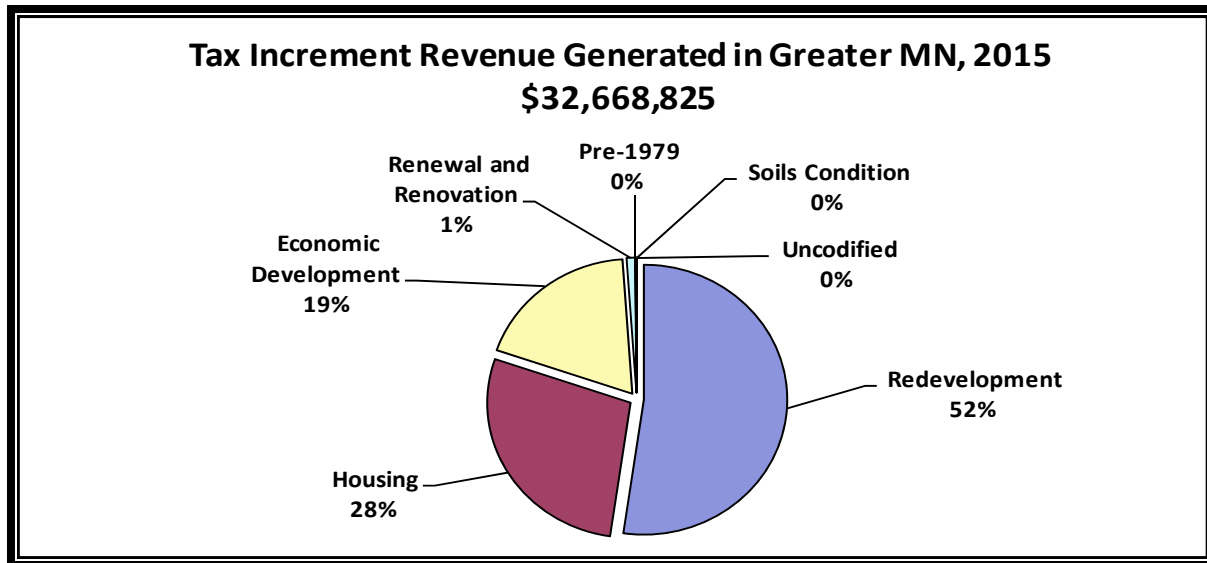
In the Metro Area, redevelopment districts accounted for 60 percent of districts but generated 84 percent of the tax increment revenue. Housing and economic development districts made up about a third of Metro Area districts but generated about 13 percent of the tax increment revenue. (See Figure 14.)

Figure 14.



In Greater Minnesota, although redevelopment districts accounted for 41 percent of districts, they generated 52 percent of tax increment revenue. Housing and economic development districts made up 58 percent of Greater Minnesota districts, and they generated 47 percent of the tax increment revenue. (See Figure 15.)

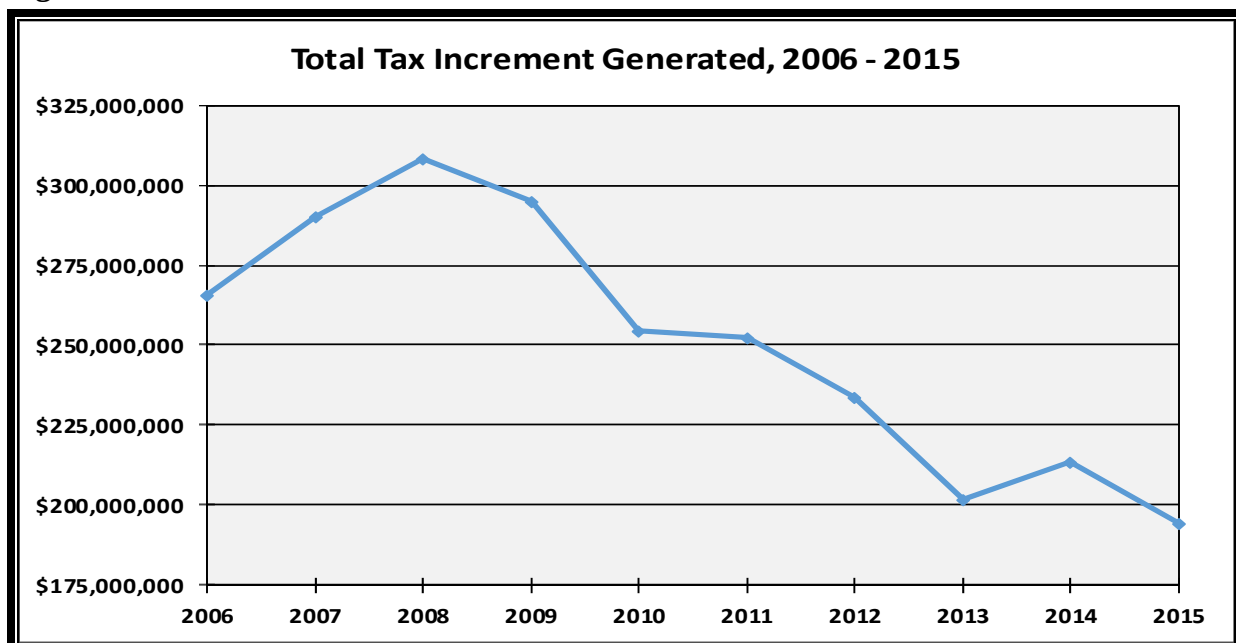
Figure 15.



Tax Increment Revenue Trends

Looking at the ten-year period from 2006 to 2015, the amount of tax increment revenue generated statewide has declined in every year since 2008, except in 2014, and has dropped from a high of \$307.8 million in 2008 to a ten-year low of \$194.3 million in 2015. (See Figure 16.)

Figure 16.



Returned Tax Increment

In 2015, development authorities returned \$24,740,123 in tax increment revenue to county auditors for redistribution as property taxes to the city, county, and school district. Tax increment revenue must be returned when a district receives excess tax increment revenue (increment in excess of the amount authorized in the TIF plan for expenditures) or when tax increment revenue is improperly received (such as increment received after the district should have been decertified) or spent (such as for purposes not permitted by law).

Reported Debt

Tax increment is property tax revenue generated from new development and is used primarily to pay for acquisition and site improvement costs necessary for new development to begin. Tax increment revenue, however, is not generated until after the new development is completed and assessed and property taxes are 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 ultimately absorbs the loss. Debt obligations, how these obligations are secured, and who assumes the risk are all issues in financing economic development.

Bonds are issued by a municipality or development authority usually to finance development activity, like land acquisition, site improvements, and public utility costs. The TIF Act defines bonds broadly to include:³⁵

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

General Obligation Bonds – A GO 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

³⁵ See Minn. Stat. § 469.174, subd. 3.

writing and include, at a minimum, the principal amount, the interest rate, and maximum term.³⁶ The interfund loan may be forgiven if the tax increment generated is not sufficient to repay the interfund loan.

Pay-As-You-Go Obligations – With a PAYG obligation, 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. 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, including those for which tax increment may be pledged to pay the required debt service payments.

In 2015, there was a total of nearly \$1.7 billion of outstanding debt associated with TIF districts. PAYG obligations made up 55 percent of the debt reported. GO bonds, which are secured by the municipalities' full faith and credit, made up about 24 percent of the total debt. Revenue bonds and interfund loans from non-tax increment accounts made up nine and ten percent, respectively, of total debt, while other bonds and interfund loans from other TIF districts made up the rest.

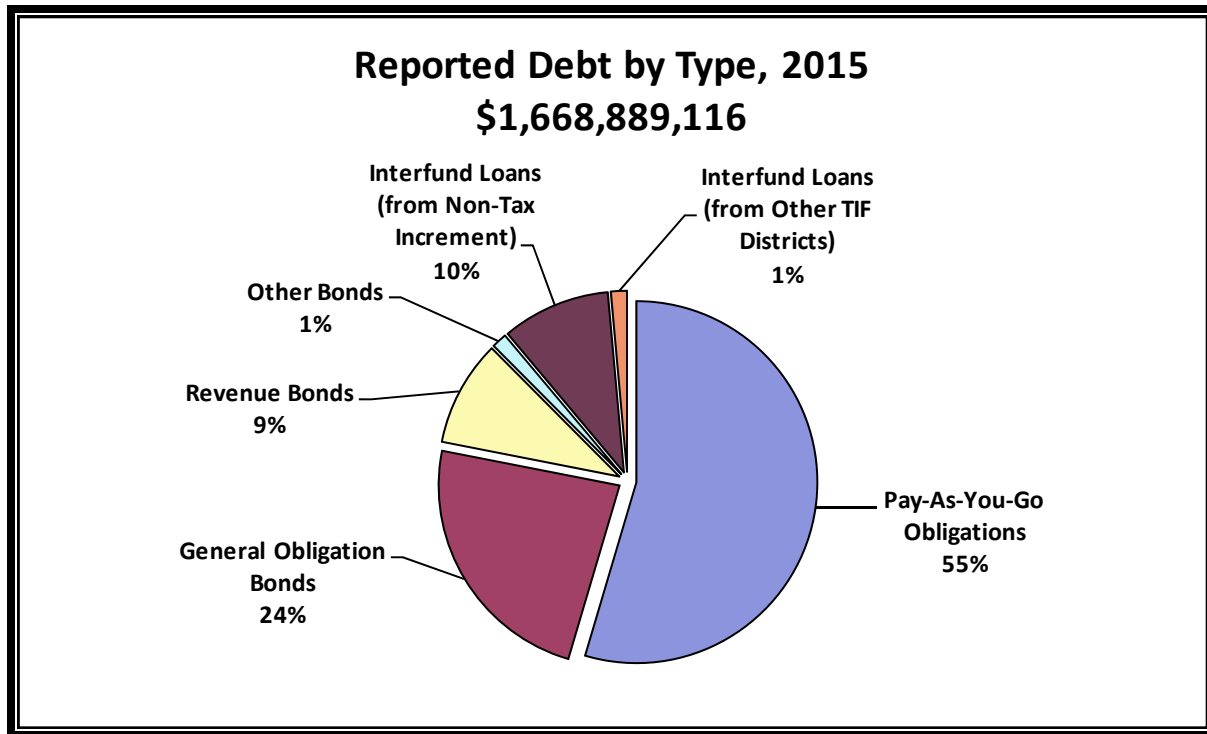
Figures 17 and 18 show the types of debt obligations being used to finance improvements to be paid with tax increment revenue in 2015.

Figure 17.

Reported Debt by Type, 2015	
Type of Debt	Amount Outstanding
Pay-As-You-Go Obligations	\$910,811,386
General Obligation Bonds	\$392,317,975
Revenue Bonds	\$157,823,307
Other Bonds	\$22,494,034
Interfund Loans (from Non-Tax Increment)	\$161,577,761
Interfund Loans (from Other TIF Districts)	\$23,864,653
Total	\$1,668,889,116

³⁶ Minn. Stat. § 469.178, subd. 7.

Figure 18.



FINDINGS AND RESPONSES

The OSA oversees TIF and conducts reviews on the use of TIF by development authorities. Communication between the OSA and the development authorities often resolves issues identified in these reviews. Proactive steps by an authority to remedy potential problems generally eliminates the need for the OSA to make formal findings and pursue compliance remedies.

State law requires the OSA to provide a summary of the responses to notices of noncompliance it received from the municipalities and copies of the responses themselves to the chairs of the legislative committees with jurisdiction over tax increment financing.³⁷ The OSA did not have to issue any Final Notices of noncompliance during 2016.

³⁷ Minn. Stat. § 469.1771, subd. 1(c).