

State of Minnesota



Office of the State Auditor

Julie Blaha
State Auditor

Tax Increment Financing Legislative Report

TIF Reports for the Year Ended December 31, 2018
TIF Reviews Concluded for the Year Ended December 31, 2019

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 100 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 Minnesota's local 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.

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Tax Increment Financing Legislative Report

TIF Reports for the Year Ended December 31, 2018
TIF Reviews Concluded for the Year Ended December 31, 2019



March 5, 2020

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TAX INCREMENT FINANCING LEGISLATIVE REPORT

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Office of the State Auditor Initial Notice of Noncompliance – City of Crosby
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EXECUTIVE SUMMARY

Highlights and Trends

- In 2018, approximately \$230 million of tax increment revenue was generated statewide, a 14 percent increase from 2017. The 2018 total exceeds each of the last five years and is close to the 2012 level of tax increment revenue. (Pages 15 - 18)
- In 2018, 408 development authorities submitted reports to the OSA for 1,651 TIF districts. Changes in the total number of TIF district in recent years have been modest and 2018 saw almost no change. (Pages 9 - 11)
- The uptick in number of TIF districts decertified in 2018 puts decertifications slightly ahead of new certifications, but the convergence in the trends of both, suggests the overall volume of TIF districts may be stabilizing. (Page 13)
- From 2014 to 2018, housing districts decertified early more frequently than other district types, with 81 percent decertifying early. Redevelopment districts decertified early 60 percent of the time (a rate that seems to have increased over recent years). Economic development districts, with their shorter maximum durations, decertified early only 23 percent of the time. (Page 15)
- In 2018, development authorities returned \$6,146,911 in tax increment revenue to county auditors for redistribution as property taxes to the cities, counties, and school districts. (Page 19)
- In 2018, there was a total of nearly \$1.7 billion of outstanding debt associated with TIF districts. Pay-as-you-go (PAYG) obligations are the predominant type of debt, making up 58 percent of the debt reported. General obligation (GO) bonds comprised about 20 percent of the total debt. Interfund loans (mostly from non-tax increment accounts) made up over 12 percent of total debt. (Page 20)

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SCOPE AND METHODOLOGY

This 24th Annual Legislative Report (Report) was compiled from information received from development authorities currently exercising tax increment financing (TIF) powers in Minnesota. The Report summarizes information reported by 408 development authorities for 1,651 districts for the calendar year ended December 31, 2018.¹ TIF reporting for the year ended December 31, 2018, was required for a total of 1,655 TIF districts from 412 development authorities, but four reports were not received and are therefore not reflected in the data.²

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 2019. This Report is provided annually to the chairs of the legislative committees with jurisdiction over TIF matters.³

In 1995, the Minnesota Legislature assigned legal compliance oversight for TIF to the OSA.⁴ 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).⁵

The TIF Act requires development authorities to file with the OSA annual financial reports for each of their TIF districts. Reports must be submitted on or before August 1 of each year, starting the year in which a district is certified.⁶ 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.⁷ Because new certifications and decertifications are not always reported in a timely manner, the data for prior years contained in this Report may differ from data presented in previous reports.

¹ The summarized information reflects reported activity as of the publication of this report. Late and resubmitted reports may result in slight changes. Likewise, prior year data in some of the tables and charts may have changed slightly from previously published reports.

² Hills, Hoffman EDA, Ironton, and St. Clair each failed to report for one district for 2018. Hills and St. Clair have outstanding reports for previous years. The TIF Act provides for tax increment to be withheld when reports are not filed.

³ Minn. Stat. § 469.1771, subd. 1(c).

⁴ 1995 Minn. Laws, ch. 264, art. 5, § 34. The OSA's oversight of TIF began in 1996.

⁵ 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.

⁶ Minn. Stat. § 469.175, subd. 6.

⁷ Minn. Stat. § 469.175, subd. 6b.

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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 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.

TIF is not a tax reduction; taxes are paid on the full taxable value. The original taxable value continues to be part of the tax base that supports the tax levies of the city, county, school district, and other taxing jurisdictions.⁸ The new value from development activity is “captured” from the tax base, and the taxes paid on the captured value are tax increments reserved for financing qualifying costs that make the new development possible.

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.⁹

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 TIF district is created by a development authority and subject to the approval of the municipality if the authority is not the municipality. An authority can be a city, an entity created by a city, or an entity created by a county.¹⁰ Development authorities derive their authority to use TIF and assist projects 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.¹¹ These acts govern the development projects, whereas the TIF Act governs the use of tax increments. Project areas can be larger than a TIF district and can contain multiple TIF districts.

TIF districts are terminated, or decertified, when they reach the earliest of the following times: (1) the applicable maximum duration limit provided in the TIF Act for each type of TIF district; (2) a shorter duration limit established by the authority in the TIF plan; (3) upon defeasing, paying, or setting aside sufficient increment to pay all in-district obligations pursuant to the

⁸ A hazardous substance subdistrict may capture original value due to the higher expense involved in cleaning up hazardous substances. Minn. Stat. §§ 469.174, subds. 7(b) and 23; 469.175, subd. 7.

⁹ Minn. Stat. § 469.175, subd. 3(b)(2). This is often referred to as the “But-For Test,” (i.e. development would not happen but for the use of TIF).

¹⁰ Counties and towns may also be development authorities in certain instances.

¹¹ Minn. Stat. § 469.174, subd. 2 (listing the statutory citations for the various development acts).

Six-Year Rule; or (4) upon written request by the authority to the county auditor to decertify the district.¹² Decertification ends the collection of increment, but many districts remain active and continue to report until all remaining tax increment revenues have been expended or returned to the county auditor.

Development Authorities

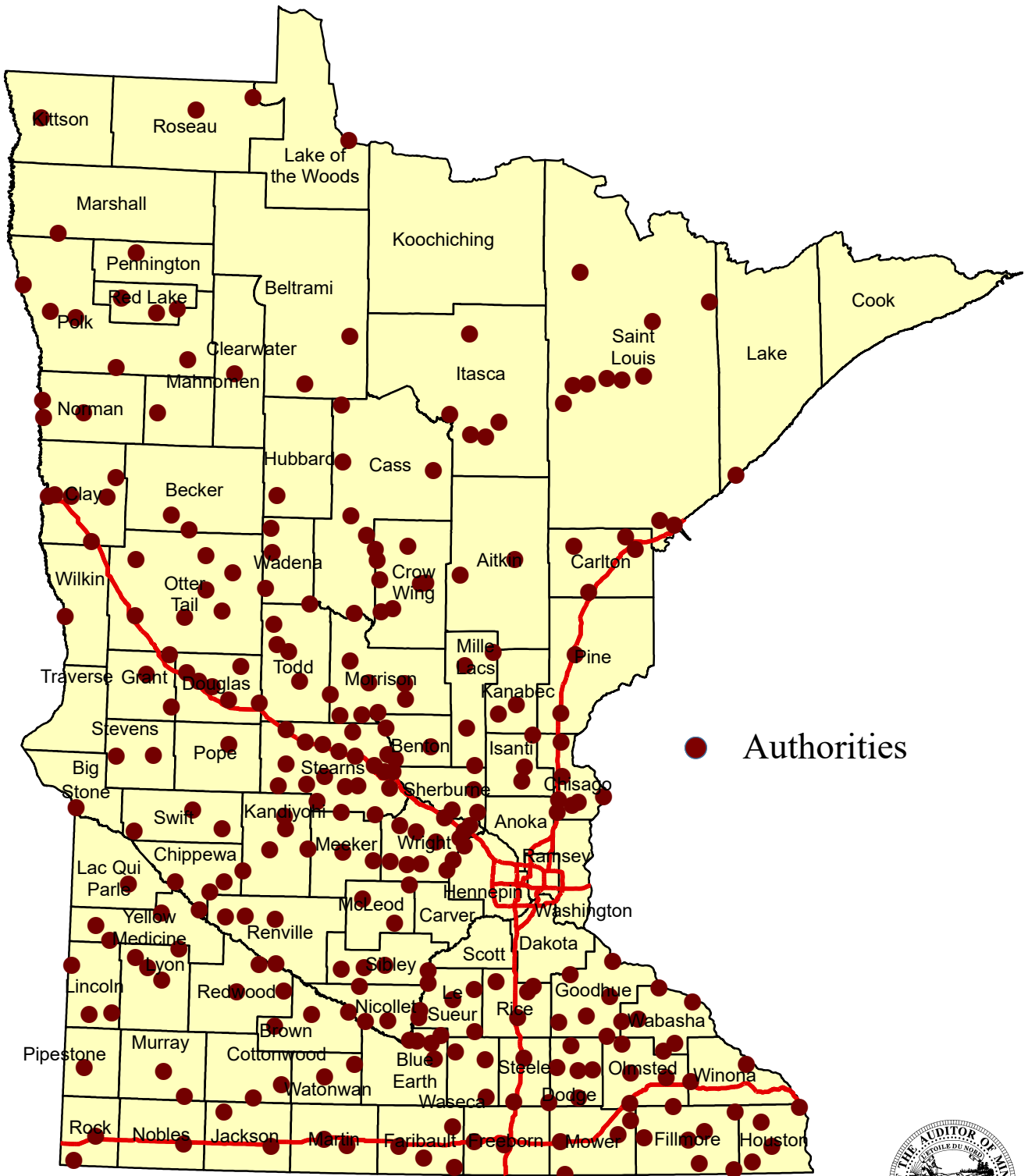
In 2018, there were 412 development authorities in Minnesota actively using TIF, which is three less than the number active in 2017. Eight authorities became inactive, four inactive development authorities became active again, and one new city development authority approved their first TIF district.

In 2018, of the 412 active development authorities, 311 were located in Greater Minnesota and 101 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 development authority using TIF.¹³

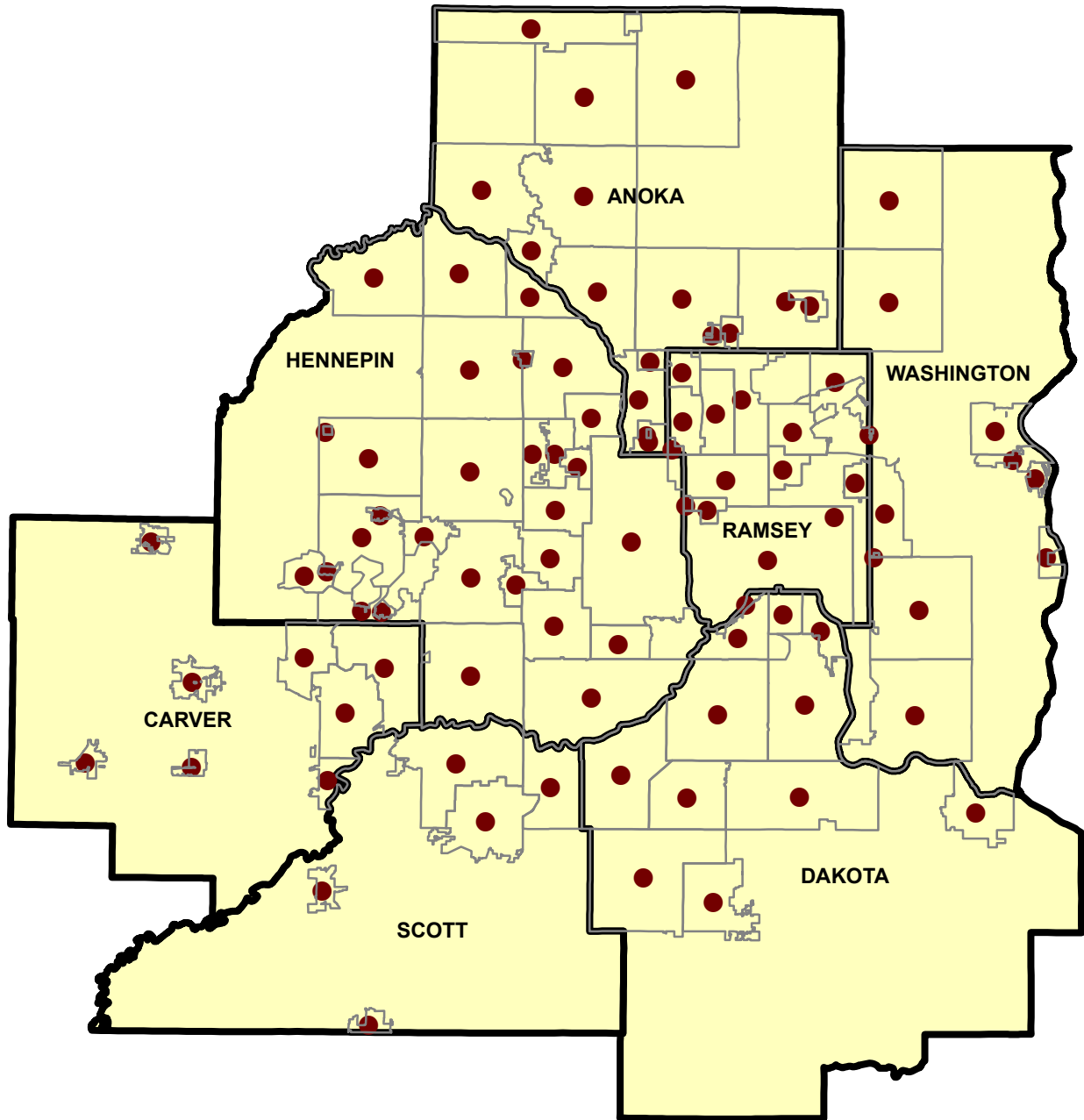
¹² Minn. Stat. § 469.177, subd. 12.

¹³ This map does not include the following joint authorities: Bluff Country HRA and Southeast Minnesota Multi-County HRA.

Development Authorities in Greater Minnesota, 2018



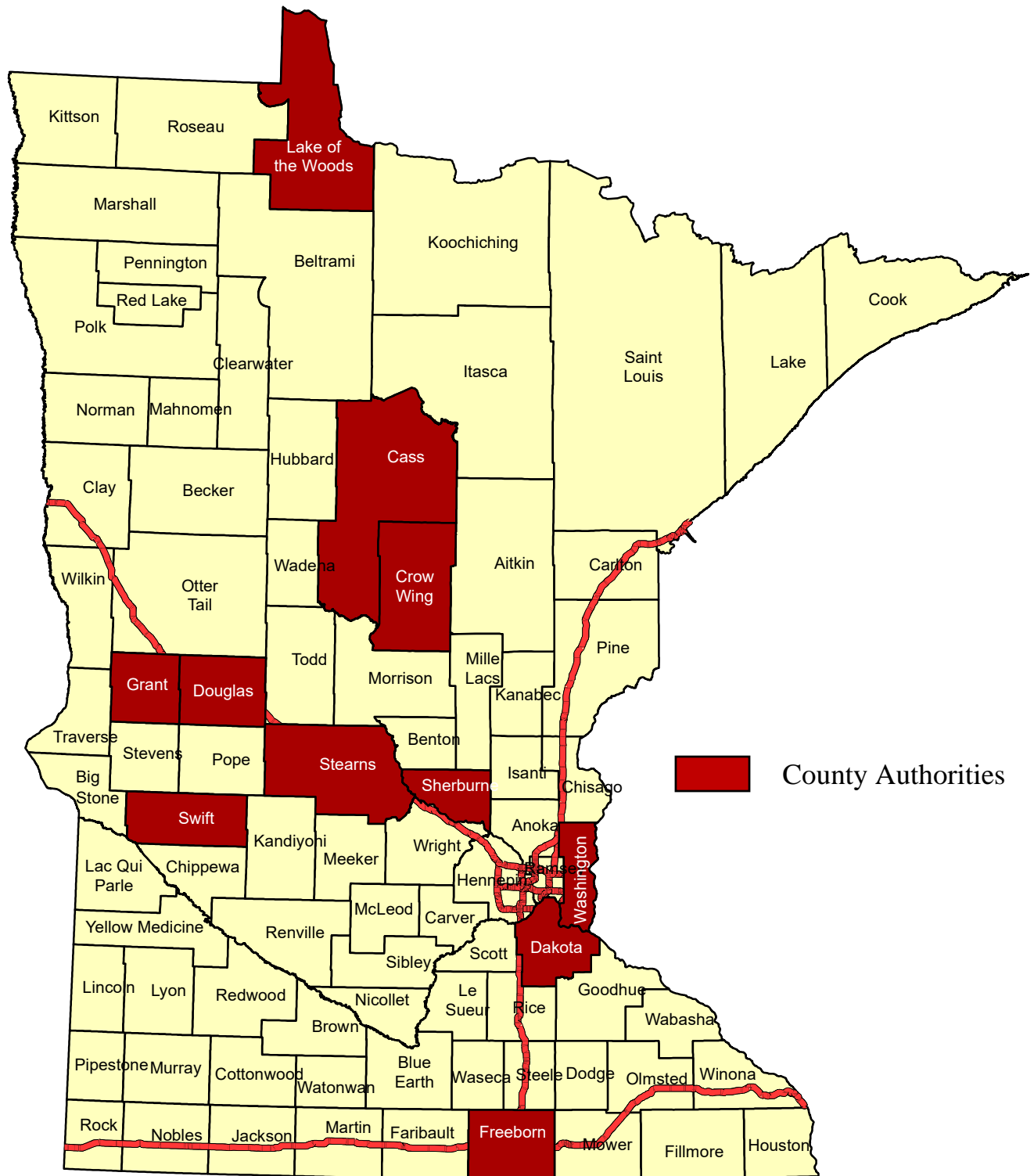
Development Authorities in Metro Area, 2018



● Authorities



County Development Authorities, 2018



County Authorities



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.¹⁴ 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.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, must 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

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 certain blighted conditions.¹⁹ Redevelopment districts are designed to conserve the use of existing utilities, roads, and other public infrastructure, and to discourage urban sprawl. Qualifying tax

¹⁴ Minn. Stat. § 469.175, subd. 1.

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

¹⁹ Minn. Stat. § 469.174, subd. 10(a).

increment 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.²⁰

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; (3) preserve and enhance the tax base; or (4) satisfy requirements of a workforce housing project.²¹ Tax increment revenue from economic development districts is used primarily to assist manufacturing, warehousing, storage and distribution, research and development, telemarketing, and tourism, but can also be used for workforce housing projects (as of 2017 and sunset in 2027).²² Use of tax increment in these districts for commercial development (retail sales) is excluded by law, except in “small cities.”²³ Economic development districts are short-term districts with a limit of eight years after first receipt of tax increment.²⁴

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.²⁵

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.²⁶

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

²⁰ 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.

²¹ Minn. Stat. § 469.174, subd. 12.

²² Minn. Stat. § 469.176, subd. 4c, identifies allowable purposes. Minn. Stat. § 469.175, subd. 3(g), contains the sunset, barring districts from being certified for requests made after June 30, 2027.

²³ Minn. Stat. § 469.174, subd. 27 (defining small cities as, generally, those with a population of 5,000 or less located ten miles or more from a city of 10,000 or more), and Minn. Stat. § 469.176, subd. 4c.

²⁴ 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.

²⁵ 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.

²⁶ 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.

remediation must exceed the fair market value of the land before the remediation is completed.²⁷ The statutory maximum duration limit for these districts is 20 years after first receipt of tax increment.²⁸

Pre-1979 Districts – These districts were created prior to the 1979 TIF Act and have all been decertified.²⁹

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, Minneapolis, and St. Paul, 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.³⁰ 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).³¹ The HSS captures additional increment by reducing the original net tax capacity (ONTC) by the estimated costs of the removal actions.³² 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.³³ 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.³⁴

Special Legislation

Special legislation allowing exceptions to the TIF Act for individual districts is enacted with some frequency. As of 2018, 114 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 limit 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.

²⁷ Minn. Stat. § 469.174, subd. 19.

²⁸ 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.

²⁹ Minn. Stat. § 469.176, subd. 1c. Princeton’s TIF 1 Downtown Redevelopment District is the last pre-1979 district reporting.

³⁰ Minn. Stat. § 469.174, subs. 16 and 23; Minn. Stat. § 469.175, subd. 7.

³¹ Minn. Stat. § 469.174, subd. 17.

³² Minn. Stat. § 469.174, subd. 7(b).

³³ Minn. Stat. § 469.176, subd. 4e.

³⁴ Minn. Stat. § 469.176, subd. 1e.

Number of TIF Districts

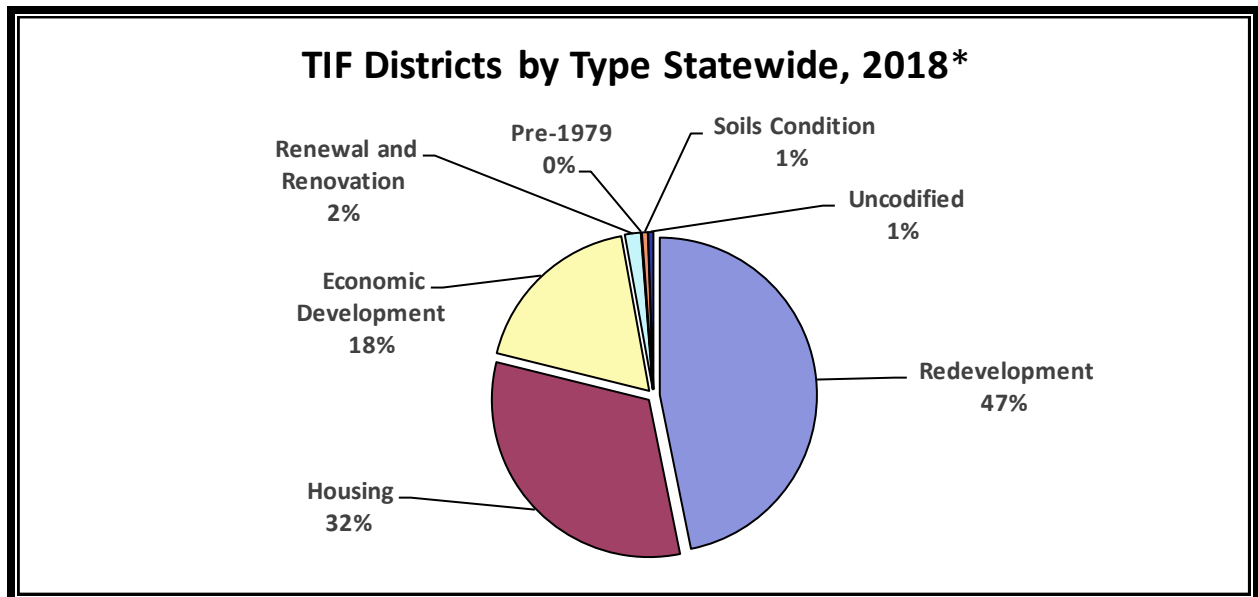
In 2018, 408 development authorities submitted reports to the OSA for 1,651 TIF districts. Of these districts, 1,048 (63 percent) were located in Greater Minnesota and 603 (37 percent) were located in the Metro Area.³⁵ (See Figure 1.)

Figure 1.

TIF Districts by Type: Statewide, Greater MN, & Metro Area; 2018			
Type of District	Statewide	Greater MN	Metro Area
Redevelopment	773	423	350
Housing	529	364	165
Economic Development	302	248	54
Renewal and Renovation	27	9	18
Pre-1979	1	1	0
Soils Condition	10	3	7
Uncodified	9	0	9
Total	1,651	1,048	603
Hazardous Substance Subdistricts	23	2	21

In 2018, redevelopment districts made up 47 percent of all TIF districts statewide, followed by housing districts at 32 percent, and economic development districts at 18 percent. Combined, these three types made up 97 percent of all districts. (See Figure 2.)

Figure 2.

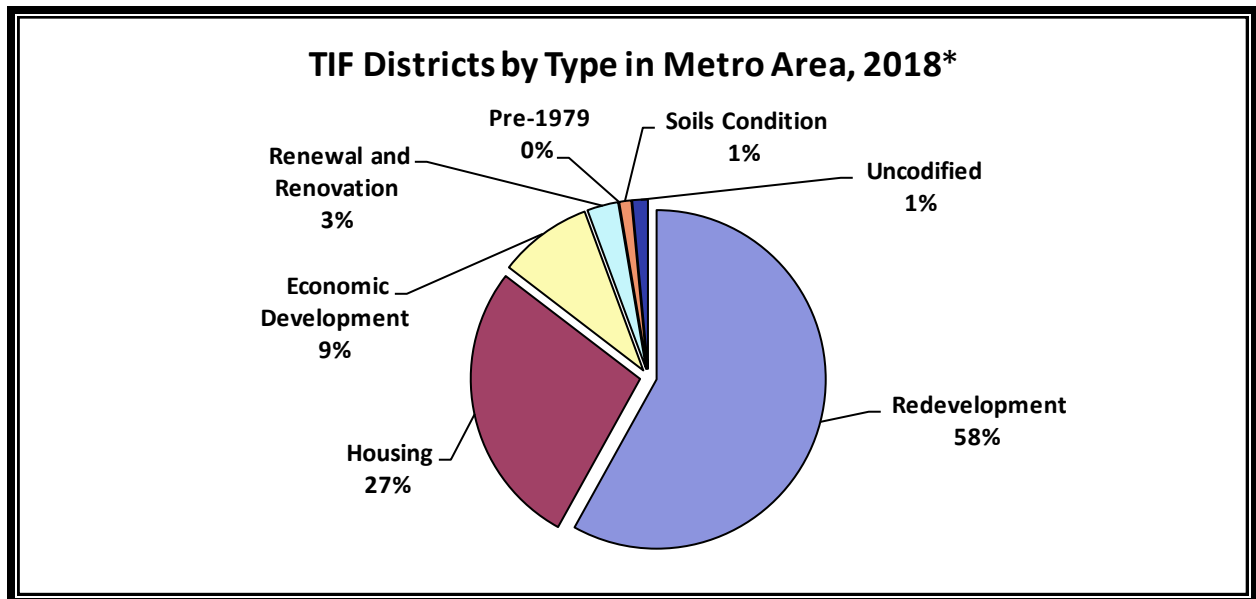


*Due to rounding, the sum of the percentages does not equal 100 percent.

³⁵ The number of districts being reported includes districts that are decertified but must continue to report due to remaining tax increment assets.

In the Metro Area, redevelopment districts made up 58 percent of all districts, followed by housing districts at 27 percent and economic development districts at nine percent. (See Figure 3.)

Figure 3.



*Due to rounding, the sum of the percentages does not equal 100 percent.

In Greater Minnesota, redevelopment districts were also the largest type of district, again 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.

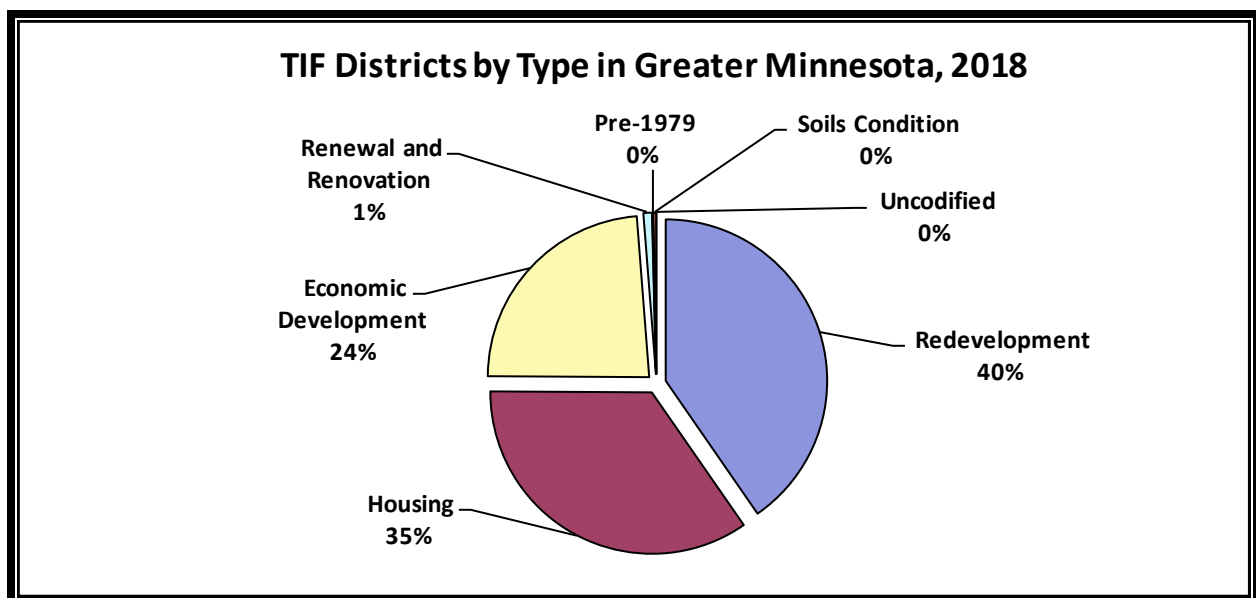
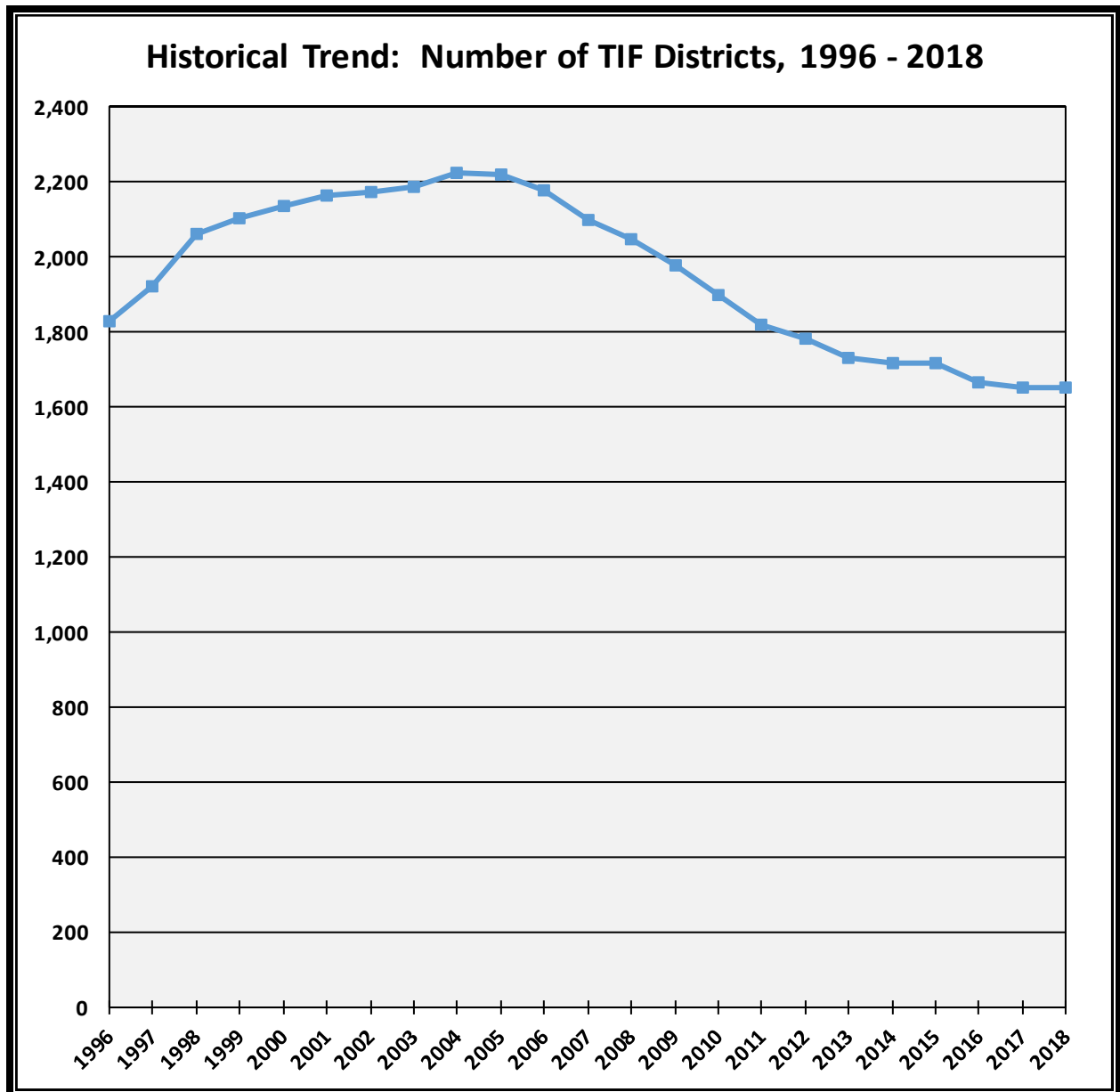


Figure 5 shows the total number of districts reporting to the OSA for each year since 1996, which is when the OSA began oversight of TIF. Between 1996 and 2004, the number of TIF districts increased each year. Since 2004, the total number has declined each year, except for a very slight increase of two districts in 2015. This decline reflects, among other things, large numbers of older districts created in the wake of the 1979 TIF Act (and prior to moderating reforms in 1990) reaching their statutory duration limits. Changes in recent years have been more modest, and 2018 saw almost no change.

Figure 5.



New Districts Certified

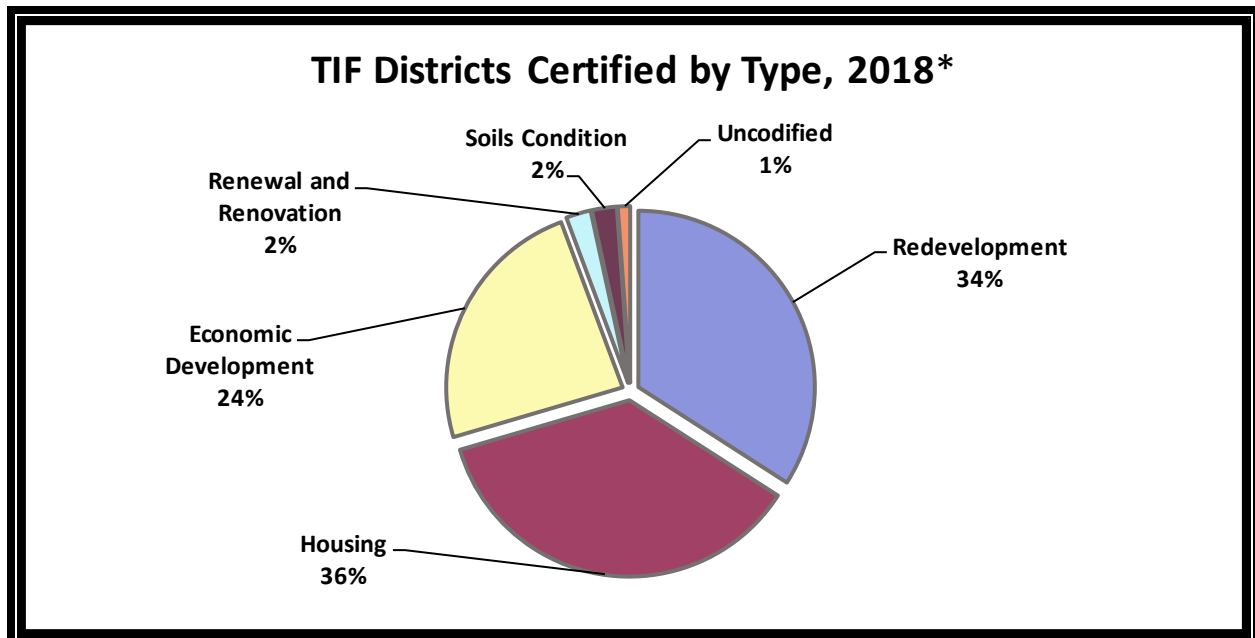
In 2018, 88 new TIF districts were certified, just one less than the number of new districts certified in 2017. Figure 6 shows new district certifications by type over the past five years.

Figure 6.

Number of TIF Districts Certified by Type, 2014 - 2018					
	2014	2015	2016	2017	2018
Redevelopment	34	38	29	33	30
Housing	27	24	18	28	32
Economic Development	35	33	21	27	21
Renewal and Renovation	1	0	3	1	2
Soils Condition	1	0	1	0	2
Uncodified	0	0	1	0	1
Total	98	95	73	89	88

In 2018, housing districts supplanted redevelopment districts for the largest portion of all new districts at 36 percent, with redevelopment districts following closely at 34 percent. Economic development districts made up 24 percent, with other types making up the remainder. (See Figure 7.)

Figure 7.



*Due to rounding, the sum of the percentages does not equal 100 percent.

Districts Decertified

Unlike the full discretion involved in creating new districts, decertifications are more often the result of duration limits (either statutory or plan-specified), or the Six-Year Rule, which requires decertification once all in-district obligations have been satisfied.³⁶

In 2018, 90 TIF districts were decertified, an increase of 14 percent from 2017. Figure 8 shows decertifications by type over the last five years.

Figure 8.

Number of TIF Districts Decertified by Type, 2014 - 2018					
	2014	2015	2016	2017	2018
Redevelopment	72	62	59	36	37
Housing	26	38	32	12	23
Economic Development	27	19	23	30	29
Renewal and Renovation	5	1	1	1	1
Soils Condition	1	0	0	0	0
Uncodified	1	0	0	0	0
Pre-1979	0	0	0	0	0
Total	132	120	115	79	90

In 2018, 41 percent of decertified districts were redevelopment districts, while economic development and housing districts accounted for 32 percent and 26 percent, respectively. (See Figure 9.)

The uptick in decertifications in 2018 puts decertifications slightly ahead of new certifications, but the convergence in the trends of both, suggests the overall volume of TIF districts may be stabilizing. (See Figure 10.)

The drop in redevelopment and housing district decertifications in the last two years relative to the previous three years likely reflects the change in the volume of TIF districts created before and after restrictions enacted in (and around) 1990. Most districts created prior to that time reached their maximum duration by 2016.

The Six-Year Rule, with its early decertification requirement, was enacted in 1990 for districts that followed. Its impact is reflected, in part, in Figure 11, which compares, for districts that decertified from 2014 through 2018, the number of districts that decertified early versus those that ran for their full statutory maximum duration.

³⁶ 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 9.

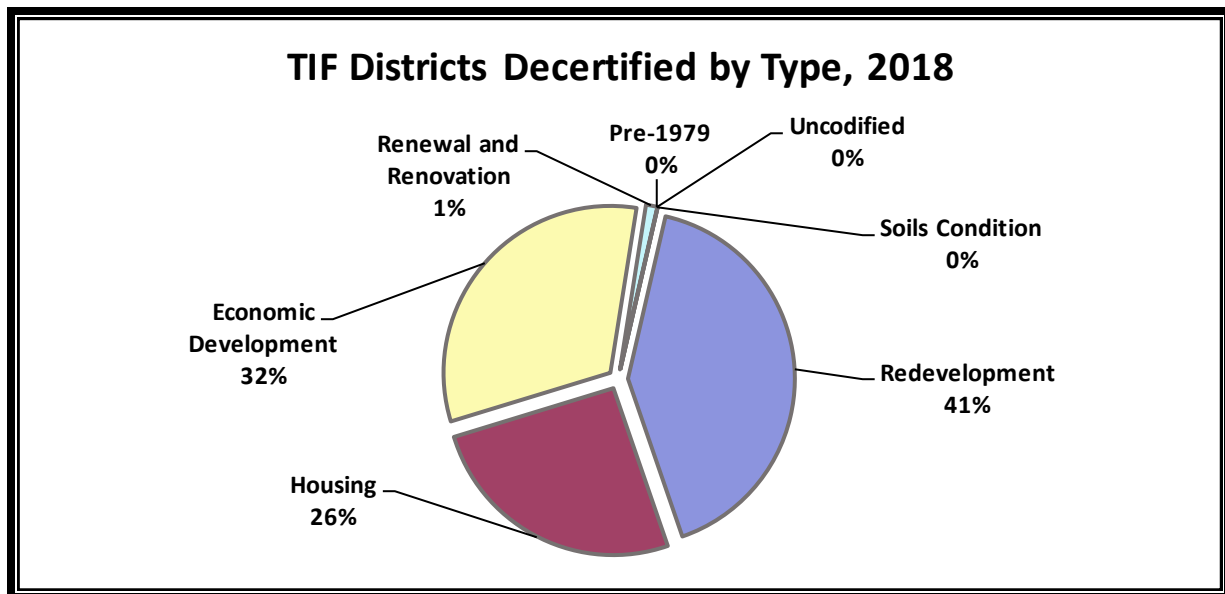


Figure 10.

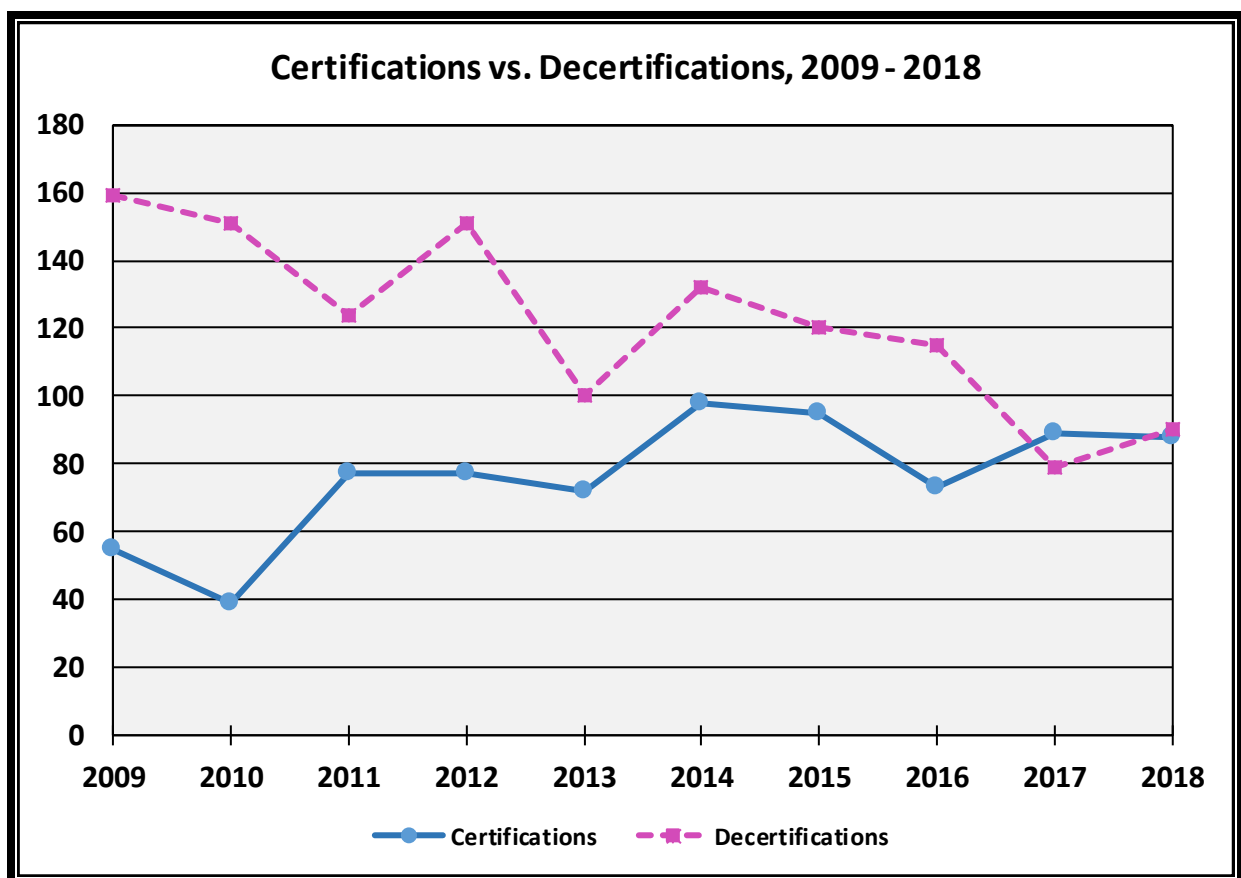


Figure 11.

Decertifications 2014 - 2018: Full Duration vs. Early Decertification*				
District Type / (Max Duration)	Decertified Districts	Lasted Full Duration	Decertified Early	
			Percent	Average Years
Redevelopment (25 years)	266	40%	60%	10
Housing (25 years)	131	19%	81%	11
Economic Development (8 years)	128	77%	23%	4
Renewal and Renovation (15 years)	9	67%	33%	9
Soils Condition (20 years)	1	0%	100%	14

*Durations are measured by comparing “year of actual decertification” to “year of required decertification” reported by the authority based on the statutory maximum duration limit or an earlier final year identified in the TIF plan. Early decertifications may be voluntary or may be required by the Six-Year Rule.

From 2014 to 2018, housing districts decertified early more frequently than other district types, with 81 percent decertifying early. Redevelopment districts decertified early 60 percent of the time (a rate that seems to have increased over recent years).³⁷ 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 10 years early, and housing districts decertified an average of 11 years early.

Tax Increment Revenue

In 2018, approximately \$230 million of tax increment revenue was generated statewide. Although most districts are located in Greater Minnesota, approximately \$195 million of tax increment, or 85 percent, was generated in the Metro Area. (See Figure 12.)

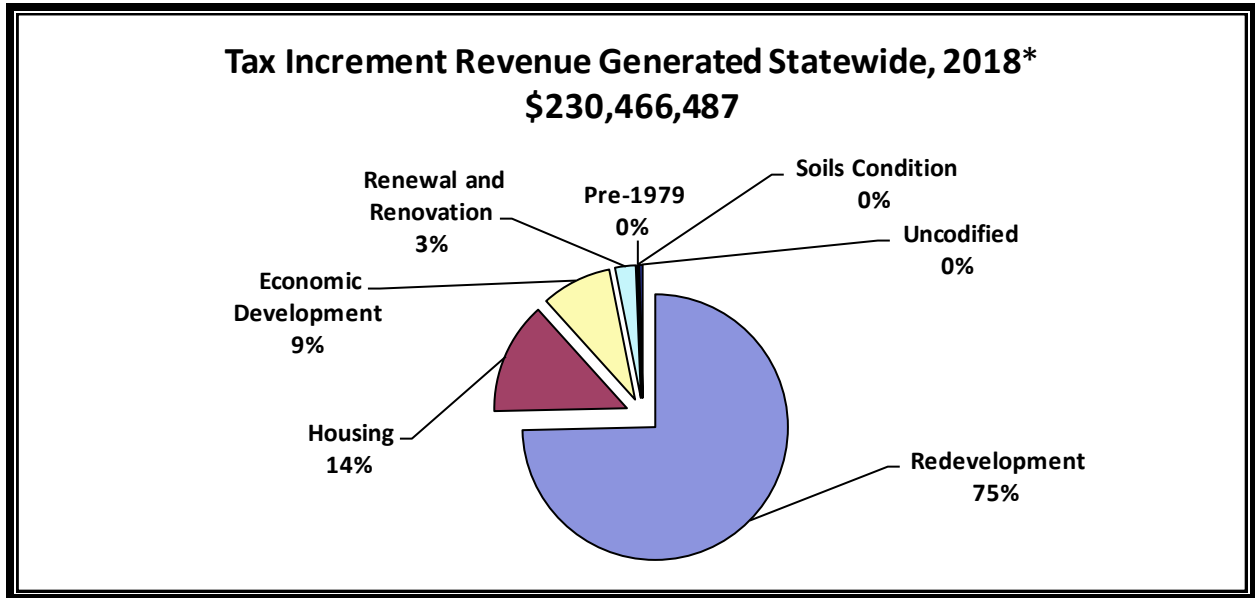
Figure 12.

Revenue Generated by Type: Statewide, Greater MN, & Metro Area; 2018			
Type of District	Statewide	Greater MN	Metro Area
Redevelopment	\$ 172,033,211	\$ 15,954,688	\$ 156,078,523
Housing	\$ 31,514,997	\$ 10,331,824	\$ 21,183,173
Economic Development	\$ 19,708,321	\$ 7,805,691	\$ 11,902,630
Renewal and Renovation	\$ 5,791,460	\$ 548,643	\$ 5,242,817
Pre-1979	\$ -	\$ -	\$ -
Soils Condition	\$ 490,526	\$ 51,496	\$ 439,030
Uncodified	\$ 927,972	\$ -	\$ 927,972
Total	\$ 230,466,487	\$ 34,692,342	\$ 195,774,145

³⁷ While not displayed herein, previous reports identified five-year rates of early decertification for redevelopment districts as 54 percent, 48 percent, 51 percent, and 54 percent, respectively, over the previous four years.

Figures 13, 14, and 15 illustrate the mixes of tax increment revenue generated in 2018 by type of district for the whole state, the Metro Area, and Greater Minnesota, respectively. Statewide, redevelopment districts made up 47 percent of the TIF districts but generated 75 percent of total tax increment revenue. This is driven by districts in the Metro Area, where redevelopment districts generated 80 percent of the tax increment revenue. By contrast, the distribution of tax increment revenue in Greater Minnesota is more similar to the distribution of the types of district, with a smaller but notable skew toward redevelopment districts.

Figure 13.



*Due to rounding, the sum of the percentages does not equal 100 percent.

Figure 14.

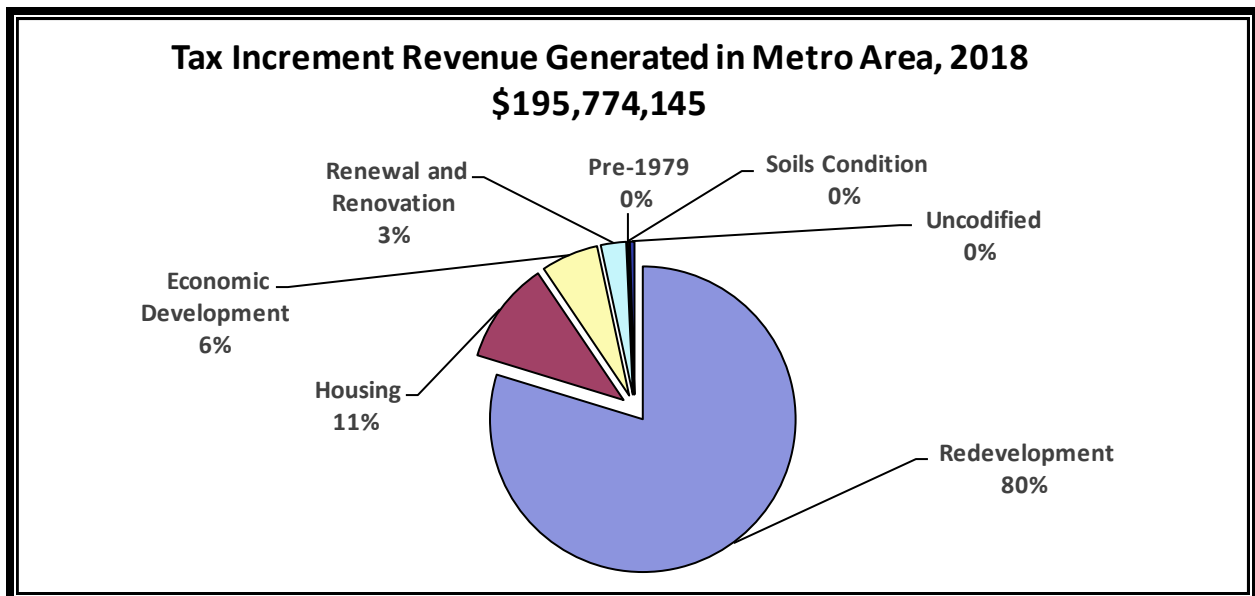
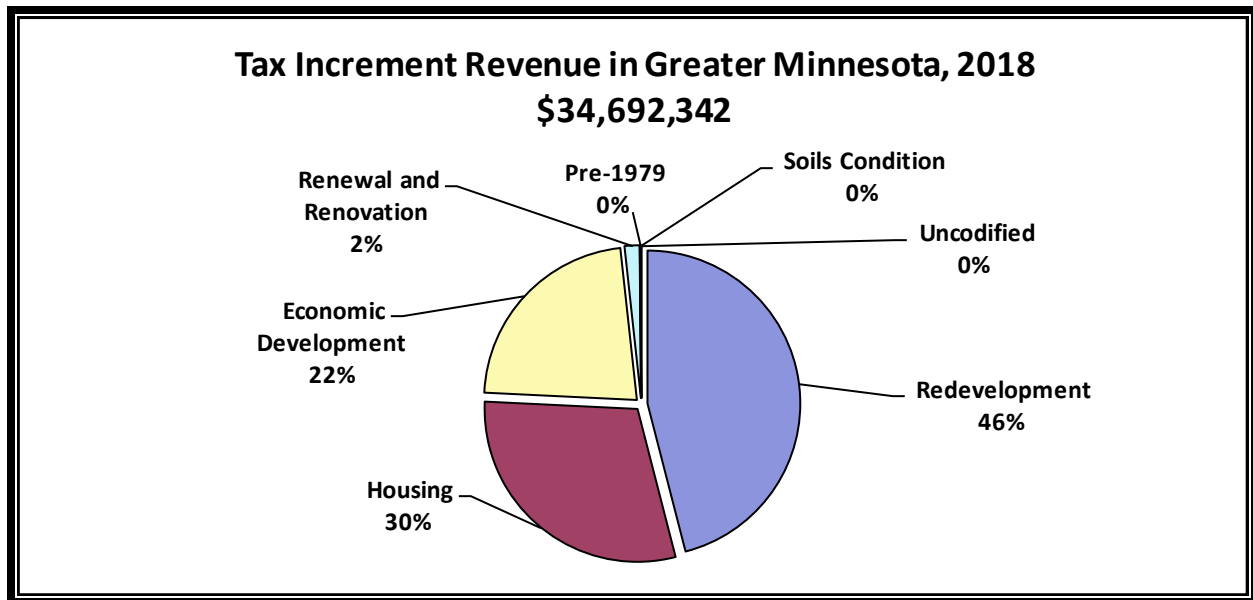


Figure 15.



In 2018, tax increment revenue increased 14 percent over the approximately \$202 million generated in 2017. As seen in Figure 16, the 2018 total exceeds each of last five years and is close to the 2012 level of tax increment revenue.

Figure 16.

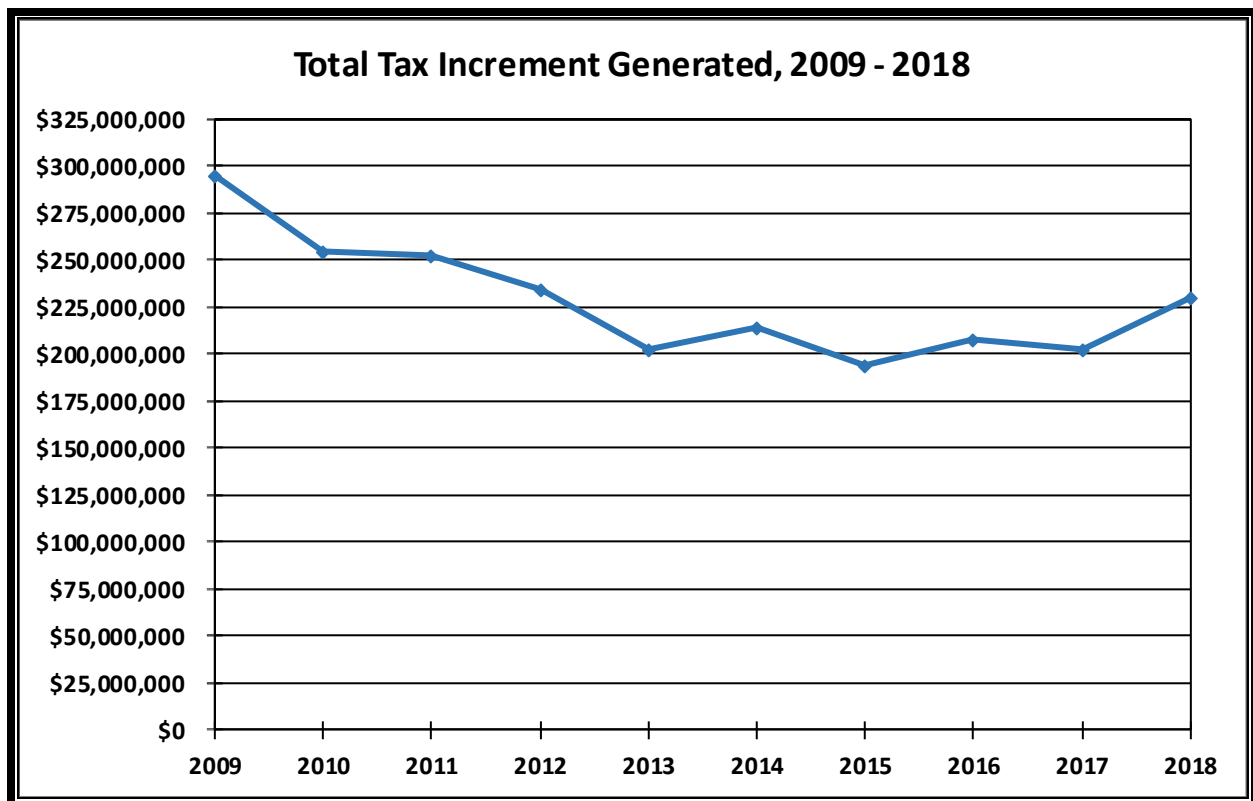
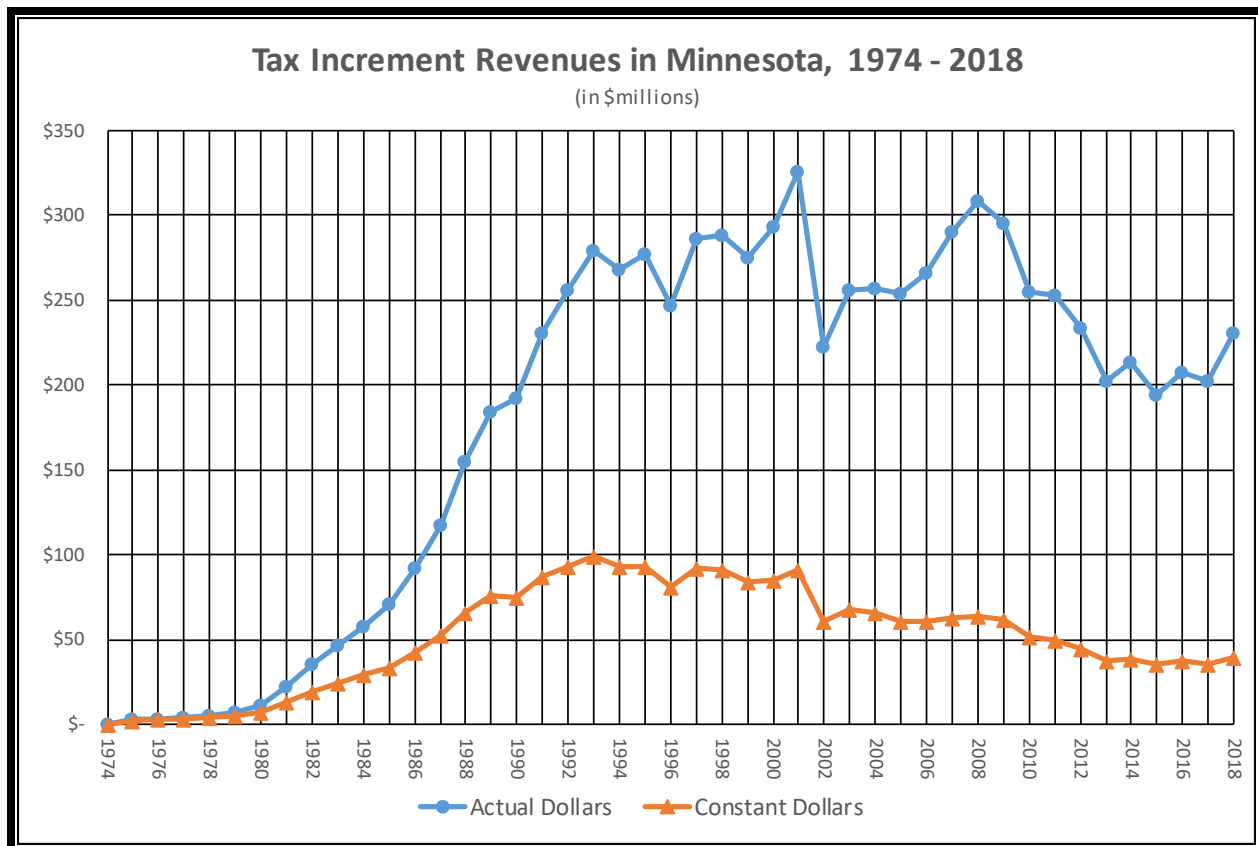


Figure 17 provides a longer view of tax increment revenue, illustrating the fully-recorded span of TIF usage in Minnesota, both in actual dollars and inflation-adjusted, or constant, dollars.³⁸ The substantial decline in revenue in 2002 reflects the impact of class rate reductions from the 2001 property tax reforms. Otherwise, actual tax increment revenues were generally rising until they reached a peak in 2008, just a few years after the number of districts peaked in 2004. The 2018 increase is the largest since 2003 in both actual and constant dollars. With most pre-1990 districts now decertified (and understanding that pre-1990 districts faced fewer restraints and were generally larger in scale), the scale of tax increment revenues in recent years could be representative of a new baseline for TIF activity going forward, as is particularly evident in terms of constant dollars.

Figure 17.



Sources: Minnesota Department of Revenue, *Property Taxes Levied in Minnesota*; 2003 Assessments, Taxes Payable 2004; Property Tax Bulletin No. 33; Table 22 (for 1995 and prior year actual dollars); and TIF annual reporting by development authorities to the OSA (for 1996-2018 actual dollars).³⁹ Constant dollars calculated by the OSA.

³⁸ “Inflation-adjusted” and “constant dollars” refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments setting 1974 as the base year (N.I.P.A. Table 1.1.9, October 2019).

³⁹ The actual dollars for 1995 and prior are the reported tax increment taxes payable, as compiled by the Department of Revenue from county reporting. This differs slightly from 1996 and later data, which reflects the tax increment revenues received by development authorities, as reported to the OSA. The drop in 1996 may reflect some of this discrepancy in the data, but the data is otherwise similar enough to illustrate the overall trends.

Returned Tax Increment

In 2018, development authorities returned \$6,146,911 in tax increment revenue to county auditors for redistribution as property taxes to the cities, counties, and school districts. 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 improperly spent (such as for purposes not permitted by law).

Reported Debt

Tax increment is used primarily to pay for the up-front qualifying costs (such as land acquisition, site improvements, and public utility costs) that make new development a reality. Tax increment revenue, however, is not generated until after the new development is completed, assessed, and property taxes are paid. Therefore, up-front qualifying costs are paid with debt obligations, or bonds. The types of bonds used, and the associated risk if tax increment revenues are insufficient to pay the bonds, are important topics in tax increment financing.

The TIF Act defines bonds broadly to include:⁴⁰

- 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 generally includes a pledge of only the tax increment revenues generated from the TIF district (and possibly other revenues like special assessments) 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 not later than 60 days after 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; and the terms may be modified or amended.⁴¹ The interfund loan may be forgiven if the tax increment generated is not sufficient to repay the interfund loan.

⁴⁰ See Minn. Stat. § 469.174, subd. 3.

⁴¹ Minn. Stat. § 469.178, subd. 7.

Pay-As-You-Go Obligations – With a PAYG obligation, 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 reimbursed from tax increments pursuant to the terms of the PAYG note. Generally, in PAYG financing, the developer or note holder accepts the risks, and will not be reimbursed in full if sufficient tax increments are not generated as anticipated.

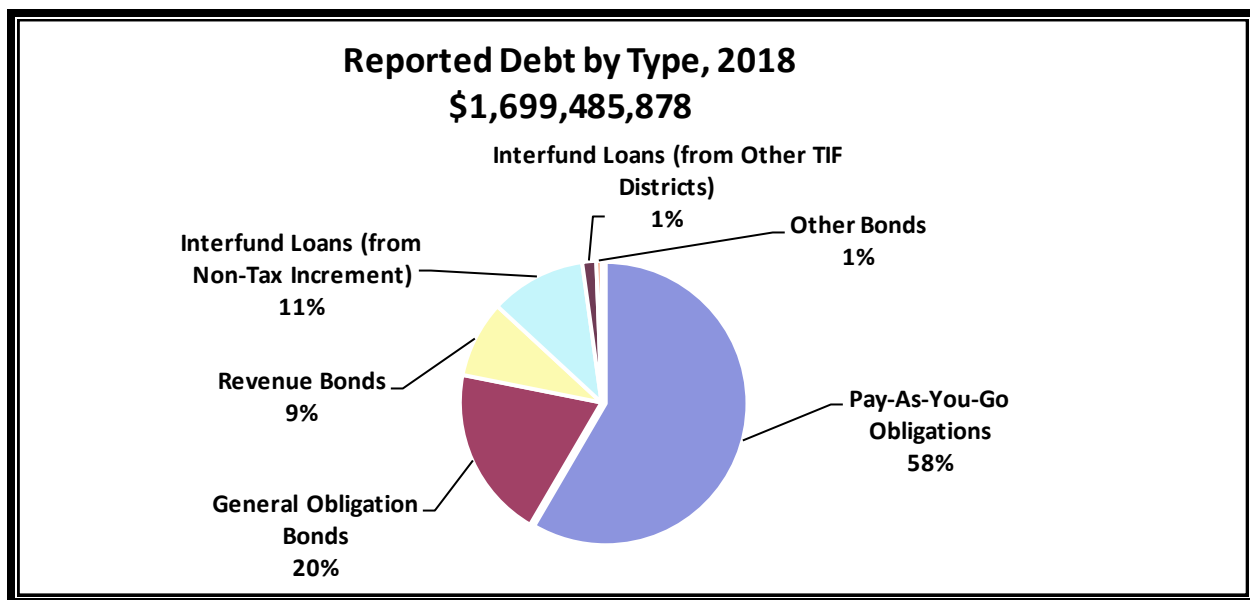
Other Bonds – Other bonds include various loans and other miscellaneous reported debts.

Figures 18 and 19 identify and illustrate the amount of debt by type of obligation for 2018. In 2018, there was a total of nearly \$1.7 billion of outstanding debt associated with TIF districts. PAYG obligations were the predominant type of debt, making up 58 percent of the debt reported. GO bonds comprised about 20 percent of the total debt. Interfund loans (mostly from non-tax increment accounts) made up over 12 percent of total debt. Revenue bonds made up nine percent of total debt, while other bonds made up the rest.

Figure 18.

Reported Amount of Debt by Type, 2018	
Type of Debt	Amount Outstanding
Pay-As-You-Go Obligations	\$992,831,975
General Obligation Bonds	\$334,794,962
Revenue Bonds	\$148,694,599
Interfund Loans (from Non-Tax Increment)	\$185,747,987
Interfund Loans (from Other TIF Districts)	\$27,128,807
Other Bonds	\$10,287,548
Total	\$1,699,485,878

Figure 19.



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 often eliminates the need for the OSA to make formal findings and pursue compliance remedies. However, if an authority is not in legal compliance with the TIF Act, the OSA generally sends an initial notice of noncompliance (Initial Notice) to the governing body of the municipality that approved the TIF district in which the violation arose. The Initial Notice provides the findings and their bases, 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, the OSA sends its final notice of noncompliance (Final Notice) to the municipality indicating whether issues are considered resolved. In addition, 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 OSA notifies the Attorney General and provides materials supporting the violation determinations.

Summary of Findings and Responses

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.⁴² This section of the Report summarizes the TIF legal compliance reviews and investigations concluded as of December 31, 2019. Initial Notices and Final Notices were sent to the following municipalities:

1. City of Crookston – An Initial Notice was sent on March 22, 2019. A Response from the City of Crookston was received on June 5, 2019. A Final Notice was sent on June 12, 2019. (Appendix A.)
2. City of Hills – An Initial Notice was sent on October 23, 2019. A Response from the City of Hills was received on December 16, 2019. A Final Notice was sent on December 19, 2019. (Appendix B.)
3. City of Jenkins – An Initial Notice was sent on November 14, 2019. A Response from the City of Jenkins was received on December 19, 2019. A Final Notice was sent on December 20, 2019. (Appendix C.)

⁴² Minn. Stat. § 469.1771, subd. 1(c).

4. City of Crosby – An Initial Notice was sent on October 24, 2019. A Response from the City of Crosby was received on January 10, 2020. A Final Notice was sent on January 13, 2020. (Appendix D.)

All issues were resolved. Complete copies of the Initial Notices and Final Notices and the municipalities' Responses are provided in Appendices A, B, C, and D.

Unauthorized Expenditures

City of Crookston

TIF District 3-7

In the Initial Notice, the OSA found that the City of Crookston had expended \$9,122 of tax increment from TIF District 3-7 for a purpose not permitted under Minn. Stat. § 469.176. A payment of \$9,122 was made pursuant to a contract that had, at the time the payment was made, been considered forgiven and ceased to be owed. The City Response acknowledged the error and included substantiation of the repayment to the county. The OSA considers this finding resolved.

Excess Increment

City of Hills

TIF District No. 1

In the Initial Notice, the OSA found that the City of Hills had failed to return excess increment equaling \$26,396 pursuant to Minn. Stat. § 469.176, \$20,583 of which resided in the City's TIF fund and \$5,813 of which had been held by the county for failure to file annual reporting. The City Response indicated agreement with the finding and included substantiation of the repayment to the county. The OSA considers this finding resolved.

Administrative Expense Limit Exceeded

City of Jenkins

TIF District No. 1-3

In the Initial Notice, the OSA found that the City of Jenkins had expended \$2,553 of tax increment from TIF District 1-3 in violation of the limit on administrative expenses. In the City Response, the City accepted the finding and provided documentation that \$2,553 was returned to the Crow Wing County Auditor. The OSA considers this finding resolved.

Administrative Expense Limit Exceeded

City of Crosby

TIF District No. 2-2

In the Initial Notice, the OSA found that the City of Crosby had expended \$1,649 of tax increment from TIF District 2-2 in violation of the limit on administrative expenses. In the City Response, the City accepted the finding and provided documentation that \$1,649 was returned to the Crow Wing County Auditor. The OSA considers this finding resolved.

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APPENDIX A

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JULIE BLAHA
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)

March 22, 2019

The Honorable Guy Martin, Mayor
The Honorable Jake Fee, Council Member
The Honorable Steve Erickson, Council Member
The Honorable Clayton Briggs, Council Member
The Honorable Don Cavalier, Council Member
The Honorable Dale Stainbrook, Council Member
The Honorable Cindy Gjerswold, Council Member
The Honorable Tom Vedbraaten, Council Member
The Honorable Bobby Baird, Council Member

City of Crookston
124 North Broadway
Crookston, MN 56716

Re: TIF District No. 3-7 – Initial Notice of Noncompliance

Dear Mayor Martin and Council Members:

The Office of the State Auditor (OSA) examined the TIF plans, development agreements, and TIF Annual Reporting Forms filed by the City of Crookston (City) for Tax Increment Financing (TIF) Districts 3-4 and 3-7, both of which are housing districts. After reviewing this information, the OSA finds that the City is not in compliance with the TIF Act.¹ This Initial Notice of Noncompliance (Initial Notice) contains one OSA finding (Finding) for TIF District 3-7 and one comment (Comment) for TIF District 3-4.

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 Notice.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 OSA's Findings, in whole or in part, and the basis for any disagreement.³ After reviewing the Response, the OSA is required to forward information on any unresolved issues to the Polk County Attorney for review.⁴

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).

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Mayor and Council, City of Crookston
March 22, 2019
Page 2

If the City pays to Polk 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 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 TIF District 3-7 is as follows:

Finding 1. TIF District 3-7 – Unauthorized Expenditures

The TIF Act's general limitation on the use of tax increment provides that tax increment revenues must be used in accordance with the TIF plan and, generally, may be solely used: (1) to pay the principal and interest on bonds (including pay-as-you-go notes) issued to finance a project, or (2) to finance or pay capital and administrative costs pursuant to the various development acts found in Minnesota Statutes Chapter 469.⁶ If an authority expends tax increment revenues for a purpose not permitted under this and other limitations, the authority must pay to the county auditor an amount equal to the expenditures made in violation of the law.⁷

The City entered into a contract, dated December 15, 1999, for private development in TIF District 3-7 with Tri-Valley Opportunity Council, Inc., a non-profit corporation. Section 3 of the agreement provided that the City agrees to reimburse the Company, from tax increment, for a portion of the costs of the public development activities in the principal amount of \$90,000.00 with interest at the rate of 7.75% per annum on the dates and in the amounts set forth in an Exhibit C. Additional terms and conditions referred to Exhibit C but the City could not provide a copy of Exhibit C that included payment dates and amounts.⁸ Subsection (h), however, stated that the City "shall not be obligated to make any payments hereunder subsequent to December 31, 2014, and any amounts remaining unpaid as of said date (other than by reason of failure of the City to comply with the terms of this Agreement) shall be considered forgiven by the Company and shall cease to be owing."

According to the City's annual reporting, as of December 31, 2014, the City had paid \$57,523 of principal and \$70,846 of interest, leaving an outstanding principal balance of \$32,477. The City had reported this obligation as having a final maturity date of 12/17/2014. In recent correspondence with the OSA, the City indicated that as of the end of 2014, all payments were up to date and the City was in compliance with all terms of the agreement, and that the development

⁵Minn. Stat. § 469.1771, subd. 5.

⁶See Minn. Stat. § 469.176, subd. 4.

⁷Minn. Stat. § 469.1771, subd. 3.

⁸A page, labeled as "Exhibit III", was provided that showed a projection of tax increments to be received through 2015. Exhibit III is the label for the projection of tax increments in the TIF plan.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Crookston
March 22, 2019
Page 3

agreement had been fulfilled.⁹ However, the City reported making an additional payment in 2015 of \$9,122 (\$6,605 of principal and \$2,517 of interest). At the time of the payment, however, there was no owed principal and interest on a bond used to finance the project; therefore, the 2015 payment was not authorized under the TIF Act. The City did not report making a payment in 2016. In 2017, the City adopted an amendment to the agreement that extended its term until decertification of the district. The City reported making payment of principal and interest in 2017. The 2017 payments are presumed to be in compliance with the modified agreement.

We find that the City of Crookston has expended this \$9,122 of tax increment from TIF District 3-7 in violation of the TIF Act. Therefore, the City must return \$9,122 to the county auditor.

When the City provides documentation that it returned **\$9,122** to the Polk County Auditor, the OSA will consider this Finding resolved.

ADDITIONAL COMMENT

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

Comment 1. TIF 3-4 – Questionable Expenditures

TIF District 3-4 followed a nearly identical experience as TIF District 3-7 although the substantially similar development agreement and subsequent extension was with a different entity and involved different dollar amounts. Like the agreement for TIF District 3-7, subsection (h) of Section 3 in the original development agreement identified that the obligation would end in 2014. However, the City provided a copy of Exhibit C that included a payment schedule showing payments being made through 2016.¹⁰ (The City had reported that the obligation had a final maturity date of 12/31/2016.) This discrepancy within Section 3 of the original agreement introduces some ambiguity as to the intended end date of the obligation. Therefore, we stop short of concluding that the 2015 payment (of \$12,070 of interest) for TIF 3-4 was a violation. If the City concludes that 2015 payment was made in violation of the agreement, it should also return this amount to the County Auditor.

The City is not required to respond to this Comment in its Response.

CONCLUSION

The City's 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 considering the Response, the OSA will issue the Final Notice.

⁹Email dated 1/28/2019 from Angelica Wasner, Finance Director & City Clerk, to Jason Nord, OSA TIF Director.

¹⁰The TIF plan had an increment projection in Exhibit III that showed increment collection through 2014 but Exhibit C of this agreement contained a projection showing increment collection through 2015.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Crookston
March 22, 2019
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: Angelica Weasner, Finance Director

From: Angelica Weasner <aweasner@crookston.mn.us>
To: Jason Nord <Jason.Nord@osa.state.mn.us>
Date: 6/5/2019 4:44 PM
Subject: Re: Noncompliance response?
Attachments: 2019 Return increment to Polk County TIF-3-4 & 3-7 check.pdf

Yes, we received it.

Sorry, I thought I sent the response back to you. I acknowledge the error and the City of Crookston has repaid the excess increment back to the County for both TIF district 3-4 and 3-7.

Attached you will find the proof of the check sent to Polk County.

Please contact me if you have any further questions or need clarification.

Thank you,

Angel Weasner
City of Crookston
Finance Director & City Clerk
124 N Broadway
Crookston, MN 56716
Phone: 218-281-4503
Cell: 218-521-0895
Fax: 218-281-5609

On Wed, Jun 5, 2019 at 4:21 PM Jason Nord <Jason.Nord@osa.state.mn.us> wrote:

> Hello,
>
> Our office sent the City of Crookston an Initial Notice of Noncompliance
> by letter dated March 22, 2019. A response was required within 60 days of
> receipt of the notice. Before we follow up with a final notice, please
> confirm the date the letter was received, and let me know if there is a
> belated response forthcoming? Please let me know by June 12th.
>
>
> Sincerely,
>
> Jason Nord
> Assistant State Auditor - TIF
> Jason.Nord@osa.state.mn.us
> 651-296-7979
>
>
> *Caution: This e-mail may contain CONFIDENTIAL information or information
> protected by state or federal law. If you have received this e-mail by
> mistake, please do not read, distribute, or reproduce it (including any
> attachments). Please notify us immediately by return e-mail, and then
> delete it from your system. Thank you.*
>
>

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

June 12, 2019

The Honorable Guy Martin, Mayor
The Honorable Jake Fee, Council Member
The Honorable Steve Erickson, Council Member
The Honorable Clayton Briggs, Council Member
The Honorable Don Cavalier, Council Member
The Honorable Dale Stainbrook, Council Member
The Honorable Cindy Gjerswold, Council Member
The Honorable Tom Vedbraaten, Council Member
The Honorable Bobby Baird, Council Member

City of Crookston
124 North Broadway
Crookston, MN 56716

Re: TIF District No. 3-7 – Final Notice of Noncompliance

Dear Mayor Martin and Council Members:

On March 22, 2019, the Office of the State Auditor (OSA) sent the City of Crookston (City) an Initial Notice of Noncompliance (Initial Notice) containing one OSA finding (Finding) for Tax Increment Financing (TIF) District 3-7, and a related comment (Comment) regarding District 3-4. The OSA received the City's Response (City Response) on June 5, 2019.

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.

FINDING OF NONCOMPLIANCE

One finding of noncompliance was made:

Finding 1. TIF District 3-7 – Unauthorized Expenditures – RESOLVED

In the Initial Notice, the OSA found that the City of Crookston had expended \$9,122 of tax increment from TIF District 3-7 for a purpose not permitted under Minn. Stat. § 469.176. A payment of \$9,122 was made pursuant to a contract that had, at the time the payment was made, been considered forgiven and ceased to be owed. The subsequent decision by the City to agree to a modified agreement that extended the original obligation to the end of the duration of the district does not change the fact that the 2015 payment was not authorized under the TIF Act.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Crookston
June 12, 2019
Page 2

The City Response acknowledged the error and included substantiation of the repayment of an amount back to the county that included both this amount and an amount to remedy a potential violation identified in the Comment.

This Finding is considered resolved.

ADDITIONAL COMMENT

The Initial Notice also contained the following observation:

Comment 1. TIF 3-4 – Questionable Expenditures – RESOLVED

TIF District 3-4 followed a nearly identical experience as TIF District 3-7 although the substantially similar development agreement and subsequent extension was with a different entity and involved different dollar amounts. Unlike TIF District 3-7, a discrepancy within Section 3 of the original agreement introduced some ambiguity as to the intended end date of the obligation. Therefore, the Initial Notice stopped short of concluding that the 2015 payment (of \$12,070) for TIF 3-4 was a violation, and left it to the City to respond appropriately if it concluded that the 2015 payment for TIF 3-4 was similarly in violation of the agreement and the TIF Act.

The City Response substantiated that \$12,069.74 was returned to the county to remedy this issue and it is considered resolved.

CONCLUSION

The OSA appreciates the City's cooperation. If you have any questions, 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: Angelica Weasner, Finance Director

APPENDIX B

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JULIE BLAHA
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STATE OF MINNESOTA

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1-800-627-3529 (Relay Service)

October 23, 2019

The Honorable Keith Elbers, Mayor
The Honorable Vickie Busswitz, Council Member
The Honorable Alan Leenderts, Council Member
The Honorable Ross Metzger, Council Member
The Honorable Brian Sandbulte, Council Member
City of Hills
PO Box 172
Hills, MN 56138

SENT VIA U.S. MAIL AND ELECTRONIC MAIL TO CTYHILLS@ALLIANCECOM.NET

Re: TIF District No. 1 – Initial Notice of Noncompliance

Dear Mayor Elbers and Council Members:

For the past six years, the Office of the State Auditor (OSA) has annually notified the City of Hills (City) of its obligation and failure to file TIF Annual Reporting Forms for Tax Increment Financing (TIF) District No. 1. The OSA each year also has notified the Rock County Auditor of the requirement to withhold tax increment distributions absent such filings.¹ The last year for which a TIF Annual Reporting Form was received from the City was 2012. The TIF District reached its statutory maximum duration limit on December 31, 2017, and the County decertified the district in 2018.² The OSA has examined the TIF plan, TIF Annual Reporting Forms for 2012 and prior years, the City's annual financial statements, and various correspondence regarding the district. The OSA finds that the City appears to be out of compliance with the TIF Act.³ This Initial Notice of Noncompliance (Initial Notice) contains one OSA finding (Finding) for TIF District No. 1.

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 Notice.⁴

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 OSA's Findings, in whole or in part, and the basis for any disagreement.⁵ After reviewing the Response, the OSA is required to forward information on any unresolved issues to the Rock County Attorney for review.⁶

¹See Minn. Stat. § 469.1771, subd. 2a.

²Decertification was identified by email from Rock County Auditor-Treasurer Ashley Kurtz dated 10/2/2019.

³See Minn. Stat. §§ 469.174 to 469.1799 inclusive, as amended.

⁴See 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.).

⁵Minn. Stat. § 469.1771, subd. 1 (c).

⁶Minn. Stat. § 469.1771, subd. 1 (b).

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Hills
October 23, 2019
Page 2

If the City pays to Rock County (County) an amount equal to the amount of excess increment that should have been returned to the County but was not, less any amount already being held by the County, 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 returned to the County if the City makes the payment within 60 days after the City receives this Initial Notice.⁷

FINDING OF NONCOMPLIANCE

The OSA's finding of noncompliance regarding TIF District No. 1 is as follows:

Finding 1. TIF District No. 1 – Excess Increment

Excess increment is the amount of increment that exceeds the amount necessary to pay the costs authorized in the TIF plan.⁸ The amount of excess increment is calculated by subtracting the total authorized costs, (less any amounts paid from other sources or due at a later date), from the total tax increment collected through the end of a calendar year. Excess increment must be returned to the county auditor within nine months after the end of each year.⁹

According to the City's audited financial statements and documentation provided by the City's CPA, TIF District No. 1-1 has received \$50,222 of tax increment over the life of the district.¹⁰ According to the county auditor, another \$6,650 has been withheld in recent years due to the failure to file annual reporting.¹¹ Therefore, the total tax increment collected is \$56,872.

The TIF plan authorizes \$27,000 of estimated development costs, but also contains language that could be read to suggest that interest costs are authorized in addition to this amount. The district paid \$26,163 of principal to finance the planned project costs (including site improvements and administrative costs), and paid \$10,472 of interest costs.¹² The City transferred funds from its general fund to pay \$6,996 of the authorized costs.¹³ There are no reported outstanding obligations of the district. Therefore, the total costs authorized by the TIF plan (\$27,000 + \$10,472) less amounts paid by other sources (\$6,996) or due at a later date (\$0) is equal to \$30,476.

⁷Minn. Stat. § 469.1771, subd. 5.

⁸Minn. Stat. § 469.176, subd. 2.

⁹Minn. Stat. § 469.176, subd. 2.

¹⁰This figure was compiled from audited financial statements for years 1997 through 2018 and a letter from Matt Taubert of Meulebroeck, Taubert, & Co. PLLP, dated March 30, 2005, that included a schedule of cash receipts and disbursements for the TIF fund for years 1990 through 2000. TIF Annual Reporting Forms corroborated the amounts except for a \$661 discrepancy for pre-2005 increments and a \$100 discrepancy that first appeared in the prior year column of the 2000 reporting form.

¹¹This figure was provided by email from Rock County Auditor-Treasurer Ashley Kurtz dated 10/2/2019.

¹²The loan proceeds totaled \$26,180, but the final interest payment of \$17 may have been applied as a principal payment. The TIF Annual Reporting Forms and audited financial statements differ on total interest payments by an apparent rounding error of \$2. Both of these discrepancies are considered immaterial.

¹³This amount is taken from audited financial statements and differs from the TIF Annual Reporting Forms by a rounding error of \$1.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Hills
October 23, 2019
Page 3

Subtracting the \$30,476 authorized costs subtotal from the \$56,872 of total tax increment collected, yields excess increment equaling \$26,396. The City's 2018 audited financial statement indicates the City has \$20,583 of tax increment that resides as cash in the TIF Fund. This amount should be returned as excess increment. The County is holding \$6,650 of increment, \$5,813 of which is also excess increment. Because TIF District No. 1 is decertified and no additional TIF expenditures have been reported, the remaining \$837 should be released and redistributed by the county auditor unless the City's Response includes all of the delinquent reports and identifies authorized uses for this amount.

We find that the City of Hills has failed to return excess increment equaling \$26,396 for TIF District No. 1 in violation of the TIF Act. Therefore, the City must return the \$20,583 of increment in its TIF Fund to the county auditor. The county auditor shall then redistribute these returned funds and \$6,650 of the increment it has withheld from the district in the manner provided by the TIF Act based on the City's Response to this Notice.¹⁴

When the City provides documentation that it returned **\$20,583** to the Rock County Auditor, the OSA will consider this Finding resolved.

CONCLUSION

The City's 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 considering 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

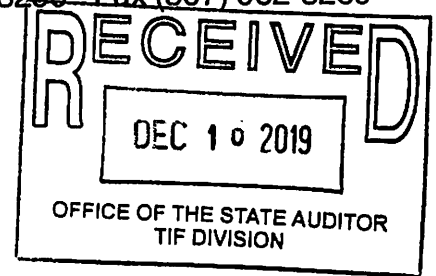
cc: Connie Wiertzema, Clerk-Treasurer

¹⁴See Minn. Stat. § 469.1771, subd. 5.

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CITY OF HILLS

301 South Main • P.O. Box 172 • Hills, Minnesota 56138 • (507) 962-3290 • Fax (507) 962-3269



December 11, 2019

Attention Jason Nord
State of Minnesota
Office of the State Auditor
525 Park Street, Suite 525
Saint Paul, Minnesota 55103-2139

RE: City of Hills
PO Box 172
Hills, MN 56138
TIF District, Initial Notice of Noncompliance

Dear Mr. Nord,

Enclosed you will find a copy of the check made payable to the Rock County Auditor for \$20,583 in response to your letter dated October 23, 2019. Based on the facts presented in the notice the city has no disagreement with the notice and agrees to deliver to the Rock County Auditor a check for \$20,583 on December 11, 2019. Please accept this letter as evidence of the City of Hills agreement with the notice and intentions to consider the matter resolved after your receipt of this response.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Elbers", with a long horizontal line extending to the right.

Keith Elbers
Mayor, City of Hills
Hills, Minnesota 56138

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JULIE BLAHA
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)

December 19, 2019

The Honorable Keith Elbers, Mayor
The Honorable Vickie Busswitz, Council Member
The Honorable Alan Leenderts, Council Member
The Honorable Ross Metzger, Council Member
The Honorable Brian Sandbulte, Council Member
City of Hills
PO Box 172
Hills, MN 56138

SENT VIA U.S. MAIL AND ELECTRONIC MAIL TO CTYHILLS@ALLIANCECOM.NET

Re: TIF District No. 1 – Final Notice of Noncompliance

Dear Mayor Elbers and Council Members:

On October 23, 2019, the Office of the State Auditor (OSA) sent the City of Hills (City) an Initial Notice of Noncompliance (Initial Notice) containing one OSA finding (Finding) for Tax Increment Financing (TIF) District No. 1. The OSA received the City's Response (City Response) on December 16, 2019.

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.

FINDING OF NONCOMPLIANCE

One finding of noncompliance was made:

Finding 1. TIF District No. 1 – Excess Increment – RESOLVED

In the Initial Notice, the OSA found that the City of Hills had failed to return excess increment equaling \$26,396 pursuant to Minn. Stat. § 469.176, \$20,583 of which resided in the TIF fund and \$5,813 of which has been held by the County (along with an additional \$837) for failure to file annual reporting.

The City Response indicated agreement with the finding and included substantiation of the repayment of \$20,583 to the Rock County Auditor on December 11, 2019.

The OSA considers this Finding resolved and we will contact the County Auditor so that it may redistribute the returned and withheld funds.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Hills
December 19, 2019
Page 2

CONCLUSION

The OSA appreciates the City's cooperation. If you have any questions, 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: Connie Wiertzema, Clerk-Treasurer

APPENDIX C

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JULIE BLAHA
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)

November 14, 2019

The Honorable Jon Lubke, Mayor
The Honorable Gary Hart, Council Member
The Honorable Charles Hoffman, Council Member
The Honorable Donna Stricker, Council Member

City of Jenkins

33861 Cottage Avenue
Jenkins, MN 56474

Re: TIF District No. 1-3 – Initial Notice of Noncompliance

Dear Mayor Lubke and Council Members:

The Office of the State Auditor (OSA) examined the TIF plan and TIF Annual Reporting Forms filed by the City of Jenkins (City) for Tax Increment Financing (TIF) District 1-3, an economic development district decertified as of 12/31/2017 for which a final reporting was made for 2018. After reviewing this information, the OSA finds that the City is not in compliance with the TIF Act.¹ This Initial Notice of Noncompliance (Initial Notice) contains one OSA finding (Finding).

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 Notice.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 OSA's Findings, in whole or in part, and the basis for any disagreement.³ After reviewing the Response, the OSA is required to forward information on any unresolved issues to the Crow Wing County Attorney for review.⁴

If the City pays to Crow Wing 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 returned to the County if the City makes the payment within 60 days after the City receives this Initial Notice.⁵

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).

⁵Minn. Stat. § 469.1771, subd. 5.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Jenkins
November 14, 2019
Page 2

FINDING OF NONCOMPLIANCE

The OSA's finding of noncompliance regarding TIF District 1-3 is as follows:

Finding 1. TIF District 1-3 – Administrative Expense Limit Exceeded

The TIF Act limits the amount of tax increment that may be used for administrative expenses, which for TIF District 1-3 is limited to 10 percent of total estimated tax increment expenditures authorized by the TIF plan or the total tax increments distributed from the county, whichever is less. In this case, ten percent of the \$82,760 of tax increments distributed from the county, or \$8,276, is the limit.⁶ The City reported \$10,829 of authority administrative expenses paid for with tax increment from TIF District 1-3.

We find that the City of Jenkins has expended \$2,553 (\$10,829 less \$8,276) of tax increment from TIF District 1-3 in violation of the limit on administrative expenses. An amount equal to \$2,553 must be returned to the county auditor.

When the City provides documentation that it returned **\$2,553** to the Crow Wing County Auditor, the OSA will consider this Finding resolved.

CONCLUSION

The City's 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 considering 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: Krista Okerman, Clerk Treasurer

⁶Ten percent of the total estimated tax increment expenditures authorized by the TIF plan equals \$12,000.



CITY OF JENKINS

33861 Cottage Avenue x Jenkins, MN 56474 x (218)-568-4637 x (218)-568-5945 x www.ci.jenkins.mn.us

December 16, 2019

Mr. Jason Nord
Assistant State Auditor – TIF Division Director
Office of the State Auditor
525 Park Street, Suite 500
St. Paul, MN 55103-2139

Dear Mr. Nord:

I am in receipt of your Initial Notice of Noncompliance for the City of Jenkins TIF District No. 1-3. After reviewing your Notice, on behalf of the Jenkins City Council, I accept OSA's Findings.

The City has paid Crow Wing County the full amount of noncompliance. Please see attached receipt for that payment. I hope that this will satisfy our Noncompliance of exceeded administrative expenses.

Please feel free to contact me at (218) 568-4637 or kokerman@ci.jenkins.mn.us with any questions or concerns.

Sincerely,

Krista A. Okerman, MMC
City Clerk-Treasurer

Enclosure

C: Jenkins City Council

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
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(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

December 20, 2019

The Honorable Jon Lubke, Mayor
The Honorable Gary Hart, Council Member
The Honorable Charles Hoffman, Council Member
The Honorable Donna Stricker, Council Member

City of Jenkins

33861 Cottage Avenue
Jenkins, MN 56474

Re: TIF District No. 1-3 – Final Notice of Noncompliance

Dear Mayor Lubke and Council Members:

On November 14, 2019, the Office of the State Auditor (OSA) sent the City of Jenkins (City) an Initial Notice of Noncompliance (Initial Notice) containing one OSA finding (Finding) for Tax Increment Financing (TIF) District No. 1-3. The OSA received the City's Response (City Response) on December 19, 2019.

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.

FINDING OF NONCOMPLIANCE

One finding of noncompliance was made:

Finding 1. TIF District 1-3 – Administrative Expense Limit Exceeded – RESOLVED

In the Initial Notice, the OSA found that the City of Jenkins had expended \$2,553 of tax increment from TIF District 1-3 in violation of the limit on administrative expenses. In the City Response, the City accepted the Finding and provided documentation that \$2,553 was returned to the Crow Wing County Auditor. The OSA considers this Finding resolved.

CONCLUSION

The OSA considers the finding resolved and appreciates the City's cooperation.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Jenkins

December 20, 2019

Page 2

If you have any questions, 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: Krista Okerman, Clerk-Treasurer

APPENDIX D

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JULIE BLAHA
STATE AUDITOR

STATE OF MINNESOTA

OFFICE OF THE STATE AUDITOR

SUITE 500
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(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

October 24, 2019

The Honorable Bob Novak, Mayor
The Honorable Ron Prushek, Council Member
The Honorable Jim Traylor, Council Member
The Honorable Robyn Wolfe, Council Member
The Honorable Diane Cash, Council Member
City of Crosby
2 Second St SW
Crosby, MN 56441

Re: TIF District No. 2-2 – Initial Notice of Noncompliance

Dear Mayor Novak and Council Members:

The Office of the State Auditor (OSA) examined the TIF plan and TIF Annual Reporting Forms filed by the City of Crosby (City) for Tax Increment Financing (TIF) District 2-2, an economic district decertified on 12/31/2017. After reviewing this information, the OSA finds that the City is not in compliance with the TIF Act.¹ This Initial Notice of Noncompliance (Initial Notice) contains one OSA finding (Finding).

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 Notice.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 OSA's Findings, in whole or in part, and the basis for any disagreement.³ After reviewing the Response, the OSA is required to forward information on any unresolved issues to the Crow Wing County Attorney for review.⁴

If the City pays to Crow Wing 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 returned to the County if the City makes the payment within 60 days after the City receives this Initial Notice.⁵

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).

⁵Minn. Stat. § 469.1771, subd. 5.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Crosby
October 24, 2019
Page 2

FINDING OF NONCOMPLIANCE

The OSA's finding of noncompliance regarding TIF District 2-2 is as follows:

Finding 1. TIF District 2-2 – Administrative Expense Limit Exceeded

The TIF Act limits the amount of tax increment that may be used for administrative expenses, which for TIF District 2-2 is limited to 10 percent of total estimated tax increment expenditures authorized by the TIF plan or the total tax increments distributed from the county, whichever is less.⁶ In this case, ten percent of the \$22,276 of tax increments distributed from the county, or \$2,228, is the limit.⁷ The City reported \$3,877 of administrative expenses paid for with tax increment from TIF District 2-2.⁸

We find that the City of Crosby expended \$1,649 (\$3,877 less \$2,228) of tax increment from TIF District 2-2 in violation of the limit on administrative expenses. An amount equal to \$1,649 must be returned to the county auditor.

When the City provides documentation that it returned **\$1,649** to the Crow Wing County Auditor, the OSA will consider this Finding resolved.

CONCLUSION

The City's 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 considering 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

⁶Minn. Stat. § 469.176, subd. 3(b).

⁷Ten percent of the total estimated tax increment expenditures authorized by the TIF plan equals \$7,110.

⁸This amount reflects reported administrative expenditures of \$13,916 minus \$10,039 of those costs paid with the Developer Deposit and associated interest income as shown in the 2008 TIF report.

City of Crosby

2 Second Street SW
Crosby, Minnesota 56441

January 10, 2020

State of Minnesota
Office of the State Auditor
Attn: Jason Nord
525 Park Street, Suite 500
St. Paul, MN 55103-2139

Dear Mr. Nord

The City of Crosby is in receipt of your letter dated October 24, 2019 notifying the City of Crosby of noncompliance related to TIF District 2-2.

The City accepts the Office of the State Auditor's findings and issued a check to Crow Wing County in the amount of \$1649.00 on November 25, 2019. A copy of the check is attached.

Sincerely,



Lisa Sova
City Administrator

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JULIE BLAHA
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)

January 13, 2020

The Honorable Bob Novak, Mayor
The Honorable Ron Prushek, Council Member
The Honorable Jim Traylor, Council Member
The Honorable Robyn Wolfe, Council Member
The Honorable Diane Cash, Council Member
City of Crosby
2 Second St SW
Crosby, MN 56441

Re: TIF District No. 2-2 – Final Notice of Noncompliance

Dear Mayor Novak and Council Members:

On October 24, 2019, the Office of the State Auditor (OSA) sent the City of Crosby (City) an Initial Notice of Noncompliance (Initial Notice) containing one OSA finding (Finding) for Tax Increment Financing (TIF) District No. 2-2. The OSA received the City's Response (City Response) on January 10, 2020.

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.

FINDING OF NONCOMPLIANCE

One finding of noncompliance was made:

Finding 1. TIF District 2-2 – Administrative Expense Limit Exceeded – RESOLVED

In the Initial Notice, the OSA found that the City of Crosby had expended \$1,649 of tax increment from TIF District 2-2 in violation of the limit on administrative expenses. In the City Response, the City accepted the Finding and provided documentation that \$1,649 was returned to the Crow Wing County Auditor. The OSA considers this Finding resolved.

CONCLUSION

The OSA considers the finding resolved and appreciates the City's cooperation.

OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Crosby

January 13, 2020

Page 2

If you have any questions, 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: Lisa Sova, Clerk-Treasurer