

# State of Minnesota



## Office of the State Auditor

Julie Blaha  
State Auditor

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### **Tax Increment Financing Legislative Report**

TIF Reports for the Year Ended December 31, 2021  
TIF Reviews Concluded for the Year Ended December 31, 2022

## **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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TIF Reports for the Year Ended December 31, 2021  
TIF Reviews Concluded for the Year Ended December 31, 2022



**January 9, 2023**

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# TAX INCREMENT FINANCING LEGISLATIVE REPORT

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# Executive Summary

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## Highlights and Trends

- In 2021, approximately \$241 million of tax increment revenue was generated statewide, which is a decrease of seven percent from 2020 and slightly under the total from two years ago. The totals for each of these three most recent years exceeded those for each prior year over the past decade. In inflation-adjusted constant dollars, the past decade of revenues has been less than totals in the previous two decades and is more on par with totals from the mid-1980s. (Pages 19 - 22)
- In 2021, 385 development authorities submitted reports to the OSA for 1,668 TIF districts. The number of districts since 2016 has largely remained constant at between 1,653 and 1,668 districts. (Pages 11 - 14)
- In 2021, 99 new TIF districts were certified, 20 more than the 79 new districts certified in 2020. In 2021, 84 districts were decertified, a decrease of 15 percent from 2020. The number of new certifications each year has fluctuated less over the last ten years than the number of annual decertifications. (Pages 15 - 17)
- In the latest five-year period, 78 percent of redevelopment and housing districts decertified early, compared to 38 percent of economic development districts decertifying early (a still-significant rate given their shorter statutory duration limits). While housing districts have more consistently decertified early, the early decertification rates for redevelopment and economic development districts have been increasing. (Page 18)
- In 2021, development authorities returned \$8,576,519 in tax increment revenue to county auditors for redistribution as property taxes to cities, counties, and school districts. (Page 22)
- In 2021, there was \$1.8 billion of outstanding debt associated with TIF districts, an increase of eight percent from 2020. Pay-As-You-Go (PAYG) obligations were the predominant type of debt, making up 68 percent of the debt reported. General Obligation (GO) bonds comprised about 16 percent of the total debt. Interfund loans (mostly from non-tax increment accounts) made up 11 percent of total debt. (Page 24)

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## Scope and Methodology

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In 1995, the Minnesota Legislature assigned legal compliance oversight for tax increment financing (TIF) to the Office of the State Auditor (OSA).<sup>1</sup> The OSA's oversight authority extends to examining the use of TIF by political subdivisions, as authorized by the Minnesota Tax Increment Financing Act (TIF Act).<sup>2</sup>

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.<sup>3</sup> 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.<sup>4</sup> 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.

This 27th Annual Legislative Report (Report) was compiled from information reported by 385 development authorities currently exercising tax increment financing powers in Minnesota. The Report summarizes information reported by these development authorities for 1,668 districts for the calendar year ended December 31, 2021.<sup>5</sup> An additional two authorities were required but failed to submit reports on three districts for the period; accordingly, data for those districts is not reflected in this Report.<sup>6</sup>

The Report also provides a summary of any violations cited in the limited-scope reviews conducted by the OSA in 2022. This Report is provided annually to the chairs of the legislative committees with jurisdiction over TIF matters.<sup>7</sup>

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<sup>1</sup> 1995 Minn. Laws, ch. 264, art. 5, § 34. The OSA's oversight of TIF began in 1996.

<sup>2</sup> 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.

<sup>3</sup> Minn. Stat. § 469.175, subd. 6.

<sup>4</sup> Minn. Stat. § 469.175, subd. 6b.

<sup>5</sup> The summarized information reflects reported activity as of the end of calendar year 2022. 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.

<sup>6</sup> Lakeland failed to report for both of its districts and Morton failed to report for its single district. The TIF Act provides for tax increment to be withheld when reports are not filed.

<sup>7</sup> Minn. Stat. § 469.1771, subd. 1(c).

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## Background

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Tax increment financing 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 of the property. 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.<sup>8</sup> The new, additional value from development activity is “captured” from the tax base, and the taxes paid on the captured value yield the tax increments. During the life of the TIF district, tax increments are reserved (meaning they are not paid to the taxing jurisdictions) and instead are used to finance qualifying costs that make the new development possible.

In order for a municipality to finance development with TIF, it must find that, without the use of TIF, the development would not be expected to occur.<sup>9</sup> This is often referred to as the “But-For Test,” (i.e. development would not happen but for the use of TIF). This helps ensure that the use of TIF is not capturing tax base that would be available to support local levies without its use. The benefits to taxpayers are generally realized when the TIF district ends and the new value becomes part of the tax base. Statutes define maximum durations for each type of TIF district, but often there are reasons that decertification prior to the maximum duration makes sense and is in the public interest.

The expenditures that qualify to be paid from 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 within a project area by a development authority. TIF districts are comprised of the parcels on which development activity occurs. Project areas can be larger than a TIF district and can contain multiple TIF districts. A development authority can be a city, an entity created by a city, or an entity created by a county.<sup>10</sup> 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

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

<sup>9</sup> Minn. Stat. § 469.175, subd. 3(b)(2).

<sup>10</sup> Counties and towns may also be development authorities in certain instances.



Development District Act, and the Rural Development Financing Authorities Act.<sup>11</sup> These acts govern the development projects, whereas the TIF Act governs the use of tax increments.

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 Six-Year Rule; or (4) upon written request by the authority to the county auditor to decertify the district.<sup>12</sup> Decertification ends the capture of the new value and 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. Most districts decertify before reaching the maximum duration limit.

## **Development Authorities**

In 2021, there were 387 development authorities in Minnesota actively using TIF, which is 12 less than the number active in 2020. Sixteen authorities became inactive, and four inactive development authorities became active again.

In 2021, of the 387 active development authorities, 287 were located in Greater Minnesota, and 100 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.<sup>13</sup>

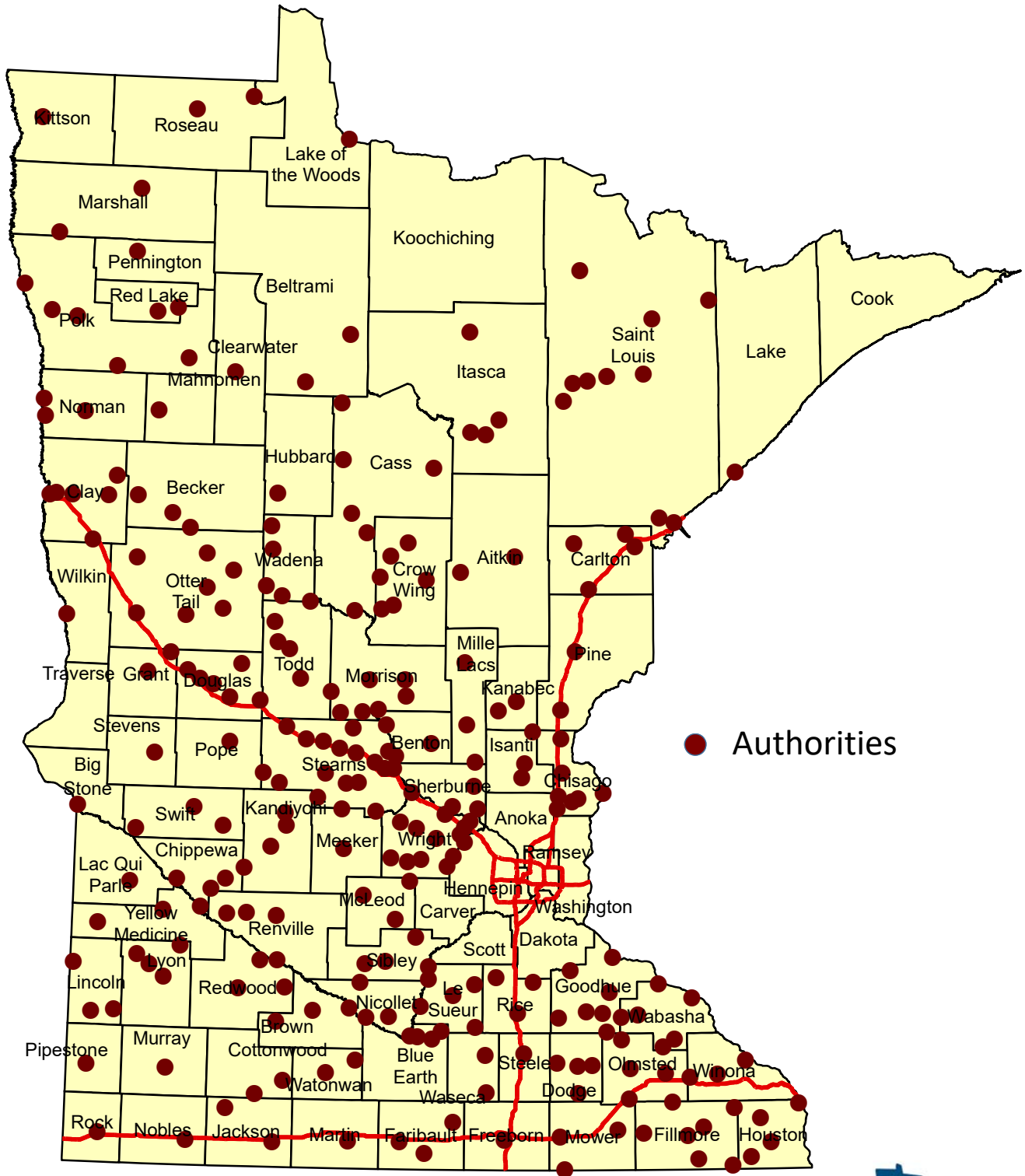
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<sup>11</sup> Minn. Stat. § 469.174, subd. 2 (listing the statutory citations for the various development acts).

<sup>12</sup> Minn. Stat. § 469.177, subd. 12.

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

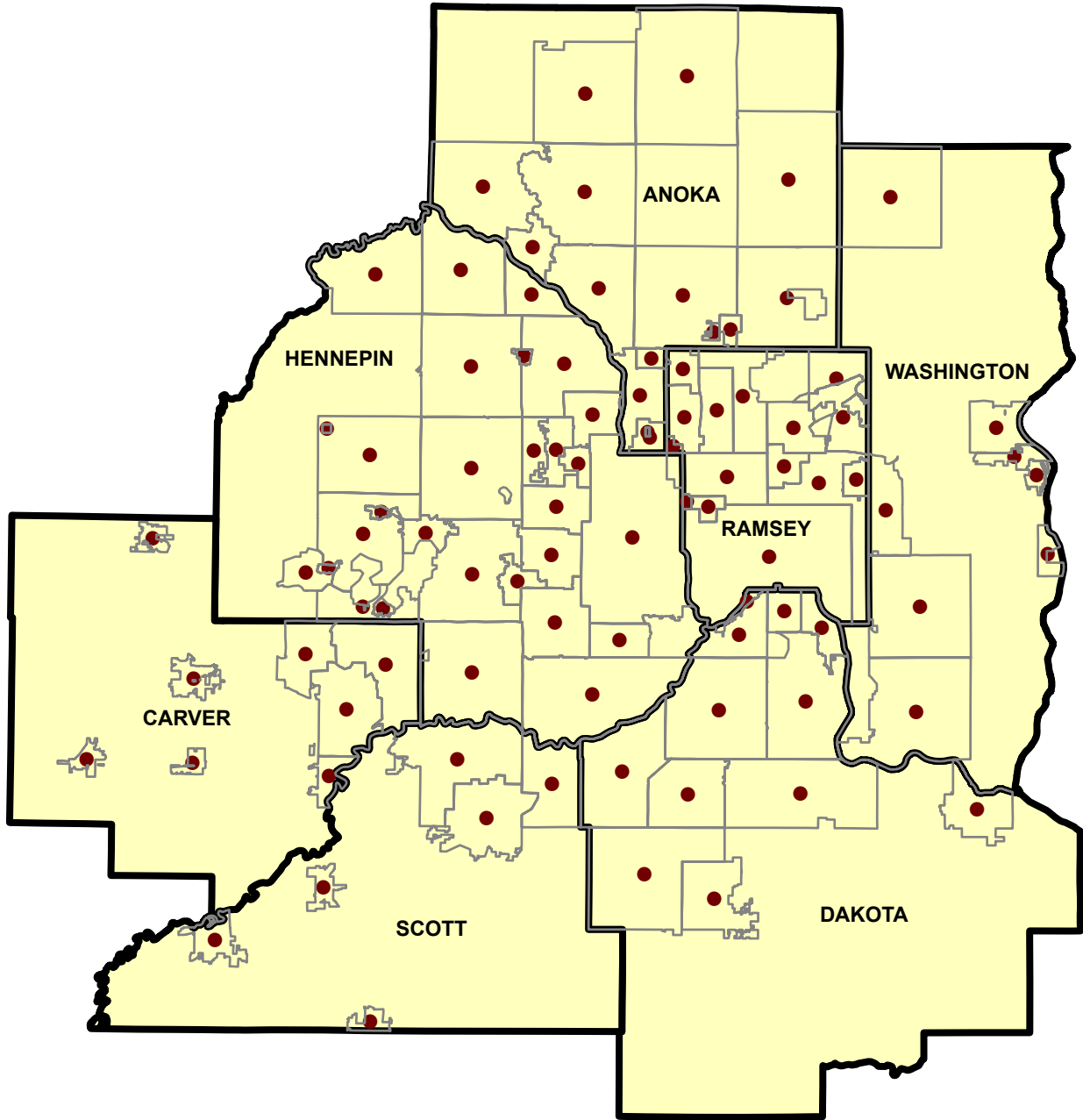
# Development Authorities in Greater Minnesota, 2021



● Authorities



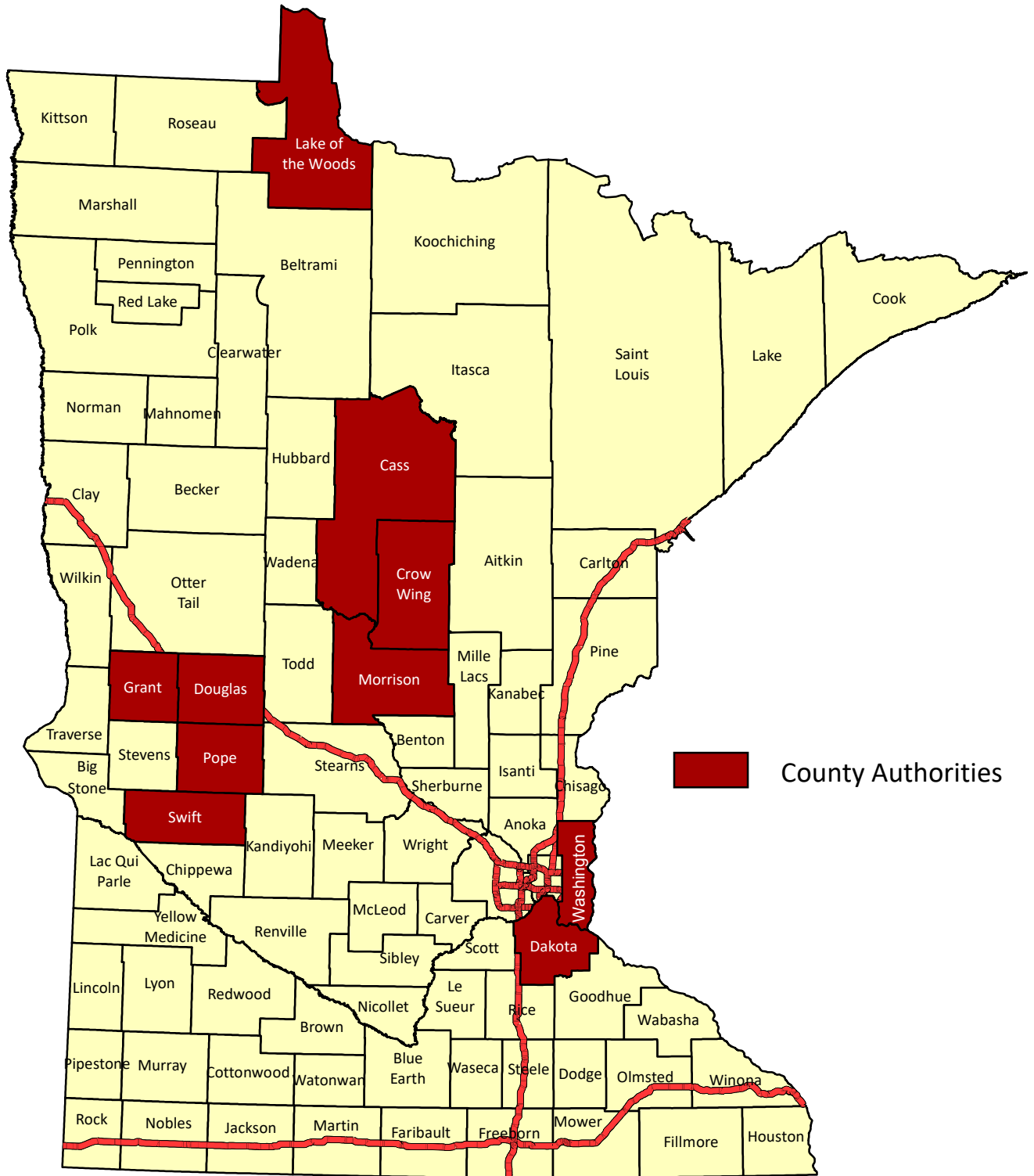
## Development Authorities in Metro Area, 2021



● Authorities



# County Development Authorities, 2021



## 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.<sup>14</sup>

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. 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. Approval of the TIF plan authorizes the use of tax increment to pay TIF-eligible project costs. Before approving a TIF plan, the municipality must publish a notice and hold a public hearing.<sup>15</sup>

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.<sup>16</sup> The county board and school board may comment on the proposed district, but cannot prevent its creation.<sup>17</sup>

## 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.

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<sup>14</sup> Minn. Stat. § 469.175, subd. 1.

<sup>15</sup> Minn. Stat. § 469.175, subd. 3.

<sup>16</sup> Minn. Stat. § 469.175, subd. 2.

<sup>17</sup> When the county is the municipality that must approve the TIF plan, the county board may prevent the creation of a TIF district.

**Redevelopment Districts** – The purpose of a redevelopment district is to eliminate certain blighted conditions.<sup>18</sup> Redevelopment districts are designed to conserve the use of existing utilities, roads, and other public infrastructure, and to discourage urban sprawl. Qualifying tax 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 property that is not blighted for development. These districts have a statutory maximum duration limit of 25 years after first receipt of tax increment.<sup>19</sup>

**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.<sup>20</sup> 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 sunsetting in 2027).<sup>21</sup> Use of tax increment in these districts for commercial development (retail sales) is excluded by law, except in “small cities.”<sup>22</sup> Economic development districts are short-term districts with a limit of eight years after first receipt of tax increment.<sup>23</sup>

**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.<sup>24</sup>

**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.<sup>25</sup>

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<sup>18</sup> Minn. Stat. § 469.174, subd. 10(a).

<sup>19</sup> 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.

<sup>20</sup> Minn. Stat. § 469.174, subd. 12.

<sup>21</sup> 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.

<sup>22</sup> 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.

<sup>23</sup> 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.

<sup>24</sup> 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.

<sup>25</sup> 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.

**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.<sup>26</sup> The statutory maximum duration limit for these districts is 20 years after first receipt of tax increment.<sup>27</sup>

**Pre-1979 Districts** – These districts were created prior to the 1979 TIF Act and have all been decertified.<sup>28</sup>

**Uncodified Districts** – Special laws have been enacted to address unique issues and permit the use of TIF for geographic areas that do not meet the statutory qualifications for the main statutory types of TIF districts. They are referred to as “uncodified” districts. 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.<sup>29</sup> 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).<sup>30</sup> The HSS captures additional increment by reducing the original net tax capacity (ONTC) by the estimated costs of the removal actions.<sup>31</sup> The payment of these costs comes from what would normally be 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.<sup>32</sup> 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.<sup>33</sup>

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<sup>26</sup> Minn. Stat. § 469.174, subd. 19.

<sup>27</sup> 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.

<sup>28</sup> Minn. Stat. § 469.176, subd. 1c. Princeton’s TIF 1 Downtown Redevelopment District is the last pre-1979 district that is still reporting.

<sup>29</sup> Minn. Stat. § 469.174, subs. 16 and 23; Minn. Stat. § 469.175, subd. 7.

<sup>30</sup> Minn. Stat. § 469.174, subd. 17.

<sup>31</sup> Minn. Stat. § 469.174, subd. 7(b).

<sup>32</sup> Minn. Stat. § 469.176, subd. 4e.

<sup>33</sup> Minn. Stat. § 469.176, subd. 1e.

## Special Legislation

The legislature has enacted special legislation allowing exceptions to the TIF Act for individual districts with some frequency. As of 2021, 117 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.

## Number of TIF Districts

In 2021, 385 development authorities submitted reports to the OSA for 1,668 TIF districts. Of these districts, 1,039 (62 percent) were located in Greater Minnesota and 629 (38 percent) were located in the Metro Area.<sup>34</sup> (See Figure 1.)

Figure 1.

**TIF Districts by Type: Statewide, Greater MN, & Metro Area; 2021**

Type of District	Statewide	Greater MN	Metro Area
Redevelopment	737	401	336
Housing	576	381	195
Economic Development	303	243	60
Renewal and Renovation	28	9	19
Pre-1979	1	1	0
Soils Condition	12	4	8
Uncodified	11	0	11
<b>Total</b>	<b>1,668</b>	<b>1,039</b>	<b>629</b>
Hazardous Substance Subdistricts	22	2	20

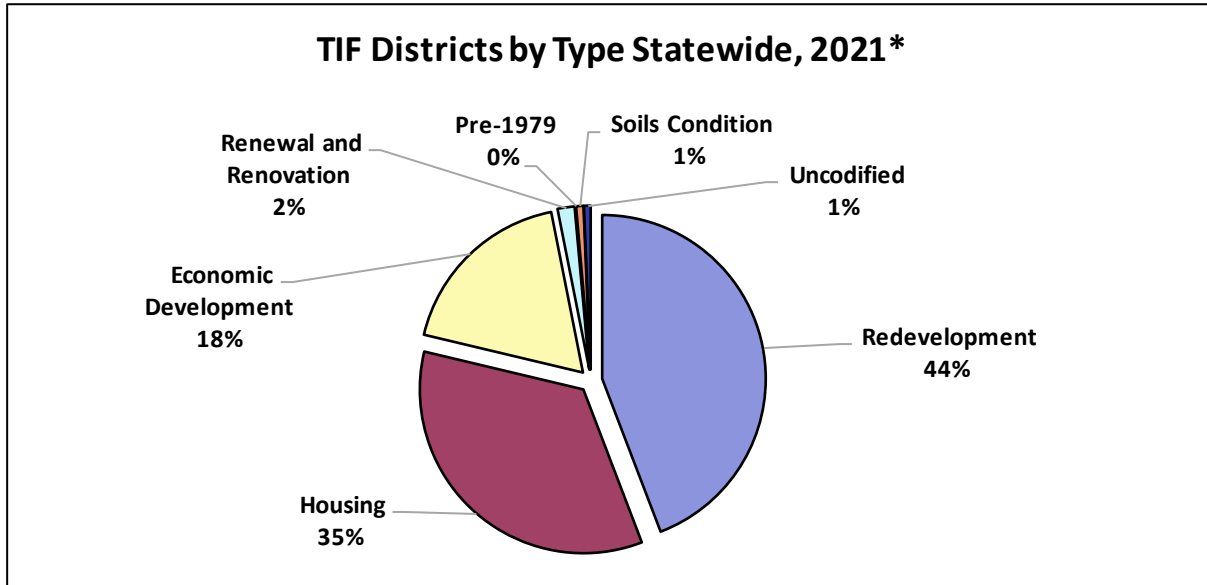
In 2021, redevelopment districts made up 44 percent of all TIF districts statewide, followed by housing districts at 35 percent, and economic development districts at 18 percent. Combined, these three types made up 97 percent of all districts. (See Figure 2.)

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<sup>34</sup> The number of districts being reported includes districts that are decertified but must continue to report due to remaining tax increment assets.



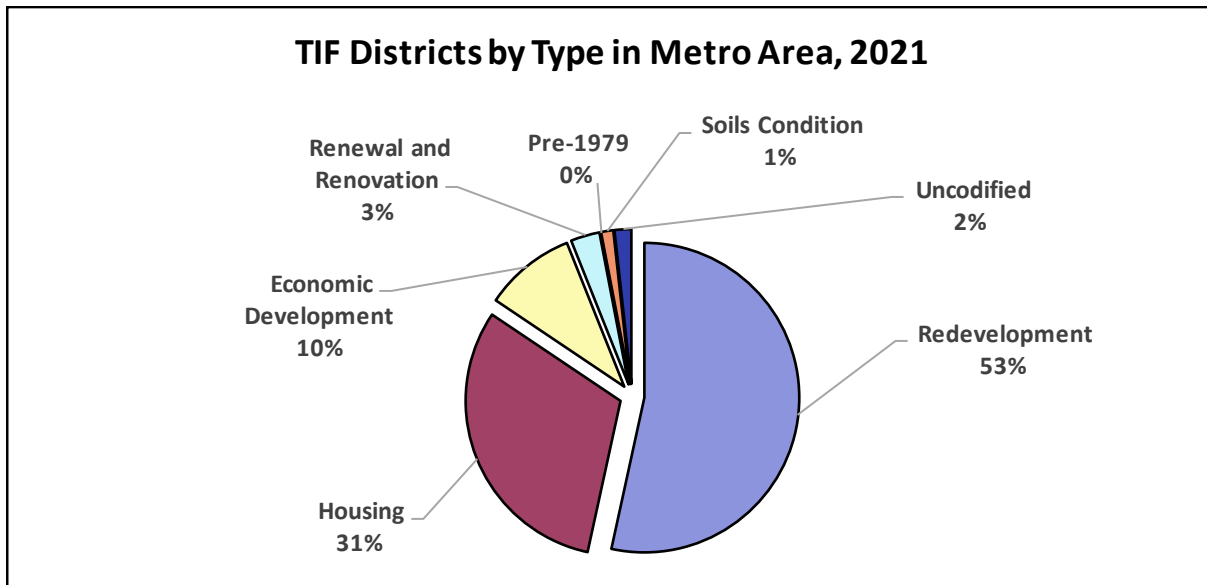
Figure 2.



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

In the Metro Area, redevelopment districts made up over half (53 percent) of all districts, followed by housing districts at 31 percent, and economic development districts at ten percent. (See Figure 3.)

Figure 3.



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 significantly smaller portion of districts compared to the Metro Area, while economic development districts in particular were far more prevalent in Greater Minnesota. (See Figure 4.)

**Figure 4.**

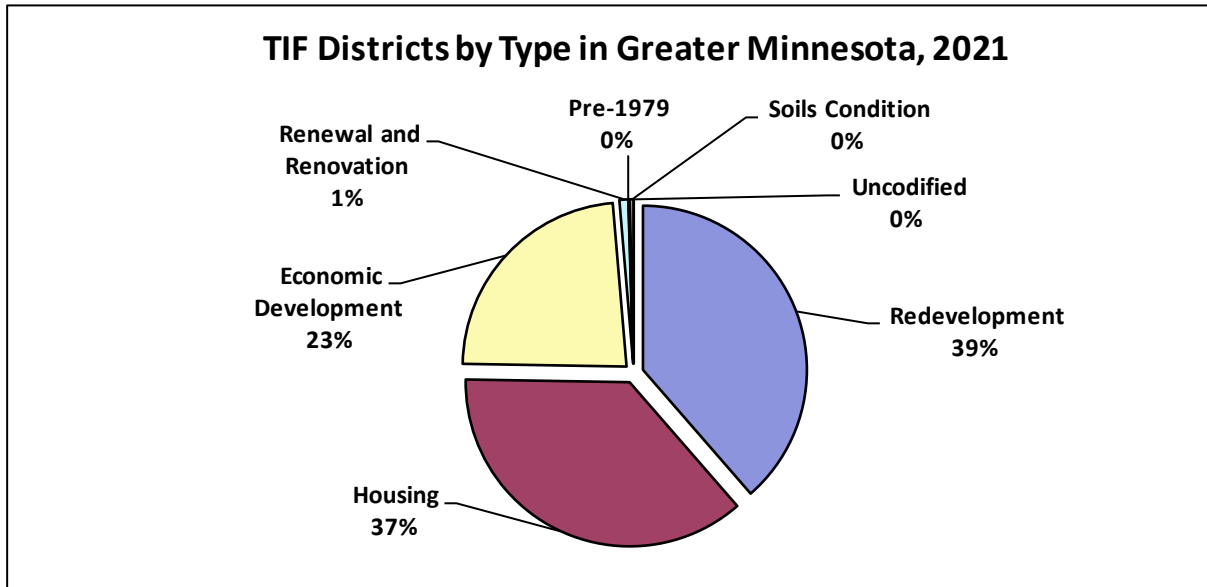
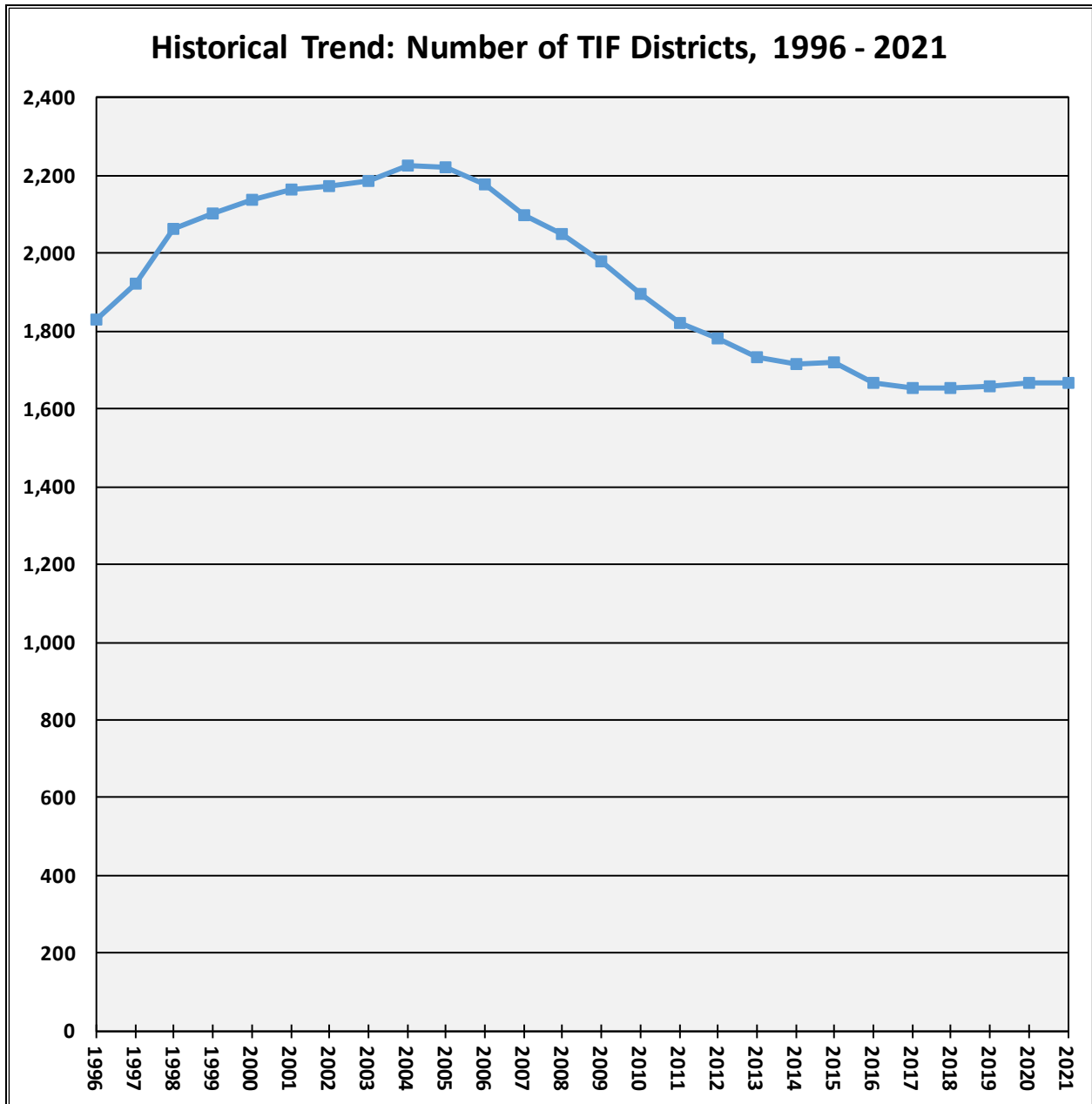


Figure 5 shows the total number of districts reporting to the OSA for each year since 1996, which is when the OSA began oversight of TIF. Between 1996 and 2004, the number of TIF districts increased each year. From 2004 to 2016, the total number had declined each year, except for a very slight increase of two districts in 2015. This decline reflected, among other things, large numbers of older districts created prior to moderating reforms in 1990 reaching their statutory duration limits. With the majority of pre-1990 districts having decertified, the number of districts since 2016 has largely remained constant at between 1,653 and 1,668 districts. The 1,668 districts reporting for 2021 is up less than a percent (two districts) from the 1,666 reporting in 2020.

Figure 5.



## New Districts Certified

In 2021, 99 new TIF districts were certified, 20 more than the 79 new districts certified in 2020. Figure 6 shows new district certifications by type over the past five years. The number of certifications in 2021 was the highest in the last five years. It may be that some activity was delayed by the uncertainty of the pandemic in 2020, but the 2021 amount is not too different from levels seen in the three years prior to the pandemic. The trends among types of districts are varied, but redevelopment district certifications rose to match those of housing districts, both of which significantly outpaced economic development districts for a second year in a row.

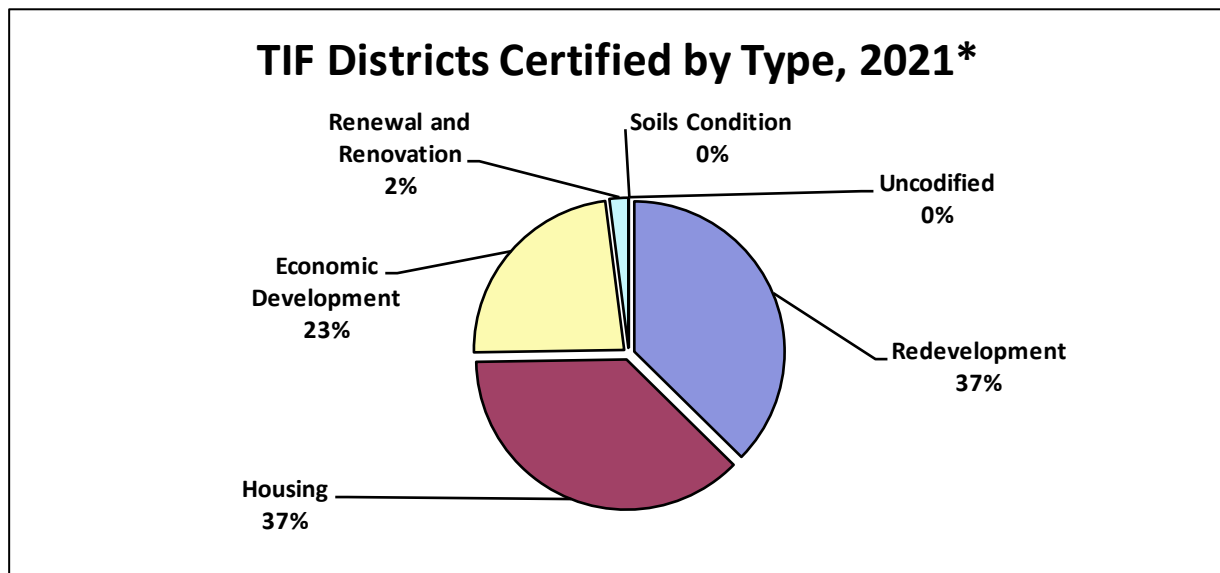
Figure 6.

**Number of TIF Districts Certified by Type, 2017 - 2021**

	2017	2018	2019	2020	2021
Redevelopment	34	32	29	24	37
Housing	29	35	34	34	37
Economic Development	28	23	31	19	23
Renewal and Renovation	1	2	1	0	2
Soils Condition	0	2	1	2	0
Uncodified	0	1	2	0	0
<b>Total</b>	<b>92</b>	<b>95</b>	<b>98</b>	<b>79</b>	<b>99</b>

In 2021, redevelopment districts and housing districts each accounted for 37 percent of new districts. Economic development districts made up 23 percent, with renewal and renovation districts 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 driven by the satisfaction of in-district obligations (where decertification may be required by the Six-Year Rule), or as a result of reaching duration limits.<sup>35</sup>

In 2021, 84 districts were decertified, down 15 percent from 2020. Figure 8 displays decertifications by type of district for the last five years, which is largely marked by variability.

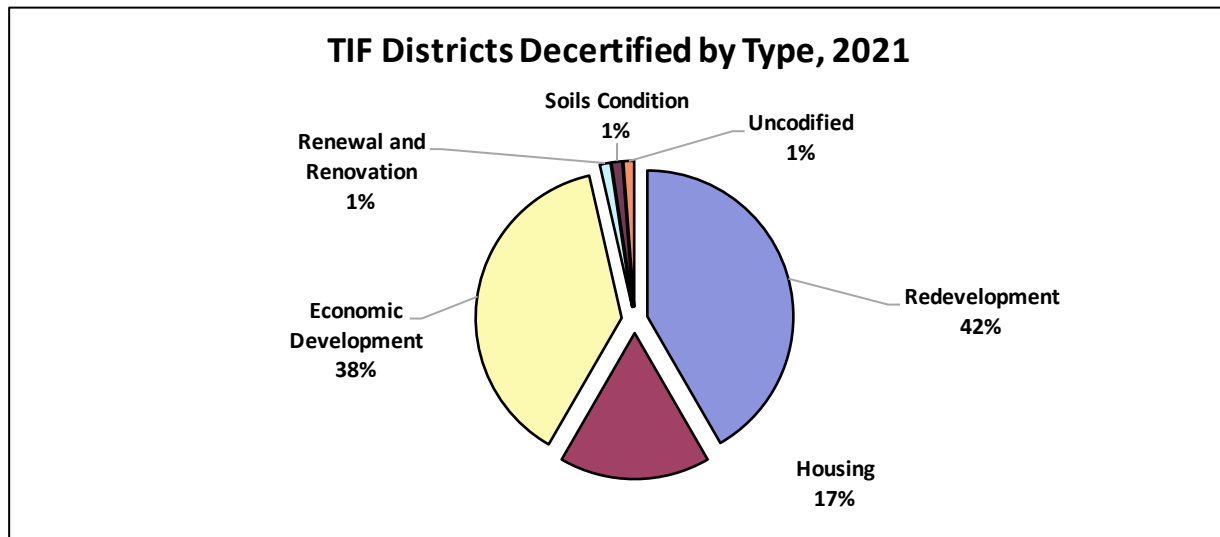
**Figure 8.**

**Number of TIF Districts Decertified by Type, 2017 - 2021**

	2017	2018	2019	2020	2021
Redevelopment	36	40	27	36	35
Housing	12	23	23	26	14
Economic Development	28	29	14	35	32
Renewal and Renovation	1	1	1	2	1
Soils Condition	0	0	1	0	1
Uncodified	0	0	0	0	1
<b>Total</b>	<b>77</b>	<b>93</b>	<b>66</b>	<b>99</b>	<b>84</b>

In 2021, 42 percent of decertified districts were redevelopment districts, 38 percent were economic development districts, and 17 percent were housing districts. (See Figure 9.)

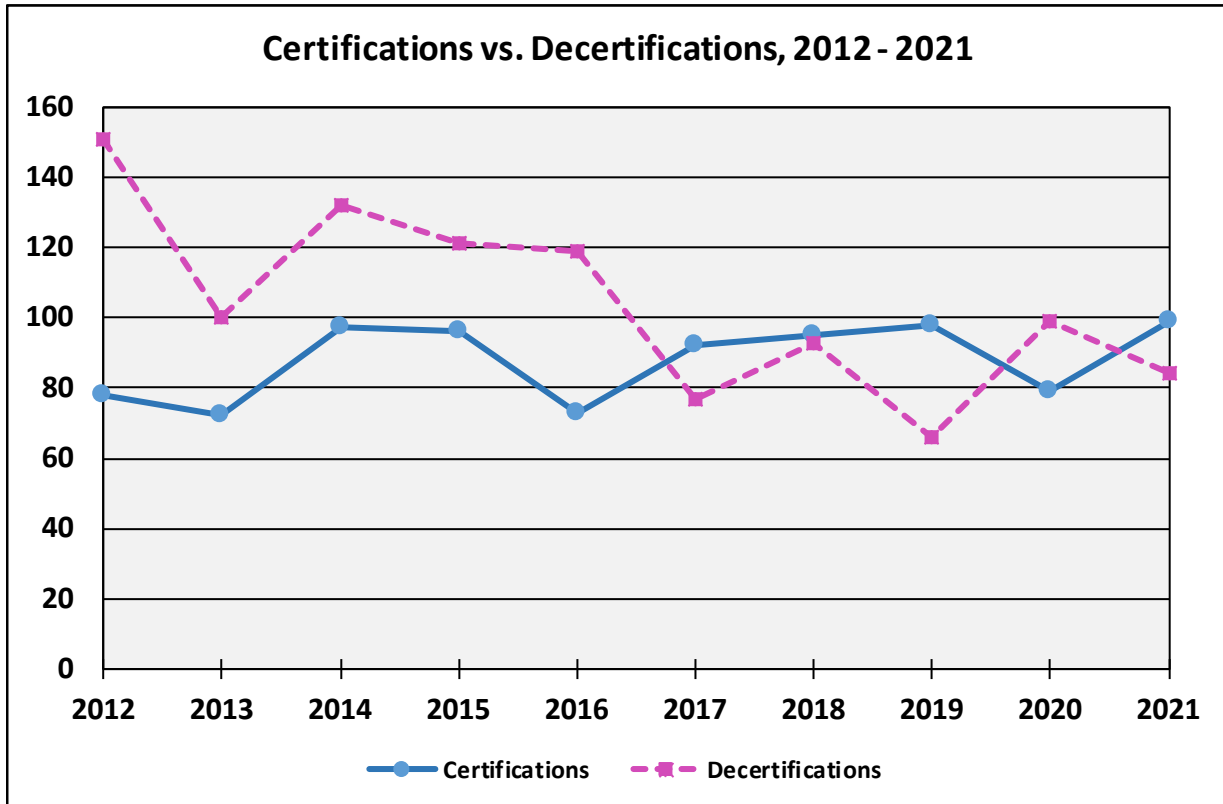
**Figure 9.**



<sup>35</sup> The Five-Year Rule (Minn. Stat. § 469.1763, subd. 3) generally identifies “in-district” obligations as 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 or set aside a portion of increment to pay in-district obligations, and to decertify when those obligations are paid or when sufficient increment has been set aside.

Figure 10 shows ten-year trends for both new certifications and decertifications. New certifications have largely been more consistent over the period, while decertifications have been more variable, with levels in recent years more comparable to those of new certifications. With fewer pre-1990 districts likely being reflected in the number of decertifications, it is likely that fewer districts will run their full duration because of the Six-Year Rule and other provisions enacted in 1990.

**Figure 10.**



The prevalence of early decertification is seen in Figure 11, which compares, for districts that decertified from 2017 through 2021, the number of districts that decertified early versus those that ran for their full duration.

Figure 11.

**Decertifications 2017 - 2021: Full Duration vs. Early Decertification\***

District Type / (Max. Duration <sup>36</sup> )	Decertified Districts	Lasted Full Duration	Decertified Early Percent	Decertified Early Avg. Yrs
Redevelopment (26 years)	174	22%	78%	10
Housing (26 years)	98	22%	78%	9
Economic Development (9 years)	138	62%	38%	4
Renewal and Renovation (16 years)	6	100%	0%	0
Soils Condition (21 years)	2	0%	100%	3

\*Durations are measured by comparing "year of actual decertification" to "year of required decertification" reported by the authority and based on the 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 2017 to 2021, 78 percent of redevelopment and housing districts decertified early, while 38 percent of economic development districts decertified early. The lower rate for economic development districts is to be expected given their shorter statutory duration limit. The early decertification rate for housing districts has stayed consistently close to 80 percent since this metric was first included in the 2014 TIF Legislative Report. The rate of early decertification for redevelopment districts has increased each year from a low of 48 percent in the 2015 TIF Legislative Report and is up significantly from the 70 percent five-year rate reported in 2020.<sup>37</sup> The 38 percent early decertification rate for economic development districts is up slightly from last year's 37 percent rate but has risen in the last three years from reported rates ranging from 22 to 25 percent in TIF Legislative Reports prior to 2019.<sup>38</sup>

Figure 11 also displays, by district type, the average number of years prior to the statutory maximum duration that the early decertifying districts decertified. Redevelopment and housing districts have, on average, decertified ten and nine years earlier than their respective statutory duration limits. Economic development districts that decertified early, decertified four years early on average. Therefore, early decertification is more significant than merely reducing value capture by a year or two.

Overall, it is quite noteworthy that most districts are decertifying early. Whether authorities have embraced early decertification and the idea of making the new value available to the tax base as soon as possible, or whether the Six-Year Rule is driving this phenomenon, maximum durations are no longer the norm.

<sup>36</sup> This table was changed compared to previous years' reports to express the maximum durations in terms of the number of years of increment that may be received instead of the number of years after first receipt.

<sup>37</sup> See prior TIF Legislative Reports for each year's data.

<sup>38</sup> The 2019 TIF Legislative Report identified a five-year rate of 30 percent for economic development districts.

## Tax Increment Revenue

In 2021, approximately \$241 million of tax increment revenue was generated statewide. While most districts are located in Greater Minnesota, most tax increment revenue is generated in the Metro Area. Approximately \$194 million of tax increment, or 81 percent, was generated in the Metro Area in 2021. (See Figure 12.)

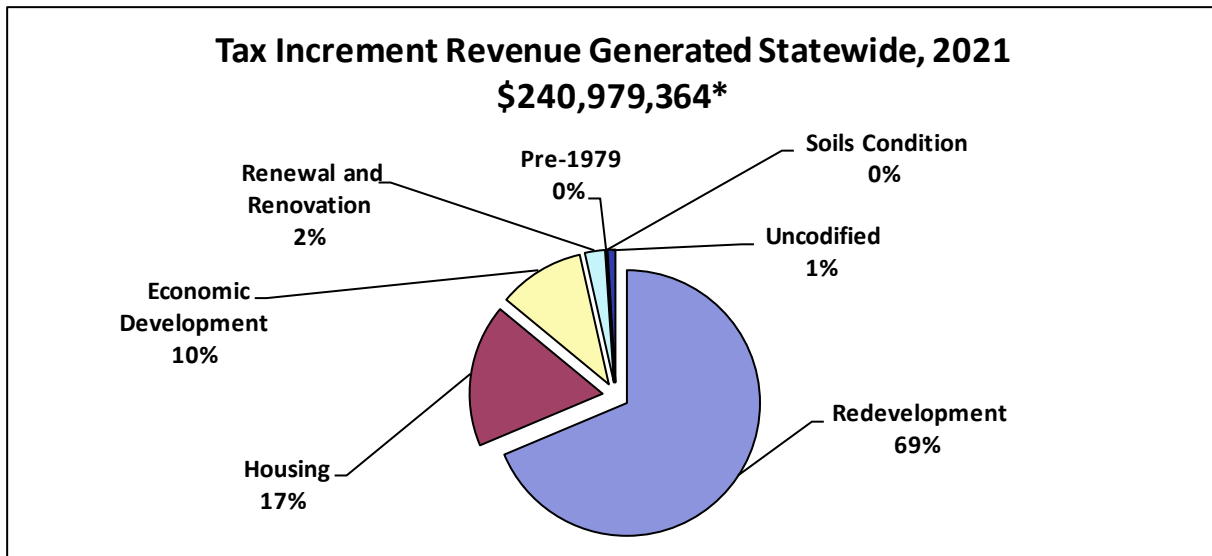
Figure 12.

### Revenue Generated by Type: Statewide, Greater MN, & Metro Area; 2021

Type of District	Statewide	Greater MN	Metro Area
Redevelopment	\$ 165,436,568	\$ 22,367,503	\$ 143,069,065
Housing	\$ 41,788,047	\$ 13,262,653	\$ 28,525,394
Economic Development	\$ 25,290,125	\$ 10,359,261	\$ 14,930,864
Renewal and Renovation	\$ 5,900,638	\$ 771,051	\$ 5,129,587
Pre-1979	\$ -	\$ -	\$ -
Soils Condition	\$ 274,255	\$ 102,898	\$ 171,357
Uncodified	\$ 2,289,731	\$ -	\$ 2,289,731
<b>Total</b>	<b>\$ 240,979,364</b>	<b>\$ 46,863,366</b>	<b>\$ 194,115,998</b>

Figures 13, 14, and 15 illustrate the mixes of tax increment revenue generated in 2021 by type of district for the whole state, the Metro Area, and Greater Minnesota, respectively.

Figure 13.

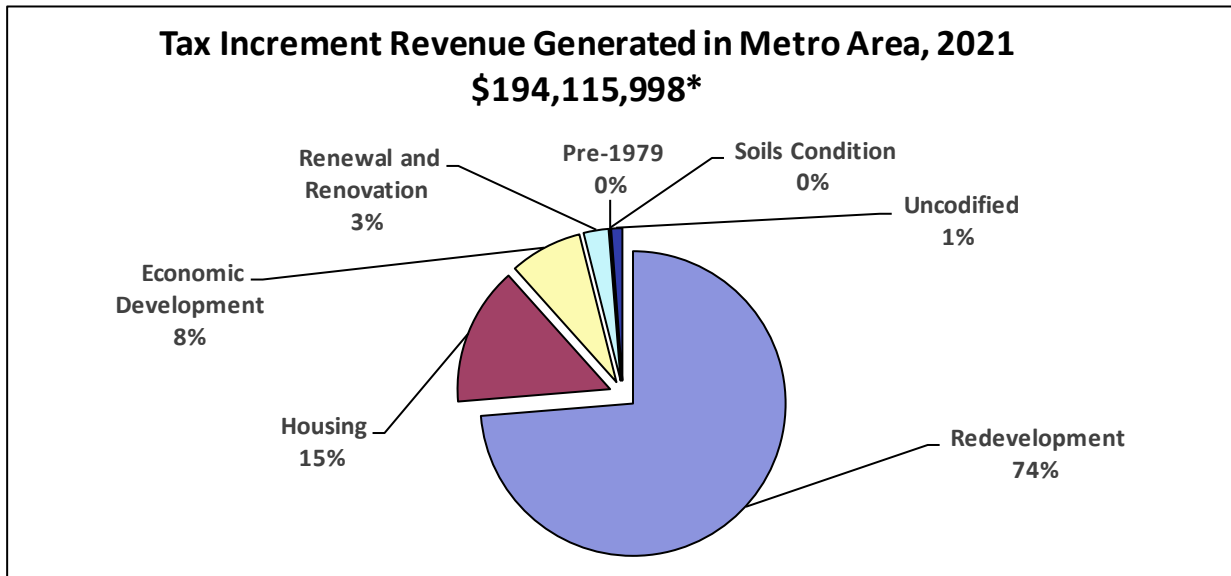


\*Due to rounding, the sum of the percentages does not equal 100 percent.



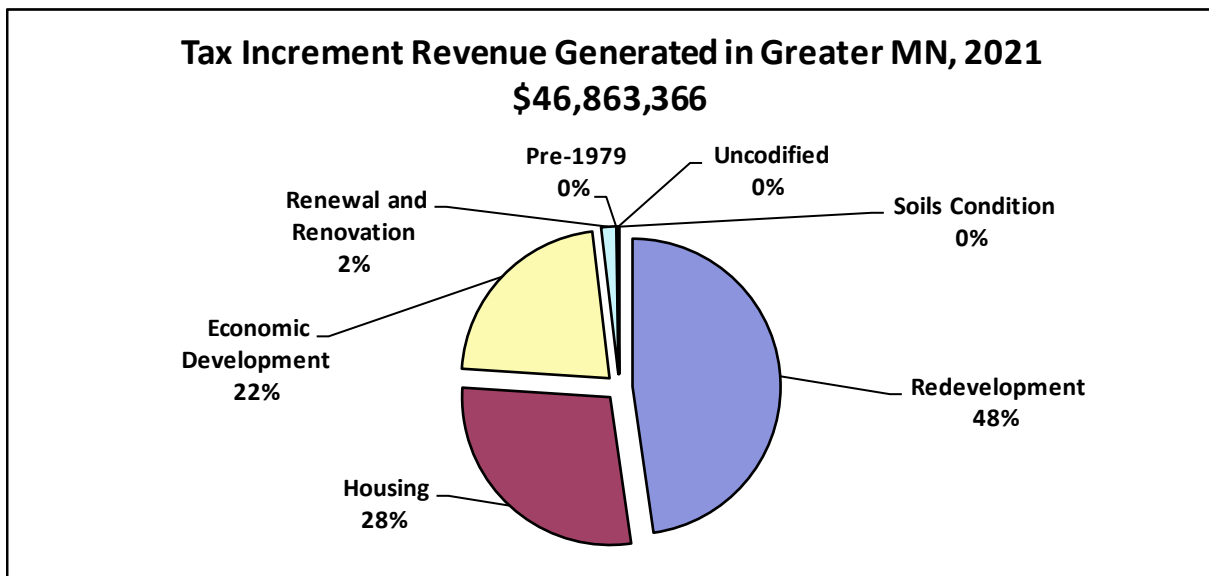
Statewide, while redevelopment districts made up 44 percent of the TIF districts, they generated 69 percent of total tax increment revenue. This is driven by districts in the Metro Area, where redevelopment districts generated 74 percent of the tax increment revenue despite representing only 53 percent of the districts. In Greater Minnesota, the share of increment from redevelopment districts also outsizes their share of the number of districts, but to a much smaller degree (48 percent of revenue versus 39 percent of districts).

Figure 14.



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

Figure 15.



In 2021, tax increment revenue decreased nearly seven percent over the approximately \$260 million generated in 2020. Figure 16 shows the total tax increment revenue over the last ten years. The 2021 total was slightly under the revenue total from two years ago, although the totals for the past three years exceeded prior years over the past decade.

**Figure 16.**

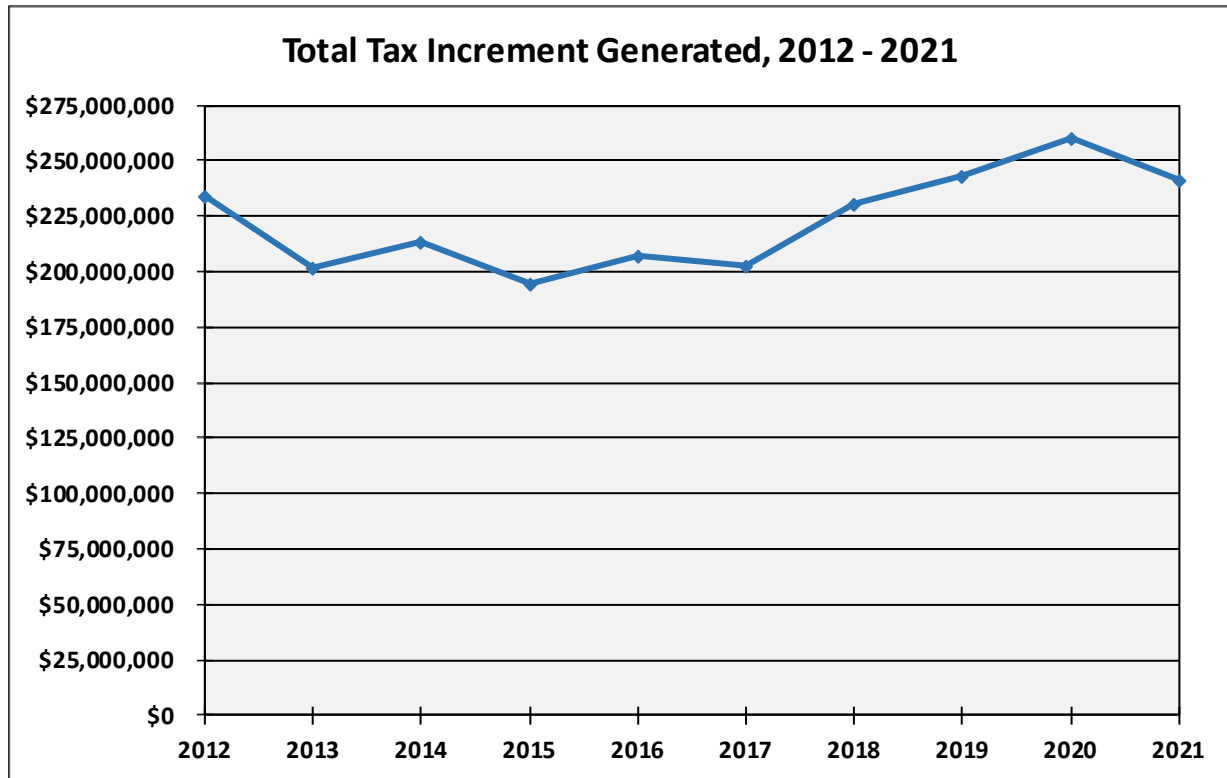
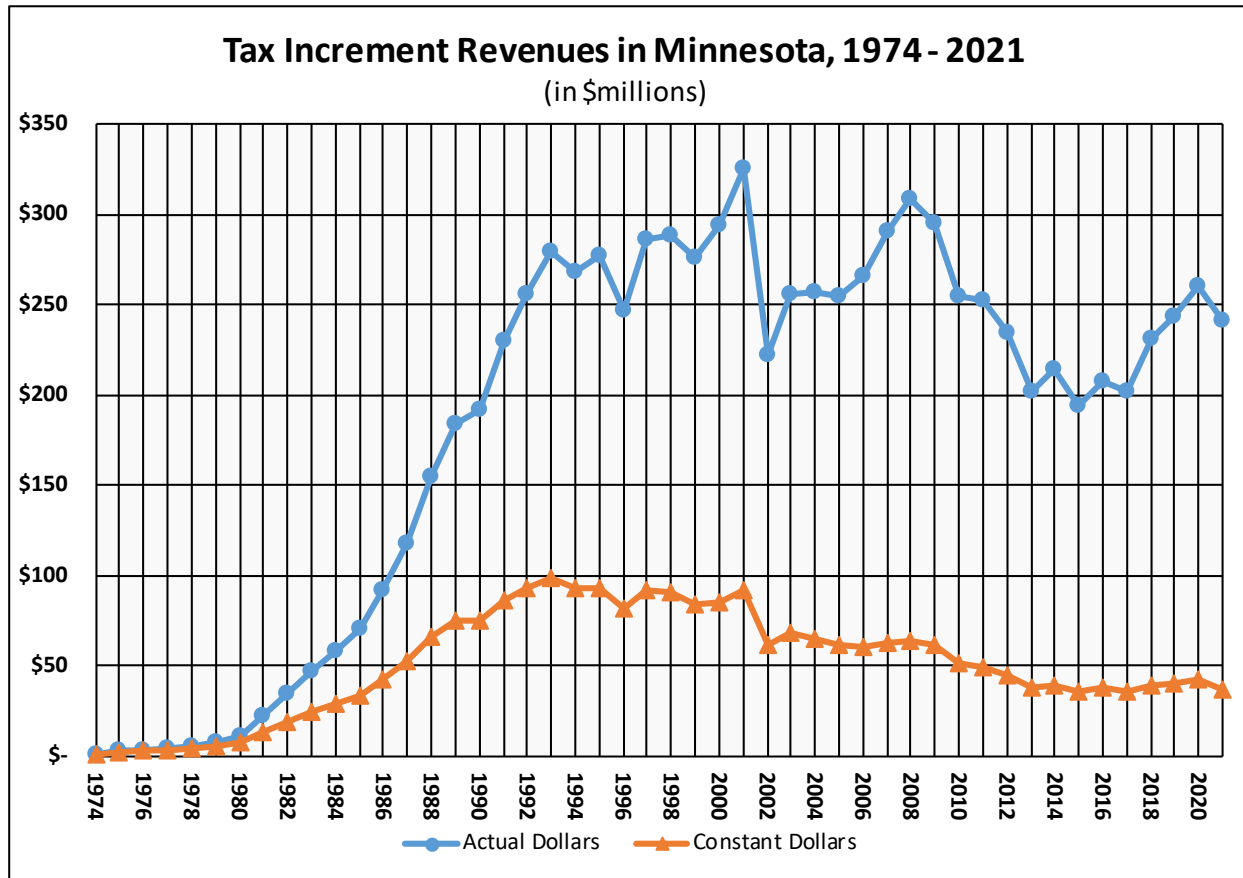


Figure 17 provides a longer view of tax increment revenue, illustrating the fully-recorded span of TIF usage in Minnesota, both in actual dollars and inflation-adjusted, or constant, dollars.<sup>39</sup> The substantial decline in revenue in 2002 reflects the impact of class rate reductions from the 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 2021 drop ended three consecutive years of increases after a five-year stretch of modest ups and downs. In inflation-adjusted constant dollars, the past decade of revenues has been less than totals in the previous two decades and is more on par with totals from the mid-1980s.

<sup>39</sup> “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 2022).

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 - 2021 actual dollars).<sup>40</sup> Constant dollars have been calculated by the OSA.

### Returned Tax Increment

In 2021, development authorities returned \$8,576,519 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 exceeding 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).

<sup>40</sup> 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.

## 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 generally realized 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 of tax increment revenues potentially being insufficient to pay the bonds, are important topics in tax increment financing.

The TIF Act defines bonds broadly to include: <sup>41</sup>

- General Obligation (GO) Bonds;
- Revenue Bonds;
- Interfund Loans;
- Pay-As-You-Go (PAYG) Obligations; and
- 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 revenue generated from the TIF district (and possibly other revenues like special assessments) 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.<sup>42</sup> The authority or municipality bears the risks if the tax increment generated is not sufficient to repay the interfund loan.

**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.

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<sup>41</sup> See Minn. Stat. § 469.174, subd. 3.

<sup>42</sup> Minn. Stat. § 469.178, subd. 7. Terms may be modified or amended.

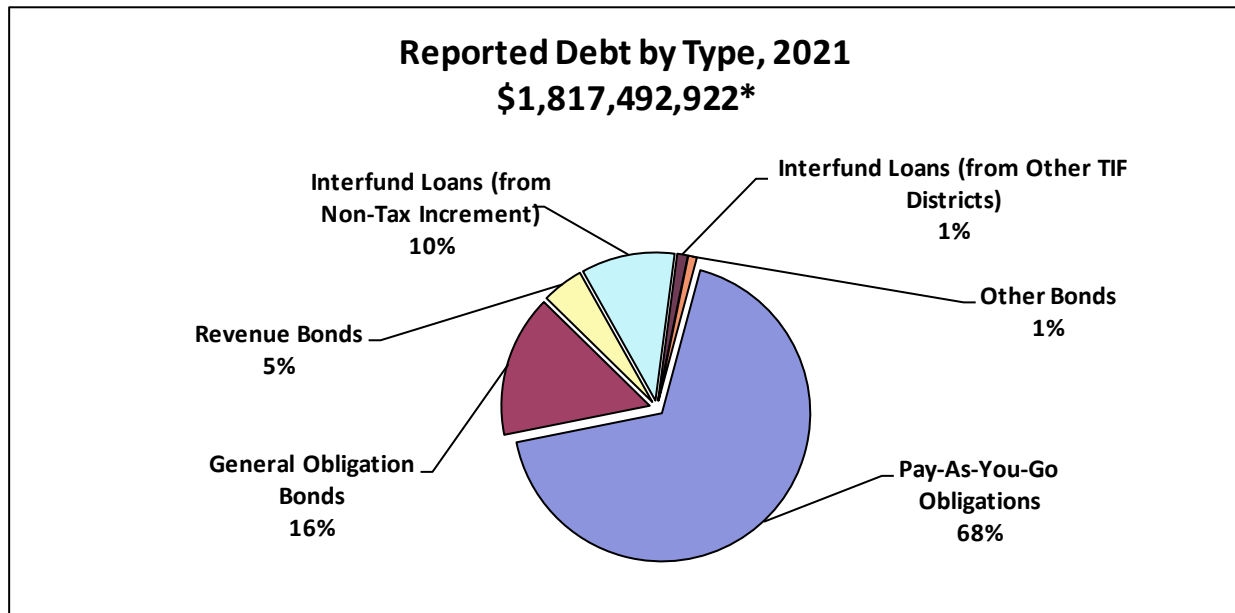
Figures 18 and 19 identify and illustrate the amount of debt by type of obligation for 2021. In 2021, there was a total of \$1.8 billion of outstanding debt associated with TIF districts, an increase of eight percent from 2020. PAYG obligations were the predominant type of debt, making up 68 percent of the debt reported (up from 66 percent in 2020). GO bonds comprised about 16 percent of the total debt. Interfund loans (mostly from non-tax increment accounts) made up 11 percent of total debt. Revenue bonds made up five percent of total debt, and other bonds made up the rest.

**Figure 18.**

**Reported Amount of Debt by Type, 2021**

Type of Debt	Amount Outstanding
Pay-As-You-Go Obligations	\$1,230,190,804
General Obligation Bonds	\$281,718,621
Revenue Bonds	\$82,273,162
Interfund Loans (from Non-Tax Increment)	\$185,198,307
Interfund Loans (from Other TIF Districts)	\$20,971,414
Other Bonds	\$17,140,614
<b>Total</b>	<b>\$1,817,492,922</b>

**Figure 19.**



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

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## Findings and Responses

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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 eliminate 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.<sup>43</sup> This section of the Report summarizes the TIF legal compliance reviews and investigations concluded as of December 31, 2022. An Initial Notice and Final Notice were sent to the following municipality:

1. City of Blaine – An Initial Notice was sent on October 31, 2022. A Response from the City of Blaine was received on December 5, 2022. A Final Notice was sent on December 7, 2022. (Appendix A.)

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<sup>43</sup> Minn. Stat. § 469.1771, subd. 1(c).

## **Excess Increment**

### **City of Blaine**

#### *TIF District 1-11*

In the Initial Notice, the OSA found that the City of Blaine failed to properly report and return excess increment equaling \$54,699 for the City's TIF District No. 1-11.

In the City Response, the City provided documentation that \$54,699 was returned to the Anoka County Auditor. The OSA considered this Finding Resolved.

# **Appendix A**





**Julie Blaha**  
State Auditor

Suite 500  
525 Park Street  
Saint Paul, MN 55103

October 31, 2022

The Honorable Tim Sanders, Mayor  
The Honorable Wes Hovland, Council Member  
The Honorable Tom Newland, Council Member  
The Honorable Jess Robertson, Council Member  
The Honorable Julie Jeppson, Council Member  
The Honorable Chris Massoglia, Council Member  
The Honorable Richard Paul, Council Member

**City of Blaine**

10801 Town Square Drive NE  
Blaine, MN 55449

Re: TIF District 1-11 – Initial Notice of Noncompliance

Dear Mayor Sanders and Council Members:

The Office of the State Auditor (OSA) has examined pertinent information regarding TIF District 1-11 (Pheasant Ridge), a redevelopment district established in 1987 by the City of Blaine (City) and the City of Blaine's Housing and Redevelopment Authority (HRA), and subsequently transferred to the City of Blaine's Economic Development Authority (EDA). This information includes the tax increment financing (TIF) plan, audited financial reports, annual reporting forms, and responses from the City to OSA inquiries. Based on its review, the OSA finds that the City and EDA appear to be out of compliance with the TIF Act.<sup>1</sup> This Initial Notice of Noncompliance (Initial Notice) contains one OSA finding (Finding) and one comment (Comment).

State law requires the City to send its response to the Initial Notice (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.<sup>2</sup> After reviewing the Response, the OSA is required to forward information on any unresolved issues to the Anoka County Attorney for review.<sup>3</sup>

If the City pays to Anoka 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.<sup>4</sup>

All data relating to this examination, including this Initial Notice and the City's Response, are not public until the OSA has issued its Final Notice.<sup>5</sup>

<sup>1</sup>See Minn. Stat. §§ 469.174 to 469.1799 inclusive, as amended.

<sup>2</sup>Minn. Stat. § 469.1771, subd. 1 (c).

<sup>3</sup>Minn. Stat. § 469.1771, subd. 1 (b).

<sup>4</sup>Minn. Stat. § 469.1771, subd. 5.

<sup>5</sup>See 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

## OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Blaine  
October 31, 2022  
Page 2

### FINDING OF NONCOMPLIANCE

The OSA's finding of noncompliance is as follows:

#### **Finding 1. City of Blaine TIF District No. 1-11 – Excess Increment**

Excess increment is increment that exceeds the amount necessary to pay the costs authorized in the TIF plan.<sup>6</sup> 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.<sup>7</sup> Excess increment must be returned to the county auditor or be used to prepay, discharge, or escrow funds for any outstanding bonds within nine months after the end of each year.<sup>8</sup>

According to TIF Annual Reporting forms for the City's TIF District No. 1-11, the district first incurred a balance of excess increment in 2012, prior to the district being decertified in 2013. Excess increments were reported in each subsequent year without return or proper disposition within nine months of each year as is required by statute, until the 2018 balance of \$452,502 was returned in August of 2019.<sup>9</sup> With one exception, the balance of excess increment had been increasing each year due to interest earnings.<sup>10</sup> Reporting of interest earnings ceased in 2019 despite the continued presence of a large balance of investments. When questioned, the City indicated that when it realized that continued investment earnings would cause additional excess increment each year until the fund was closed, the City reallocated the interest earnings totaling \$54,699 to a consolidated TIF Revolving Fund, and as of the end of 2021, the TIF District 1-11 had no funds remaining due to the City's purchase of property with those funds.<sup>11</sup>

The TIF Act requires tax increment received with respect to any district to be segregated in a special account or accounts.<sup>12</sup> The TIF Act also defines tax increment for a district to include interest or other investment earnings on or from tax increments.<sup>13</sup> Statute also requires the interest and profits or loss on investments to be credited or charged to the fund from which the investment was made.<sup>14</sup> As such, the City should have reported interest and investment earnings for 2019 through 2021 as tax increment for TIF District No. 1-11, and the interest and earnings should have been identified and returned to the County as excess increment.

We find that the City of Blaine has failed to properly report and return excess increment equaling \$54,699 for the City's TIF District No. 1-11, in violation of the TIF Act. Therefore, the City must return this amount

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same classification.).

<sup>6</sup>Minn. Stat. § 469.176, subd. 2.

<sup>7</sup>Minn. Stat. § 469.176, subd. 2(b).

<sup>8</sup>Minn. Stat. § 469.176, subd. 2(a) and (c).

<sup>9</sup> Anoka County reported it received the returned increment on August 8, 2019.

<sup>10</sup>The exception was a downward adjustment of excess increment from \$899,487 in 2015 to \$415,177 in 2016 to remove investment earnings collected prior to investment earnings being included in the definition of tax increment. (See footnote 13.)

<sup>11</sup>Email from Bonnie Friedrich, Finance Supervisor/Accounting, City of Blaine, dated October 13, 2022.

<sup>12</sup>Minn. Stat. § 469.177, subd. 5.

<sup>13</sup>Minn. Stat. § 469.174, subd. 25. The inclusion of interest or other investment earnings as tax increment was made effective for payments and investment earnings received after July 1, 1997. (See Minn. Laws 1997, chapter 231, article 10, sections 2 and 25.)

<sup>14</sup>Minn. Stat. § 118A.02, subd. 2(a).

## OFFICE OF THE STATE AUDITOR

Mayor and Council, City of Blaine  
October 31, 2022  
Page 3

to the county auditor. The county auditor shall then redistribute these returned funds in the manner provided by the TIF Act based on the City's Response to this Notice.<sup>15</sup>

When the City provides documentation that it returned **\$54,699** to the Anoka 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. Future Sales and Lease Proceeds Require TIF Act Compliance**

The balance of tax increment for TIF District No. 1-11, along with other funds, was used to purchase property that is accounted as part of Blaine's General Fixed Assets.<sup>16</sup> With the district decertified and no remaining revenues derived from tax increments paid by properties in the district, the duration of disclosure and reporting requirements has been reached as of 2021.<sup>17</sup> However, the TIF Act defines tax increment to include the proceeds from the sale or lease of property, tangible or intangible, to the extent the property was purchased by the authority with tax increments.<sup>18</sup> Therefore, if this (or any other) property that was purchased with tax increments is sold or leased in the future, the proceeds will be considered tax increment, subject to any applicable limitations on tax increment, and the City must return the proceeds to the County as excess increment.

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

### CONCLUSION

The City's Response 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: Joe Huss, Finance Director

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<sup>15</sup>See Minn. Stat. § 469.1771, subd. 5.

<sup>16</sup>Email from Bonnie Friedrich, Finance Supervisor/Accounting, City of Blaine, dated October 13, 2022.

<sup>17</sup>Minn. Stat. § 469.175, subd. 6b.

<sup>18</sup>Minn. Stat. § 469.174, subd. 25.



## City of Blaine

10801 Town Square Drive NE  
Blaine MN 55449-8100  
City Hall 763-784-6700 | [BlaineMN.gov](http://BlaineMN.gov)

**DATE:** December 5, 2022

**TO:** Jason Nord  
Assistant State Auditor, TIF Division Director

**FROM:** Joe Huss, Finance Director/Asst. City Manager

**SUBJECT:** TIF District 1-11 – Final Payment

Dear Mr. Nord,

Pursuant to previous correspondence, please see the attached documentation that shows the City of Blaine has processed and remitted a payment for \$54,699 to the Anoka County Auditor for excess increment collected in 2019, 2020, and 2021 for TIF District 1-11.

It is the city's understanding that this payment brings the issue to closure. The city respectfully asks that you confirm this at your earliest convenience or let us know if there is additional information or documentation required at this time.

Joe Huss  
Finance Director/Asst. City Manager

CC Michelle Wolfe, City Manager  
Erik Thorvig, Community Development Director  
Ali Bong, Deputy Finance Director  
Bonnie Friedrich, Accounting Supervisor



**Julie Blaha**  
State Auditor

Suite 500  
525 Park Street  
Saint Paul, MN 55103

December 7, 2022

The Honorable Tim Sanders, Mayor  
The Honorable Wes Hovland, Council Member  
The Honorable Tom Newland, Council Member  
The Honorable Jess Robertson, Council Member  
The Honorable Julie Jeppson, Council Member  
The Honorable Chris Massoglia, Council Member  
The Honorable Richard Paul, Council Member

**City of Blaine**

10801 Town Square Drive NE  
Blaine, MN 55449

Re: TIF District 1-11 – Final Notice of Noncompliance

Dear Mayor Sanders and Council Members:

On October 31, 2022, the Office of the State Auditor (OSA) sent the City of Blaine (City) an Initial Notice of Noncompliance (Initial Notice) containing one OSA finding (Finding) for TIF District No. 1-11. The OSA received the City's Response (City Response) on December 5, 2022.

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. City of Blaine TIF District No. 1-11 – Excess Increment – RESOLVED**

In the Initial Notice, the OSA found that the City of Blaine, had failed to properly report and return excess increment equaling \$54,699 for the City's TIF District No. 1-11, in violation of the TIF Act.

In the City Response, the City provided documentation that \$54,699 was returned to the Anoka County Auditor, for the excess increment at issue.

**CONCLUSION**

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

**OFFICE OF THE STATE AUDITOR**

Mayor and Council, City of Blaine

December 7, 2022

Page 2

If you have any questions, please contact me at (651) 296-7979 or [Jason.Nord@osa.state.mn.us](mailto:Jason.Nord@osa.state.mn.us).

Sincerely,

*/s/ Jason Nord*

Jason Nord  
Assistant State Auditor  
TIF Division Director

cc: Joe Huss, Finance Director