STATE OF MINNESOTA
Office of the State Auditor

Patricia Anderson
State Auditor

TAX INCREMENT FINANCING LEGISLATIVE REPORT

TIF Reports For the Year Ended December 31, 2005
TIF Audits Concluded For the Year Ended December 31, 2006

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

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 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

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

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

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

Pension Oversight - monitors investment, financial, and actuarial reporting for over 700 public pension funds;

Tax Increment Financing (TIF) - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits;

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

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TAX INCREMENT FINANCING
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TIF Reports For the Year Ended December 31, 2005
TIF Audits Concluded For the Year Ended December 31, 2006

December 13, 2006

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Office of the State Auditor
State of Minnesota

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TAX INCREMENT FINANCING REPORT

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EXECUTIVE SUMMARY

This is the eleventh year the Tax Increment Financing (TIF) Division of the Office of the State Auditor (State Auditor) has compiled information, conducted audits and submitted an annual TIF Legislative Report. The information compiled in this report is from the approximately 2,200 unaudited TIF reports of municipalities and TIF authorities submitted for 2005, as well as the TIF field audits concluded for the year ended December 31, 2006.

To check the accuracy of information in the TIF reports, the TIF Division reviewed data in the reports against the information in each district's TIF plan, as well as cross-checking information with the Department of Revenue, county auditors, city finance officers and accountants.

This year more emphasis was given to desk audits than to field audits, permitting more authorities to be reviewed. The ability to review more authorities annually results in identifying potential TIF problems before the problems became violations, and catching violations before they became insurmountable. A series of seven round-table training sessions were held throughout the state to give hands-on assistance to new authority representatives in filling out the annual TIF reports to increase reporting accuracy.

The information in the Legislative Report was geographically organized this year by (i) the state as a whole, (ii) the seven county metropolitan area (Metro Area), (iii) the non-metropolitan area (Greater Minnesota), and (iv) regional development areas. The reason for including regional development areas was that the job opportunity business zone (JOBZ) program is structured, with some variations, within the existing regional development areas. Inasmuch as our office is often asked to compare the use of TIF as a development tool to JOBZ, we believe breaking out TIF use by regional development areas could be helpful for comparisons.

The scope of the TIF statistical information included in this year's Legislature Report has increased. Following are some of the TIF statistics in the Legislative Report that may be of interest.

- Ninety-five percent of the types of TIF districts statewide are redevelopment, economic development, and housing TIF districts. [*See page 12 of the report for a more complete description of these types of districts*.]

- The redevelopment district, used in conjunction with the clearance of blighted property in developed areas, is the most utilized type of TIF district in both the Metro Area and in Greater Minnesota. Redevelopment districts make up 54% of the districts in the Metro Area and 41% of the districts in Greater Minnesota.

- Comparing 2002 with year 2005, the number of redevelopment TIF districts certified in the State has remained relatively constant. This implies that the enactment of the 2001 Property Tax Reform Act has not significantly impacted the use of redevelopment districts.

- The economic development district, used primarily for job creation of non-commercial facilities constructed on bare land, is second in number of TIF districts, making up 31% of the districts in Greater Minnesota and 16% of the districts in the Metro Area.

- There were fewer economic development districts certified in 2005 than in 2003 and 2004. Substantially more economic development districts were decertified in 2005 than were districts created. JOBZ, also a job production incentive program, may be a factor in these statistics but we do not have sufficient information related to the JOBZ program to validate this assumption.

- Housing districts, used to assist development of owner-occupied and rental low-and-moderate-income housing, make up 25% of the districts in Greater Minnesota and slightly more than 19% in the Metro area. There were more than twice as many housing districts certified in 2005 than were decertified.

- Although ranked third behind redevelopment and economic development districts, 85% of the existing housing districts have been created since 1990, with 45% of all housing districts created since 2000. This would indicate a need for low-and-moderate income housing and an increasing trend for local TIF assistance in meeting this need.

- The average decline of TIF revenue per district from an average high of $150,253 in 2001 to a low of $102,227 in 2002 is likely the result of the 2001 elimination of the local education levy subject to capture by TIF authorities. The average TIF revenue per district has increased slightly since 2002 and has been steady over the last three years. The average TIF revenues per district in 2005 was $115,165.

- Approximately 80% of the total amount of TIF revenue generated in 2005 was generated from TIF districts located within the Metro Area. Region 3, which includes the City of Duluth, is the second ranking region in average TIF revenues per district. This indicates that densely populated urban cities are the biggest users of TIF.

- Of the authorities in the Metro Area, the authority with the highest per capita TIF use is the City of Lilydale, followed by the City of Rogers. The per capita rankings of Lilydale and Rogers are distorted by the disproportional relationship between the relatively small original property tax bases of these two cities and the substantial property tax increase caused by one large development each that was assisted with TIF. Wayzata ranks third in the per capita use of TIF. Minneapolis ranks 7th in per capita use in the Metro Area.

It is assumed that the elimination of the local education levy subject to capture by TIF authorities as part of the 2001 Property Tax Reform Act (Tax Reform), the enactment of the JOBZ program, and the Tax Abatement Act have had an impact on the use of tax increment in Minnesota. Inasmuch as we have only TIF information in our database, we cannot make the causal relationships between TIF, Tax Reform, and other development programs.

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TAX INCREMENT FINANCING LEGISLATIVE REPORT

INTRODUCTION

The Legislature, in 1995, assigned compliance oversight responsibility for TIF to the State Auditor.[1] The State Auditor was directed to examine and audit the use of TIF by political subdivisions, as authorized by the Minnesota Tax Increment Financing Act (TIF Act).[2] The State Auditor is to annually provide a summary of the findings and responses from these audits to the chairs of the legislative committees with jurisdiction over TIF matters.

This report is being distributed to (i) the Governor's Office, (ii) the Office of the Attorney General, (iii) chairs of designated Legislature committees, (iv) local governmental authorities, and (v) members of the public who have requested information. For the year ended December 31, 2005, political subdivisions filed TIF reports for approximately 2,204 TIF districts with the State Auditor. This report represents the information received from those 2005 TIF Reports, as well as a summary of the audits completed by the TIF Division of the State Auditor in the year 2006.

BACKGROUND

What Is Tax Increment Financing?

Tax increment financing is a statutory financing tool to promote economic development, redevelopment, and housing in areas where it would not otherwise occur. A TIF authority, which could be a city, an entity created by a city, or an entity created by a county, "captures" the revenues generated by the increase in net tax capacity resulting from new development within a designated geographic area called a TIF district. The TIF authority uses the tax increments to finance public improvements and other qualifying costs related to the new development that generated the increase in net tax capacity.

Tax increment financing is not a property tax abatement program. The owner of the property in the TIF district continues to pay the same amount of property taxes that would have otherwise been payable absent the existence of the TIF district. Instead of being paid to the various taxing jurisdictions for their general use, however, the portion of property taxes generated by the new development is used to pay public improvements and qualifying costs that make the development possible. Examples of such costs include: land and building acquisition, demolition of structurally substandard buildings, removal of hazardous substances, site preparation, installation of utilities, and road improvements. The costs that may be paid from tax increment depend on the type of

1 Minn. Stat. § 469.1771.

2 Minn. Stat. §§ 469.174 through 469.1799.

project created, the type of TIF district created, and the year in which the TIF district was created.

In some TIF districts, bonds are sold by the municipality or development authority at the outset of the project so that funds are available for front-end costs, such as pollution clean-up. The bonds are then fully or partially paid with tax increment revenues from the TIF district. In other TIF districts, the authority or municipality advances or loans money from its general fund or any other fund under which it has legal authority to do so. The loan or advance must be authorized by resolution of the governing body before money is transferred, advanced, or spent, whichever is earliest. The terms and conditions for repayment of the loan must be provided in writing and include, at a minimum, the principal amount, the interest rate, and maximum term.[3]

An alternative to up-front financing, known as pay-as-you-go financing, may also be used. Under this type of arrangement, the development costs are initially paid by the developer pursuant to the terms of a redevelopment agreement. The developer is then reimbursed pursuant to the terms of the agreement if, and when, tax increment is generated by the TIF district. Generally, in pay-as-you-go financing, the developer accepts the risks of failed development. If the tax base does not increase, and tax increments are not generated as anticipated, the developer does not get reimbursed.

The TIF Act

The TIF Act governs the creation and administration of TIF districts. The TIF Act has been amended frequently since its creation in 1979. A TIF district is usually governed by the laws in effect in the year in which the request for certification of the district was made.

The TIF Act divides TIF districts into several types based on the physical condition of the site on which development is to occur and the type of construction to occur:

- Redevelopment districts
- Renovation and renewal districts
- Soils condition districts
- Housing districts
- Economic development districts

Each type of TIF district has different requirements for the creation of a district. In addition to the types of districts listed above, there are districts that were created prior to the enactment of the TIF Act (called Pre-1979 districts) and districts that have been created under special laws. Each type of district also has different maximum duration limitations and different restrictions on the use of tax increment from the district.

[3] Minn. Stat. § 469.178, subd. 7.

Who is Authorized to Exercise TIF Powers?

The TIF Act authorizes development authorities within municipalities[4] to create TIF districts. TIF authorities include cities using the municipal development districts law, housing and redevelopment authorities, port authorities, economic development authorities, and rural development financing authorities. Counties do not have TIF authority per se but can establish housing and redevelopment authorities and economic development authorities.

Creation of TIF Districts

The TIF authority takes the first step in creating a TIF district by adopting a TIF plan for the district. The TIF plan provides information about the project to be funded with tax increment from the TIF district and authorizes the use of tax increment from the district to pay TIF-eligible project costs.[5]

To create a new TIF district, the TIF authority must obtain approval of the TIF plan for the district from the governing body of the municipality in which the TIF district is located after the municipality has published a notice and held a public hearing.[6] For example, if a city's port authority proposes to create a TIF district in the city, the city council must approve the TIF plan for the district.[7] If a county's housing and redevelopment authority proposes to create a TIF district in a township in the county, the county board must approve the TIF plan.

Before a TIF district is created, the TIF authority must provide a copy of the proposed TIF plan and certain information about the proposed TIF district to the county auditor and the clerk of the school board, who in turn provide copies of these documents to the members of the county board of commissioners and the school board.[8] The county board and school board may comment on the proposed district, but cannot prevent the creation of the district.[9]

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4 Minn. Stat. § 469.174, subd. 6. Counties are defined for certain projects to be municipalities.

5 Minn. Stat. § 469.175, subd. 1.

6 Minn. Stat. § 469.175, subd. 3.

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

8 Minn. Stat. § 469.175, subd. 2.

9 A county board may prevent creation of a TIF district in those situations in which the county is the municipality that must approve the TIF plan.

State Auditor's Role in TIF

The Legislature gave the State Auditor responsibility for determining whether local governments are in compliance with the TIF Act.[10] In January 1996, the State Auditor created a TIF Division to perform these TIF enforcement and data-collection functions. The operations of the TIF Division are funded exclusively from revenue derived by deducting a percentage of all tax increment that county auditors or treasurers distribute to TIF authorities and municipalities. The county treasurers deduct the revenue before distributing the tax increment to local governments, and then pay the deducted revenue to the Commissioner of Finance. The amount of revenue to fund the TIF Division varies with the number of TIF districts and the amount of tax increment they produce.

Filing of Annual TIF Reports

The TIF Act requires TIF authorities to file annual reports with the State Auditor for each of their TIF districts. This reporting requirement applies to all TIF districts regardless of when they were created. TIF authorities must submit these reports to the State Auditor on or before August 1st of each year.[11] The authority files these annual reports starting in the year in which the district is certified. In addition to filing TIF reports, a TIF authority must publish certain statutorily required financial information about each of its TIF districts in a newspaper of general circulation on or before August 15th of each year.[12]

A total of 451 TIF authorities had TIF districts for which they were required to file TIF reports with the State Auditor for the year ended December 31, 2005. These TIF authorities were required to file reports for 2,219 TIF districts, of which the State Auditor has received reports for 2,204 TIF districts.

Failure to File TIF Reports

Of the 451 TIF Authorities required to file reports, 429 submitted complete reports by the statutory deadline. On August 15, 2006, the remaining 22 TIF authorities received a letter addressed to the governing board of the municipality, either the Mayor and Council or the County Board of Commissioners advising them the reports had not been filed. As of November 1, 2006, seven authorities still had not filed complete TIF reports. A second letter was sent to the governing board of the municipality to notify them that if the reports were not filed as of November 21, 2006, tax increment would be withheld from those districts.

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[10] Minn. Stat. § 469.1771, subd. 1(b).

[11] Minn. Stat. § 469.175, subd. 6.

[12] Minn. Stat. § 469.175, subd. 5.

Of the remaining seven authorities, four filed their reports by November 21, 2006. The remaining three authorities, Baxter, Dexter and the Le Sueur EDA, had not filed all of the required reports as of November 21, 2006. Pursuant to Minn. Stat. § 469.1771, subd. 2a, the State Auditor mailed a notice to the applicable county auditors to withhold tax increment that otherwise would have been distributed to the three authorities from the identified TIF districts.[13]

Reviewing TIF Reports to Anticipate and Prevent Problems

The State Auditor reviews all TIF reports it receives each year for substantial completeness and returns reports that do not meet this standard. The TIF reports are reviewed by the auditors against the respective district's TIF plan, to make sure the TIF reports are in conformance with the financial authority provided in the TIF plan's budget. The staff then reviews the contents of the TIF reports each year for reporting accuracy and potential legal compliance issues.

The purpose of these reviews is to identify potential problems before a problem occurs or before a violation becomes a major problem. During the course of these reviews, the TIF Division staff may find situations where a TIF authority has received tax increment after the TIF district was required to be decertified, has made unauthorized expenditures of tax increment, or has received tax increment in excess of the costs authorized in the TIF plan. If tax increment has been received in violation of the law, these authorities are notified by the TIF Division or may voluntarily return tax increment revenues to the county auditor.

Returned Tax Increment

From January 1, 1996, to date, the review of reports by the TIF Division staff and subsequent contact with reporting local government units, plus legal compliance audits and investigations performed by TIF Division staff, and additional voluntary payments by TIF authorities to county auditors, has resulted in $38,627,988, including $4,650,051 in 2005, being paid or returned to county auditors. This amount was then redistributed to the cities, counties, and school districts in which the relevant TIF districts were located.

Educational and Technical Training

The State Auditor's Office has made substantial efforts to increase and improve communication with TIF authorities. Three workshops on TIF reporting were held in 2006 throughout the state with approximately 145 people in attendance. The 2006

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[13] In the 2006 Legislative Session, the penalty to withhold tax increment for failing to file the required TIF reports was amended effective for TIF reports filed for the year ending 2006. Instead of having 25% of the tax increment withheld after the third Tuesday in November, any authority who has not filed complete TIF reports by October 1 will have 100% of the tax increment withheld from any payment made after October 1 until the authority has filed complete reporting forms.

workshops were held in Anoka County (Andover), Brainerd and St. Peter. These workshops were well received. It is the State Auditor's intention to hold reporting workshops again in the spring and summer of 2007.

In addition to the reporting workshops provided, the State Auditor's Office held seven small round-table training sessions with approximately 60 people in attendance. The training sessions were held in Breezy Point, Grand Rapids, Ivanhoe, Lake City, Pelican Rapids, St. Paul, and Windom. The purpose of these training sessions was to provide an introduction to TIF and review the required reporting forms with those who are new to TIF.

In an effort to increase communication, the State Auditor's Office distributes the TIF newsletter by email. This newsletter is issued periodically and contains a wide variety of information. The newsletter is sent by email to a diverse group of people, including TIF authority representatives, county auditors, county assessors, private citizens, and anyone who has requested to be on the distribution list. Over the last few years, the use of the online reporting system has increased. This year, the State Auditor required TIF authorities to file the 2005 TIF Reports electronically.

The State Auditor's Office collaborates with the Department of Revenue (Revenue), comparing data that is reported to both the State Auditor and Revenue. Revenue receives information from counties, such as tax capacity information of the TIF district, TIF-plan approval dates, certification request dates, certification dates and types of districts. We compare Revenue's information against the information the State Auditor receives from authorities. With this information, the State Auditor's Office is able to ensure that it has received the most accurate information possible.

TAX INCREMENT FINANCING STATISTICS

Number and Type of TIF Districts

There were 451 TIF authorities who filed reports for 2,204 TIF districts in the state of Minnesota as of December 31, 2005. This constitutes two more authorities and six less TIF districts than in 2004. Of those 451 TIF authorities, 344 were in Greater Minnesota and 107 were in the Seven County Metropolitan Area (Metro Area). The following maps show the locations of those TIF authorities.

Map 1 shows the location of the development authorities in Greater Minnesota. These authorities are concentrated in central and southern Minnesota, particularly along major highway systems. Development authorities are sparse in the northern tier of counties. Taking into account population density, there is a reasonable balance between the number of Greater Minnesota and Metro Area development authorities.

Map 2 shows the authorities in the Metro Area. Authorities are concentrated in the fully-developed municipalities at the center of the Metro Area. Such cities, with deteriorating and/or blighted neighborhoods, utilize most fully the redevelopment and qualified housing powers of the TIF Act.

Map 3 shows the county authorities in Minnesota. Counties do not have the authority to do TIF projects. For a county TIF development activity to be done, the county board of commissioners (County Board) must establish a county housing and redevelopment authority (County HRA) or a county economic development authority (County EDA). Although these county authorities are separate local units of government, the County Board must approve the establishment of TIF districts by these authorities.

Map 4 shows the development authorities in Greater Minnesota by regional development commissions (RDCs).[14] RDCs are authorized to transcend the boundary lines of local government units and to work with and on behalf of local units of government to develop plans and implement programs to address economic and governmental concerns of a regional nature. There are 13 development regions in the state, with the Metropolitan Council serving as the RDC for the Metro Area. The counties in each of the development regions are listed in Exhibit 1, following this report.

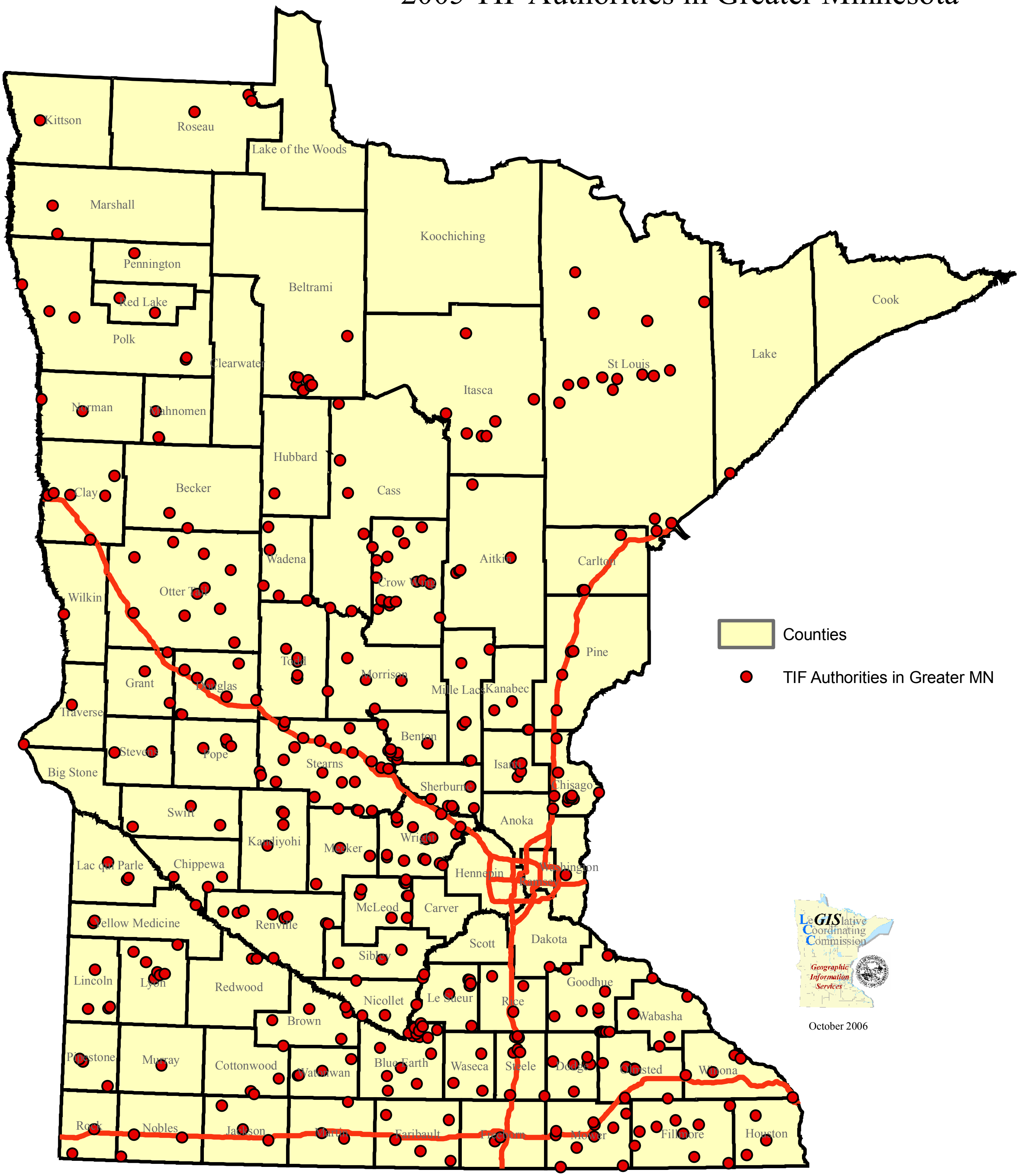
In January 2004, the State of Minnesota initiated its Job Opportunity Business Zones Program, commonly known as JOBZ.[15] JOBZ is organized loosely around these regional development boundaries. Often asked to compare JOBZ and TIF activities in these regions, we have added the use of TIF by RDCs to our analysis.

[14] Minn. Stat. § 462.383, subd. 2.

[15] Minn. Stat. §§ 469.310 to 469.320, inclusive as amended. Region 11, the Metro Seven County Development Region is excluded from JOBZ. The south-central and southern development regions have been slightly reconfigured for purposes of JOBZ. The JOBZ development regions are shown in Exhibits 1 and 2, following this report.

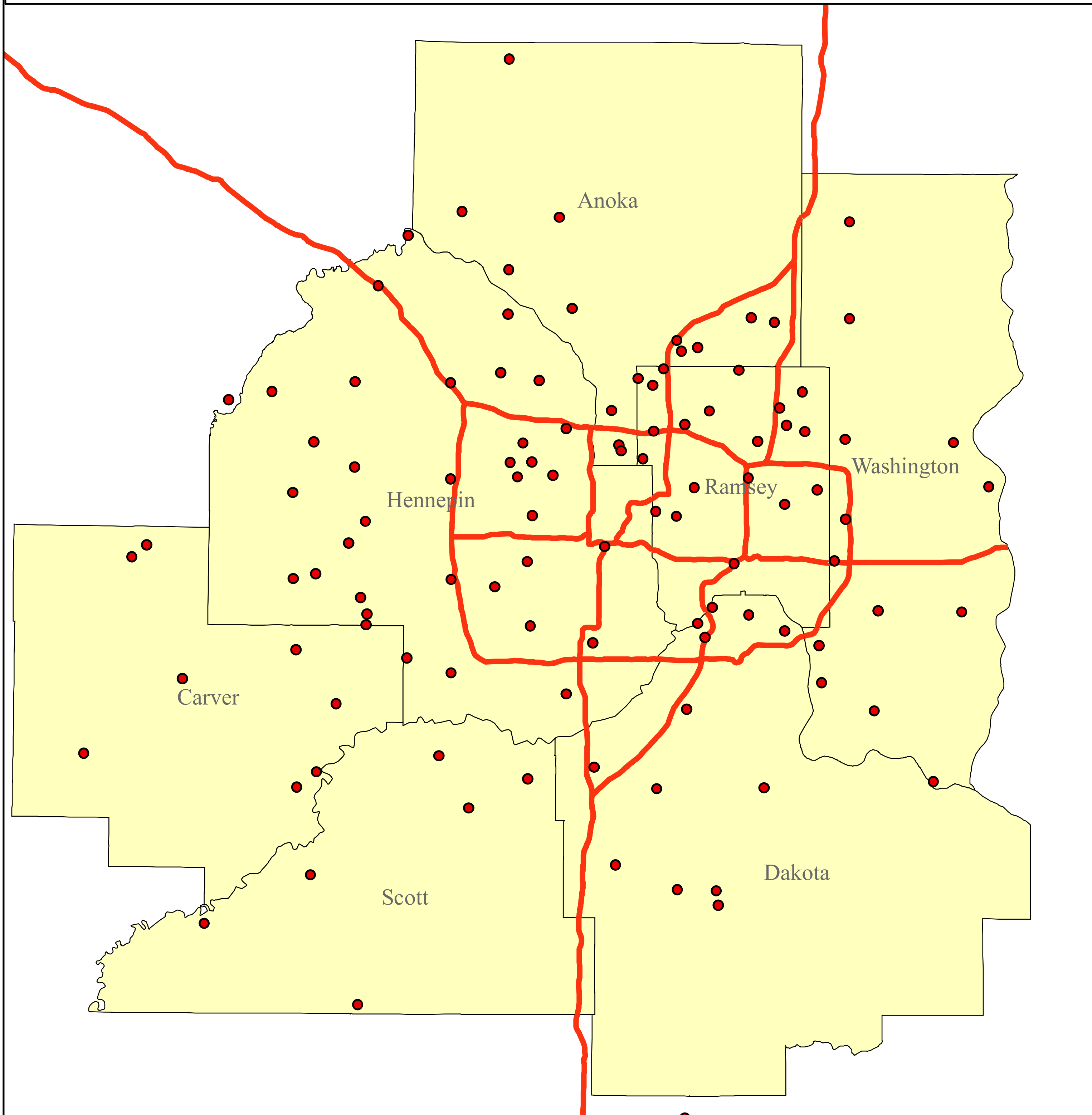
Map 1

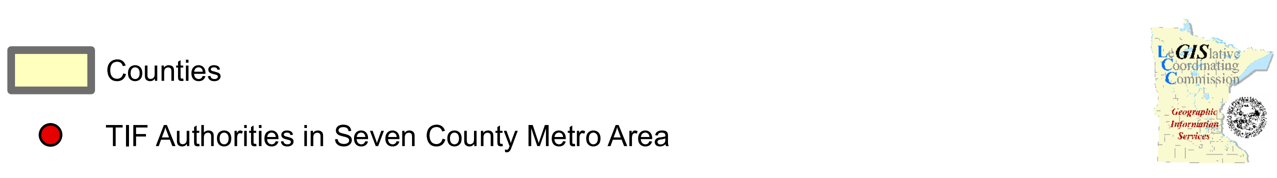
2005 TIF Authorities in Greater Minnesota



Map 2

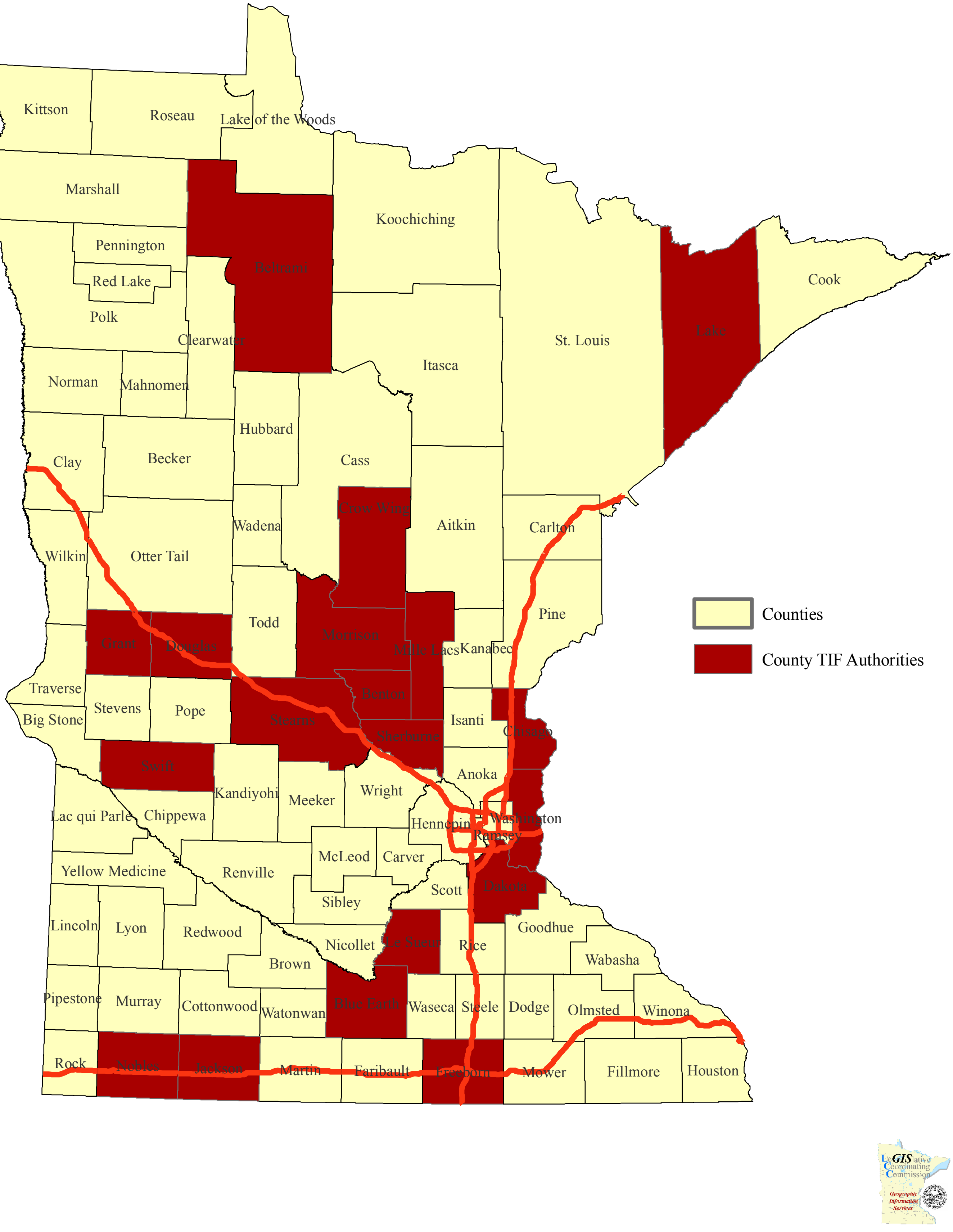
2005 TIF Authorities in Seven County Metro Area





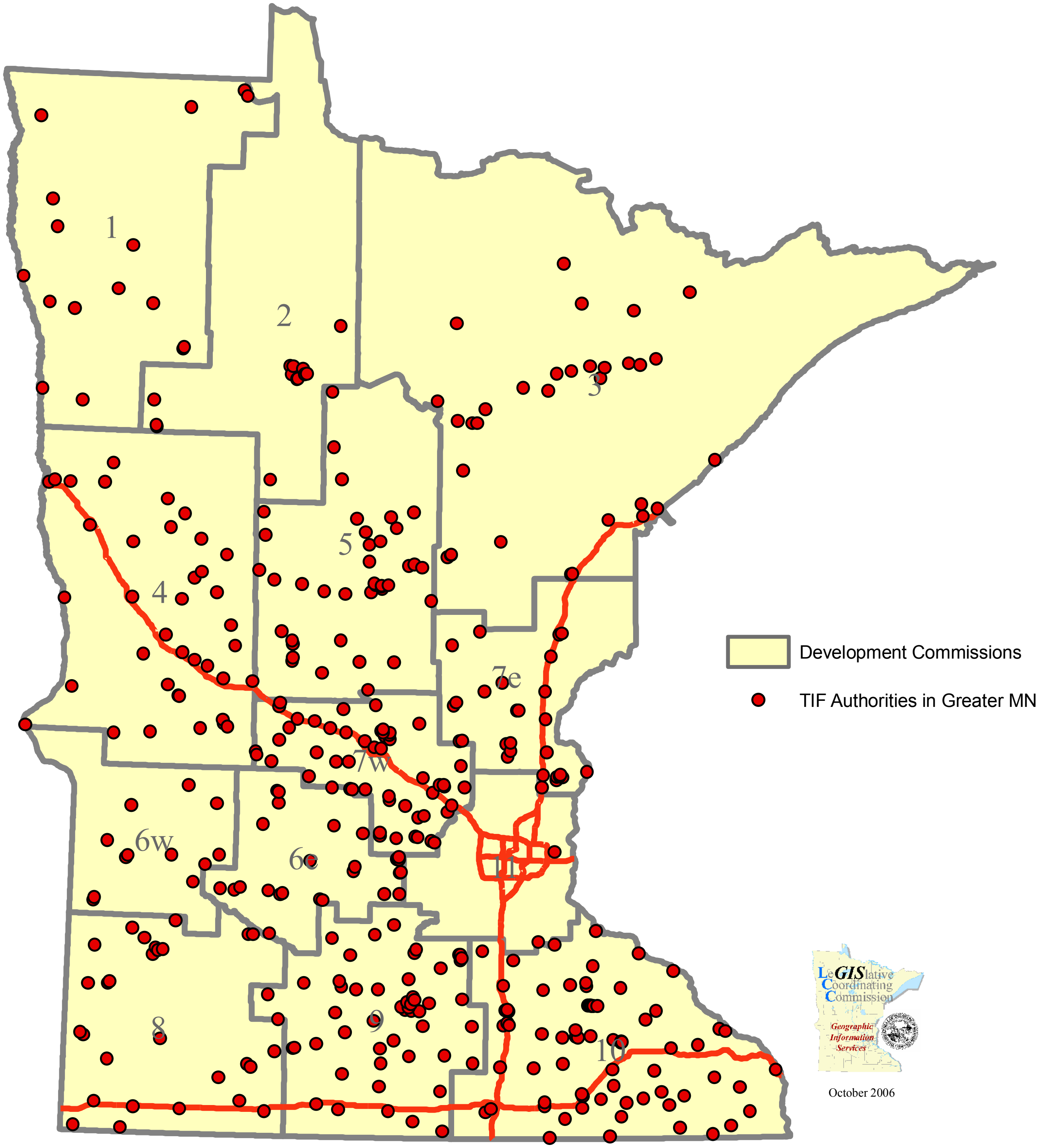
Map 3

2005 TIF Authorities in Minnesota



Map 4

2005 TIF Authorities in Greater Minnesota by Regional Development Commission



The 2,204 TIF districts in the state for which 2005 reports have been filed consist of the following types of districts:

Redevelopment Districts (46%) – The primary purpose of a redevelopment district is to eliminate blighting conditions. Qualifying tax increment expenditures include acquisition of sites containing substandard buildings or improvements, demolishing and removing substandard structures, eliminating hazardous substances, clearing the land, and installing utilities, sidewalks, and parking facilities. Often this is referred to as *leveling the playing field,* allowing developed cities to compete for development with outlying cities with bare land. Redevelopment districts are intended to conserve the use of existing utilities, roads, and other public infrastructure and to discourage urban sprawl.

Economic Development Districts (26%) – An economic development district is a short term district (8 years) that does not meet the requirements of any other type of district, but is in the public interest because it will (i) discourage commerce, industry or manufacturing from moving to another state or city, (ii) increase employment in the state, or (iii) preserve and enhance the tax base. Tax increment revenues from economic development districts are used primarily to assist manufacturing, warehousing, storage and distribution, research and development, telemarketing, and tourism. Commercial development (retail sales) is excluded, except in small cities.

Housing and Qualified Housing Districts (23%) – The purpose of a housing district is to assist development of owner-occupied and rental housing for low-and moderate-income individuals and families. The requirements for qualified housing districts are more stringent and are tied to federal low-income tax credit guidelines, regardless of whether tax credits are utilized. Housing can be constructed on bare land as long as the qualifying criteria are met.

Pre-1979 Districts (3%) –TIF districts created prior to the enactment of the TIF Act are called Pre-1979 districts. Many of these TIF districts created prior to August 1, 1979, with bonds or other obligations secured by increments from the district outstanding on April 1, 1990, still have a significant amount of debt. All Pre-1979 districts must terminate in 2009.

Renewal & Renovation Districts (1%) – The purpose of a renewal and renovation district is similar to that of a redevelopment district except the degree of blight removal may be less and the development activity is more closely related in inappropriate or obsolete land use.

Soils Condition District (1%) – The purpose of a soils condition district is to assist in the redevelopment of property which is not developable due to the existence of hazardous substances, pollution or contaminants. The presence of these materials must require removal or remedial action for the property to be used, and the estimated cost of the proposed removal and remediation exceeds the fair market value of the land prior to curative measures.

Uncodified Law (0%) – Special law may be enacted for one or more municipalities permitting the generation of tax increment revenues from geographic areas not meeting the definition of a type of TIF district authorized under general law. Examples are housing transition districts authorized for the cities of Crystal, Fridley, St. Paul, and Minneapolis or the distressed rental properties authorized for Brooklyn Park. The authorities for these unique types of districts must make findings defined in their respective uncodified law. There are 6 TIF districts that meet this definition.

Figure 1(a).

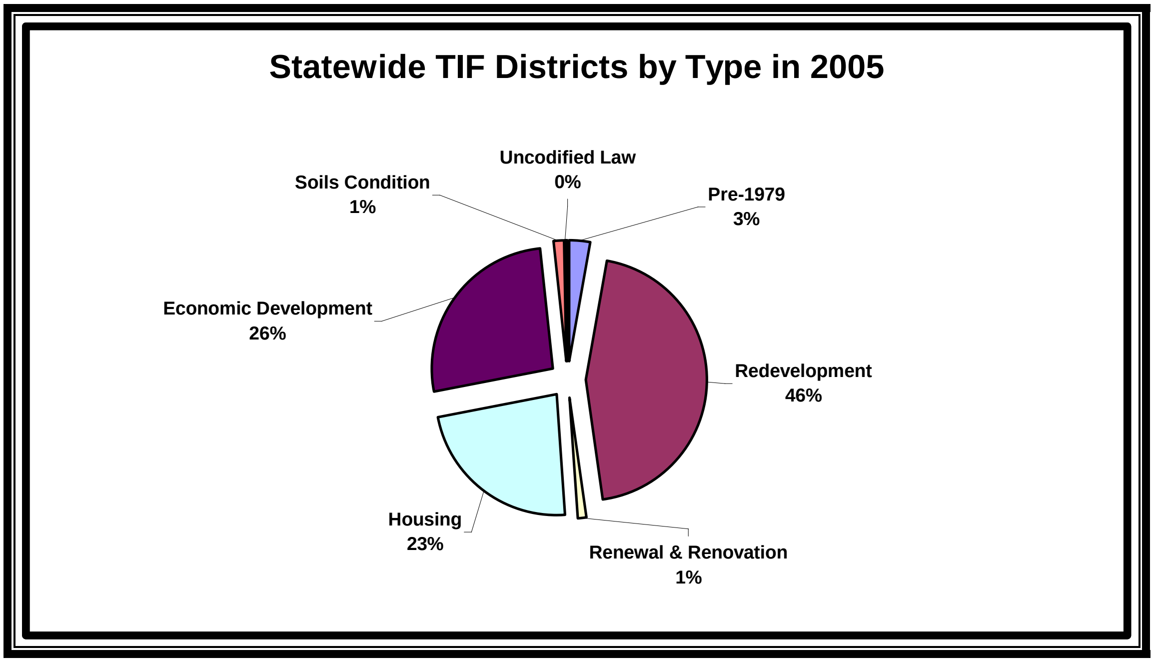


Figure 1(a) shows the most common types of TIF districts on a statewide basis. Ninety-five percent of the types of TIF districts statewide are redevelopment, economic development, and housing types of districts.

Figure 1(b).

Type of District	State of Minnesota	% of total state	Greater Minnesota	% of Greater MN	Seven County Metro Area	% of metro area
Pre-1979	61	2.77%	29	1.94%	32	4.51%
Redevelopment	992	45.01%	611	40.90%	381	53.66%
Renewal & Renovation	24	1.09%	9	0.60%	15	2.11%
Housing	511	23.19%	372	24.90%	139	19.58%
Economic Development	580	26.32%	464	31.06%	116	16.34%
Soils Condition	30	1.36%	9	0.60%	21	2.96%
Uncodified Law	6	0.27%	0	0.00%	6	0.85%
Total	2,204	100.00%	1,494	100.00%	710	100.00%

The table in Figure 1(b) separates the types of TIF districts by use in Greater Minnesota and in the Metro Area. Redevelopment districts are by far the most utilized type of TIF district in both Greater Minnesota and the Metro Area, making up 54% of the districts in the Metro Area and 41% of the districts in Greater Minnesota.

Economic development districts make up 31% of the TIF districts in Greater Minnesota and only 16% of the districts in the Metro Area. Economic development districts are short-term districts that relate to job production rather than clearance and preparation of a development site. The land on which the district is established may be bare land so less increment is generally needed for site preparation. It is understandable that Greater Minnesota, with open space and a critical need for employment would utilize this type of district more than would the fully developed cities of the Metro Area.

Housing districts make up almost 25% of the TIF districts in Greater Minnesota and slightly more than 19% of the districts in the Metro Area. There were slightly more housing districts in 2005 (23%) than in 2004 (22%), whereas the percentage of redevelopment districts has stayed the same.

Figure 2.

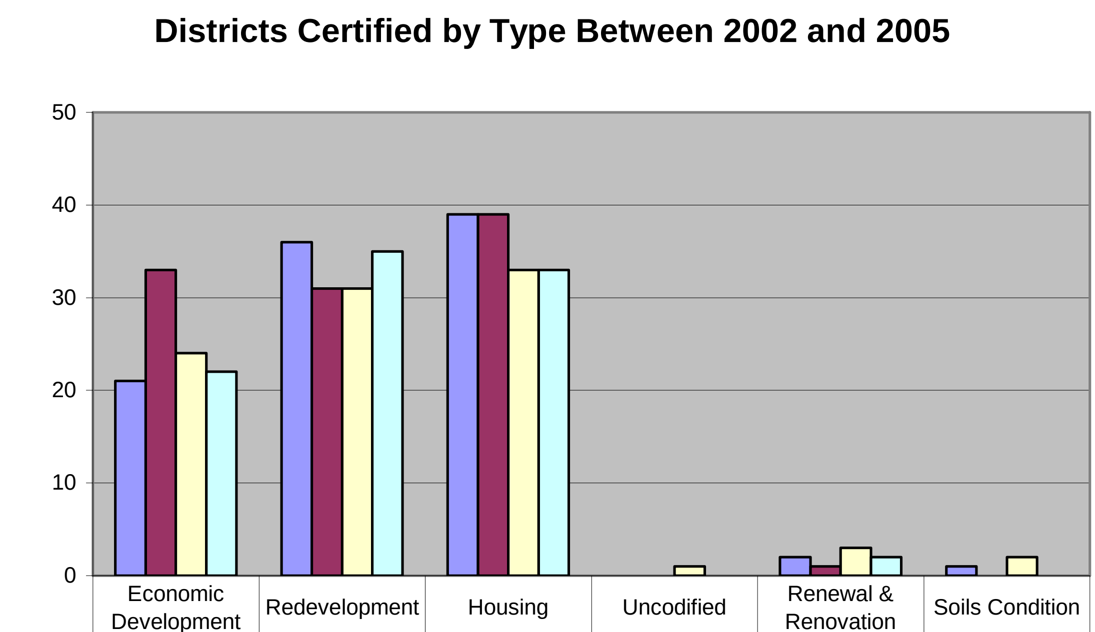
District Type by Region

Regional Development Commission	Region	Total Districts	Pre-1979	Redevelopment	Renewal & Renovation	Housing	Economic Development	Soils Condition	Uncodified Law
Northwest RDC	1	44	2	19	0	16	7	0	0
Headwaters RDC	2	20	0	7	0	10	3	0	0
Arrowhead RDC	3	104	5	48	0	23	23	5	0
West Central Initiative Fund	4	174	2	73	0	53	46	0	0
Region 5 RDC	5	144	0	61	1	38	44	0	0
Mid-Minnesota Valley RDC	6E	82	0	30	1	17	33	1	0
Upper Minnesota Valley RDC	6W	53	2	27	0	6	18	0	0
East Central RDC	7E	83	1	37	3	20	22	0	0
Region 7W	7W	238	4	79	1	40	114	0	0
Southeast RDC	8	101	8	47	1	26	19	0	0
Development	9	176	2	82	2	35	55	0	0
Region 10	10	275	3	101	0	88	80	3	0
Metropolitan Council	11	710	32	381	15	139	116	21	6
Total		2,204	61	992	24	511	580	30	6

In analyzing TIF district types by region, a pattern materializes showing that TIF districts are concentrated in the central and southern development regions of the state, with the largest concentration of districts located in the Metro Area.

Districts Certified and Decertified in 2005

Figure 3(a).

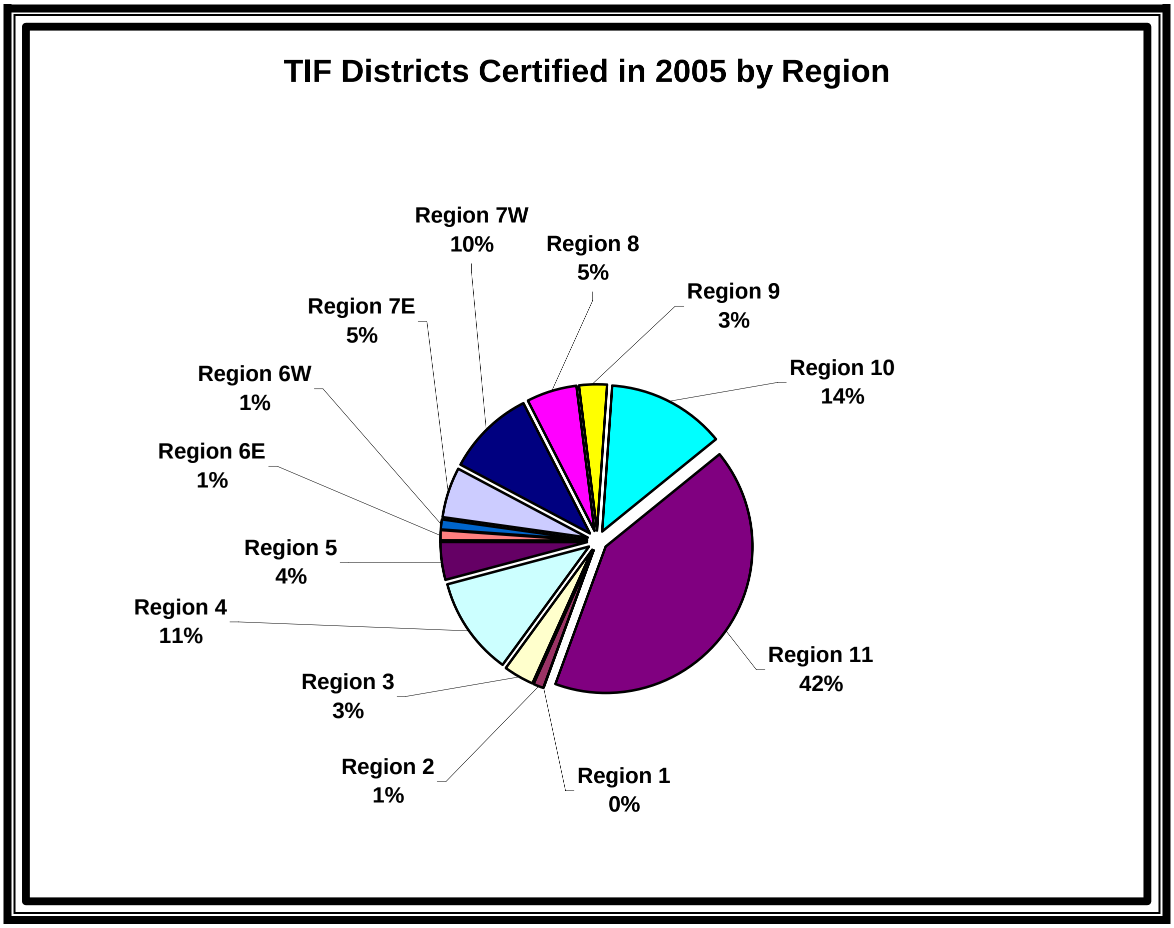


	Economic Development	Redevelopment	Housing	Uncodified	Renewal & Renovation	Soils Condition
2002	21	36	39	0	2	1
2003	33	31	39	0	1	0
2004	24	31	33	1	3	2
2005	22	35	33	0	2	0

Certification by type. Figure 3(a) compares the TIF districts certified by type since 2002. The number of TIF districts certified has decreased in recent years, with a total of 92 districts certified during calendar year 2005. The number of economic development districts has decreased substantially, with a lesser reduction in housing districts. Comparing year 2002 with 2005, the number of redevelopment districts certified has remained relatively constant.

A reason for the decrease in the creation of TIF districts may be that there is substantially less tax increment available per parcel since the Property Tax Reform Act of 2001. The availability of other types of public subsidies, such as tax abatement and JOBZ may also account for this decline. Additional restrictions on the use of tax increment by legislative amendment may have also been a factor. Considering the competing public finance options and the reduction in tax increment revenues available since 2001, the relatively small reduction in number of districts certified indicates that TIF continues to be a useful financing tool.

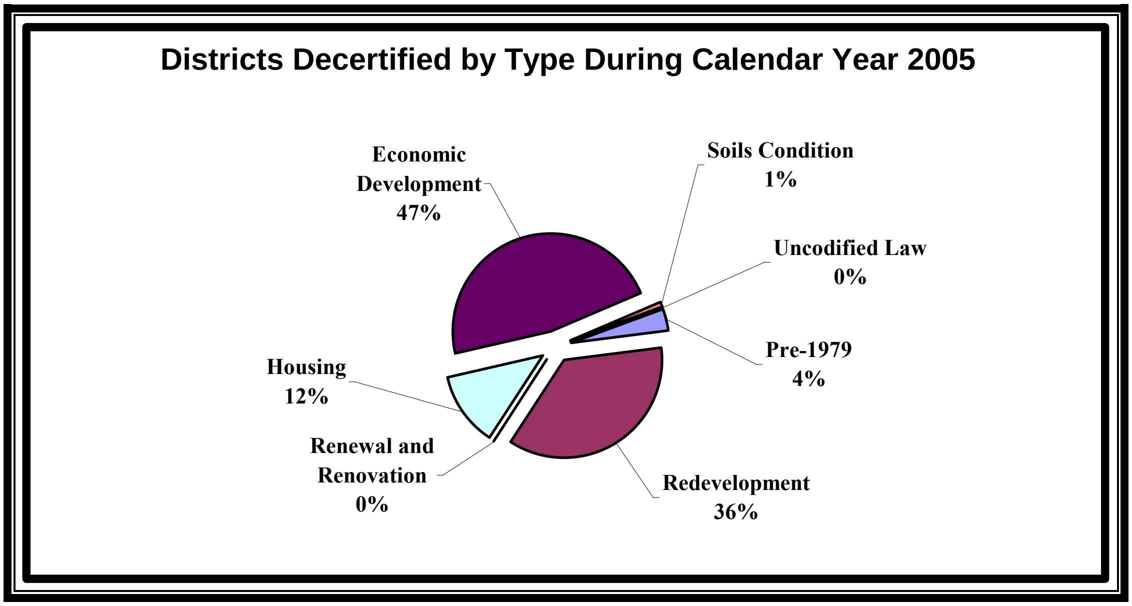
Figure 3(b).



<u>Certification by region</u>. Figure 3(b) graphically shows that the predominant number of new TIF districts certified in 2005 occurred in Region 11, the Metro Area. Equally graphic is that almost no new TIF districts were certified in the northern central and northeastern portions of the state, continuing down the east side of the State to the Metro Area.

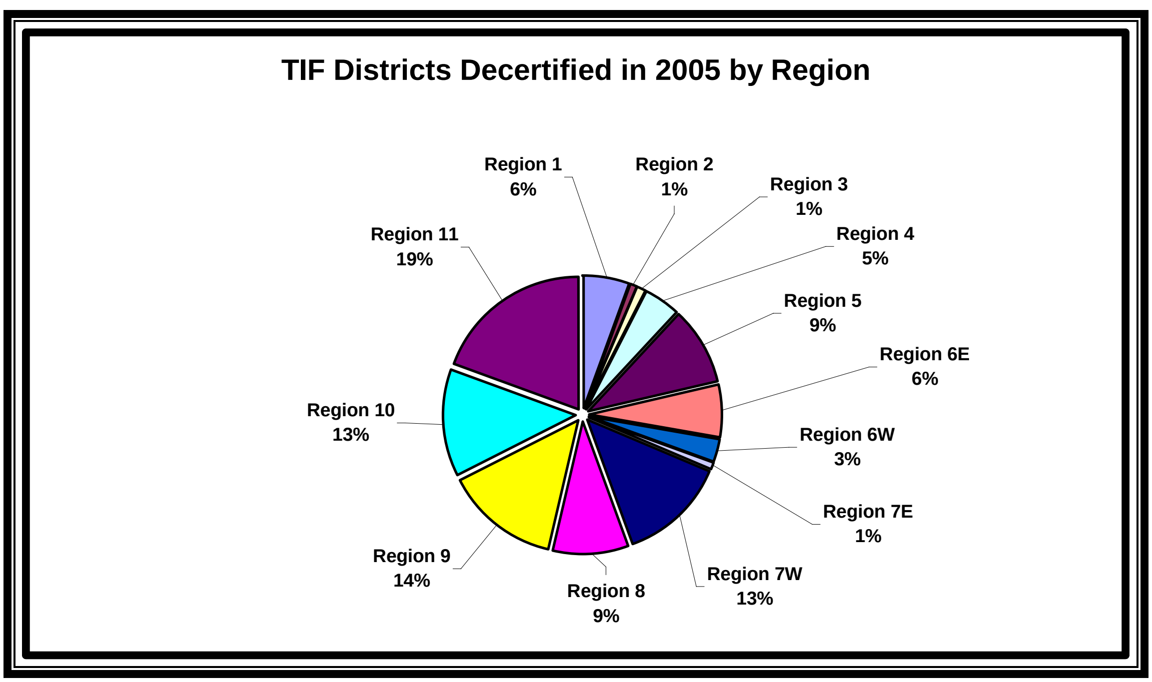
Inasmuch as Region 11 (the Metro Area) is not part of JOBZ, it would be reasonable to assume that TIF would continue to be an important financing tool in the Metro Area. JOBZ was designed to assist less populated, high unemployment development regions such as Regions 1 and 2.

Figure 4(a).



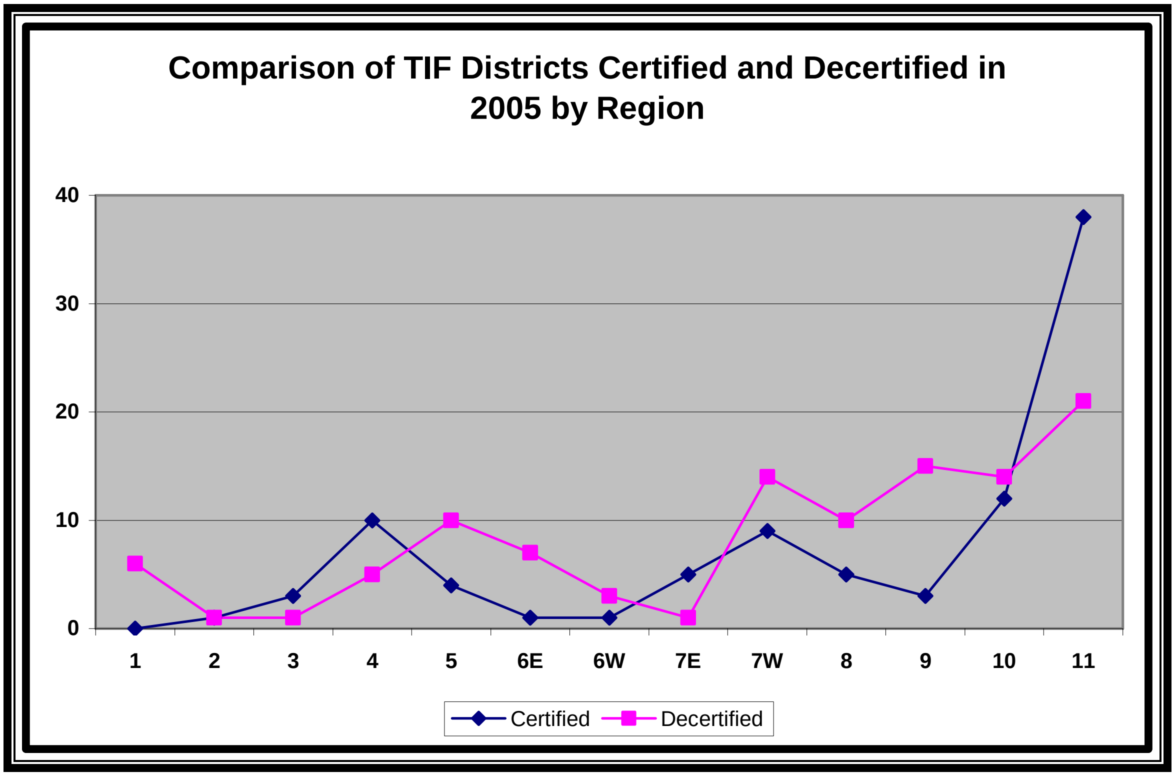
Decertification by type. Figure 4(a) shows the TIF districts decertified by type during calendar year 2005. By far, the greatest number of districts decertified were economic development districts. The term of an economic development district (8 years) is substantially less than the term of a redevelopment or housing district. Therefore, it would be logical to assume that more economic development districts would terminate annually.

Figure 4(b).



<u>Decertification by region</u>. Figure 4(b) shows that the TIF districts decertified in 2005 were spread among the various regions without any particular region having a large portion of TIF districts decertify.

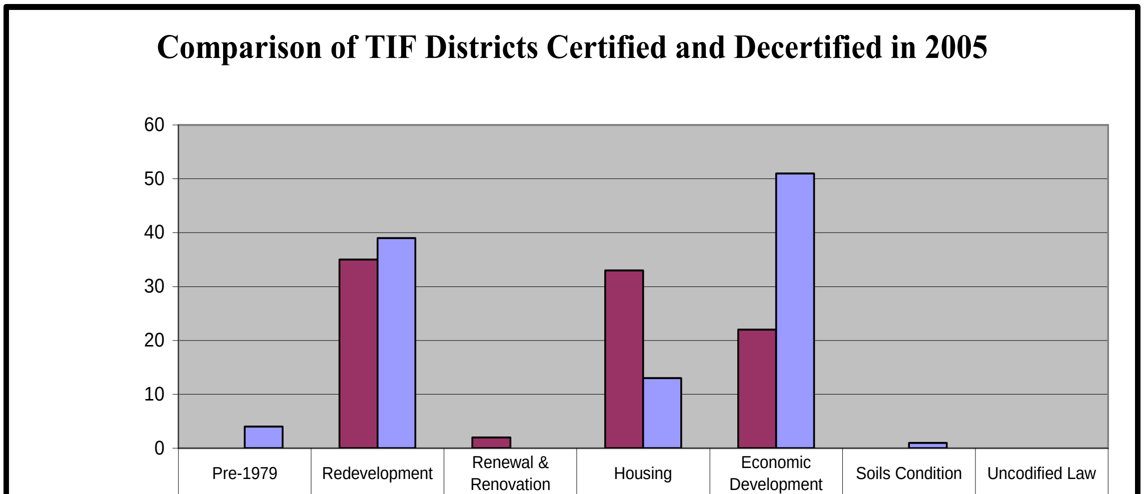
Figure 4(c).



The Region 11 Metro Area constituted 42% of the districts *certified* but it constituted only 19% of the districts *decertified*. The Metro Area is more fully developed and therefore establishes more redevelopment TIF districts. Due to the extensive cost of acquiring sites with substandard buildings, clearing the structures from the sites, and removing pollutants and other hazardous materials, the statutory limitation on the term of a redevelopment district is longer (25 years.) Therefore, fewer districts would terminate annually. JOBZ would not be a factor in this case because the Metro Area is not authorized to use JOBZ.

Regions 5, 6E, 7W, 8, and 9 also show a sharp contrast, with substantially more districts *decertified* in 2005 than districts *certified* in Figure 4(c). JOBZ could be a significant factor for these development regions. Although the law permits JOBZ sub-zones to be located in TIF districts, it is difficult to use the two development financing tools at the same time because JOBZ exempts qualified businesses from paying property taxes, whereas tax increment uses increased property taxes created by the use of TIF to finance public improvements.

Figure 5.



	Pre-1979	Redevelopment	Renewal & Renovation	Housing	Economic Development	Soils Condition	Uncodified Law
Certified in 2005	0	35	2	33	22	0	0
Decertified in 2005	4	39	0	13	51	1	0

There were 92 TIF districts certified in Minnesota during calendar year 2005 while 108 districts were decertified. The above graph in Figure 5 compares, by type of TIF district, the number of districts certified and decertified in 2005. The three dominant types of TIF districts, as shown on the chart, are redevelopment, housing, and economic development districts.

Redevelopment and economic development districts. There were more redevelopment and economic development districts *decertified* in 2005 than were *certified.* The reasons previously given for this factor included the following:

- The Tax Reform Act of 2001 substantially reduced the amount of tax increment generated on a parcel.

- JOBZ programs are often more desirable for development activity where the primary objective is the creation of living-wage employment opportunities. Economic development districts most closely compare to JOBZ in these employment objectives.

- Although legally permissible, tax increment and JOBZ development activities on the same parcels are not compatible. Parcels in JOBZ programs in Greater Minnesota are often removed from existing TIF districts.

- The shorter statutory 8-year term of an economic development district results in more districts terminating annually than is true for a redevelopment district with its statutory 25-year maximum term.

- A 2005 TIF amendment, requiring authorities to return excess increment 9 months after the end of the year in which an excess increment is found, encourages the decertification of these TIF districts.

Housing and qualified housing TIF districts. The certification and decertification statistics with respect to housing TIF districts are clearly different from those for redevelopment and economic development districts. In 2005, there were more than twice as many housing districts *certified* as *decertified*. As the graph shows, there were 33 housing districts certified in 2005 and only 13 housing districts decertified. Since housing districts have a possible statutory life of 25 years, it would be reasonable to expect that the number of housing districts decertified annually would be substantially less than the number of economic development districts.

The trend of establishment of housing districts would indicate, however, that there is a need for more low-and moderate-income housing in the state and more public assistance to meet that need. This is evidenced by the fact that approximately 85% of the 511 housing districts currently reporting to the State Auditor were created since **1990**, with 45% of all housing districts created since **2000**.

PROJECT AND TIF REVENUES

Development activity often receives revenues from a variety of financing sources. Revenues may include (i) local, state, and federal grants, (ii) special assessments, (iii) loans, (iv) bond proceeds, (v) interest earned on invested funds, (vi) sales and lease proceeds, (vii) market value homestead credit, and (viii) tax increment revenue, among other funding sources. These funding sources are shown in Figure 7(a).

Figure 7(a).

Revenues and Other Financing Sources

	Prior Years	Calendar 2005	Total	% of Total*
Tax Increment Revenue	$3,693,142,194	$253,823,547	$3,946,965,741	65.2%
Market Value Homestead Credit	$11,405,926	$3,704,274	$15,110,200	1.0%
Investment Earnings	$463,696,007	$11,107,772	$474,803,779	2.9%
Loan Proceeds	$222,980,854	$12,509,986	$235,490,840	3.2%
Special Assessments	$38,357,152	$2,585,655	$40,942,807	0.7%
Sales/Lease Proceeds	$291,736,421	$14,141,732	$305,878,153	3.6%
Loan/Advance Repayments	$6,780,498	$368,910	$7,149,408	0.1%
Grants	$218,617,128	$15,303,546	$233,920,674	3.9%
Transfers In	$618,075,596	$37,403,168	$655,478,764	9.6%
All Other Sources of Funds	$700,271,033	$38,241,244	$738,512,277	9.8%
Totals	$6,265,062,809	$389,189,834	$6,654,252,643	100.0%

Percentage of Total 2005 Revenues

Due to the nature of generally accepted accounting principles, the revenues of a project are accounted for twice. For example, a bond may be issued to pay for the authorized costs of a project and tax increment revenue is then used to pay the principal and interest payments on the bond. The annual TIF reports sent to authorities by the TIF Division require tax increment information to be submitted pursuant to these generally accepted accounting principles.

To more accurately identify revenues without accounting for both bond proceeds and the expenditure of tax increment revenues for payment of bonded indebtedness on the bonds, bond proceeds have been deleted from Figures 7(a), 7(b), and 7(c). Three other categories listed in Figure 7(a), namely (i) loan proceeds, (ii) loan/advance repayments, and (iii) transfers-in, include forms of indebtedness for which tax increment revenues were expended for repayment, resulting in revenues being accounted for twice. Due to the fact that it is not possible to ascertain the extent to which tax increment revenues were expended to repay such indebtedness, those three categories were not deleted. Accounting for revenues twice still exists in the above table and the two charts that follow.

Figure 7(b).

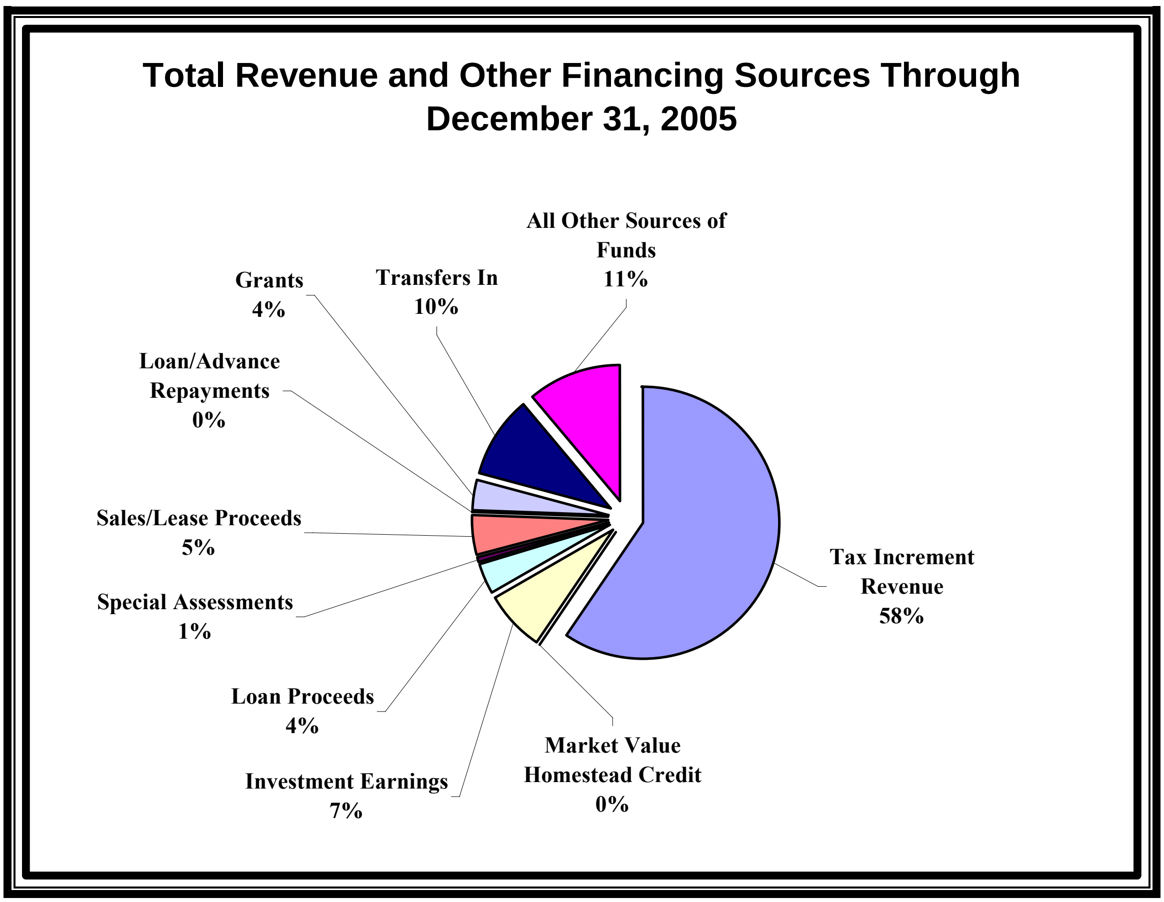
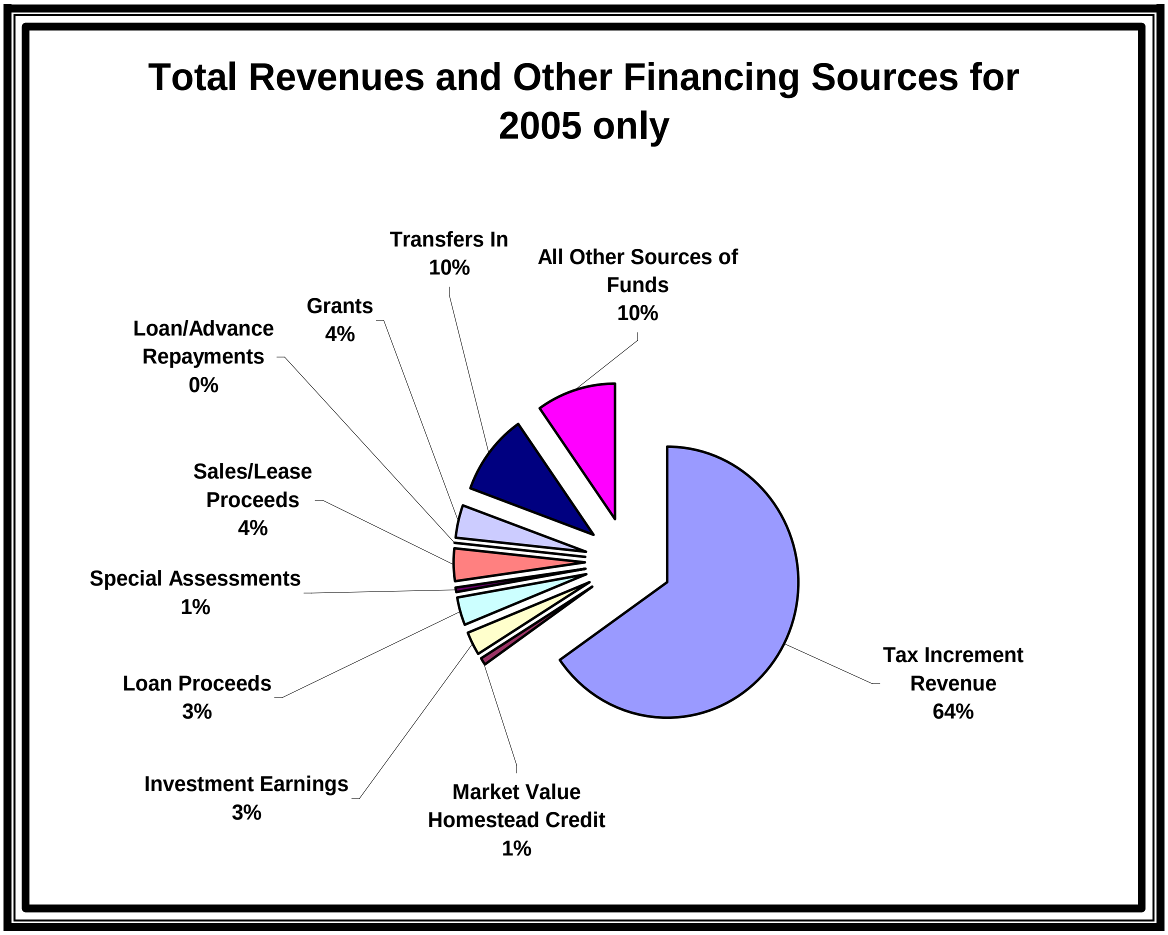


Figure 7(c).



Average Tax Increment Generated Per TIF District

Figure 8(a).

Average Amount of Tax Increment per District From 1996 to 2005

Reporting Year	Number of Districts	Tax Increment Revenue	Average per District
1996	1,830	$247,189,000	$135,076
1997	1,924	$285,983,000	$148,640
1998	2,061	$287,972,245	$139,725
1999	2,103	$275,611,803	$131,056
2000	2,136	$293,370,294	$137,346
2001	2,166	$325,448,944	$150,253
2002	2,174	$222,241,011	$102,227
2003	2,184	$255,817,248	$117,132
2004	2,223	$255,661,176	$115,007
2005	2,204	$253,823,547	$115,165

Tax increment revenues per district have fluctuated somewhat over the years. In 2002 notably, these revenues declined sharply. This was likely the result of the 2001 elimination of the local education levy subject to capture by TIF authorities, although other factors, such as the decertification of large, pre-1979 districts, may have also played a role. However, the amount of tax increment revenue has remained rather steady over the last three years. Figures 8(a), 8(b), and 8(c) illustrate these trends. The averages need to be viewed with some caution.

Figure 8(b).

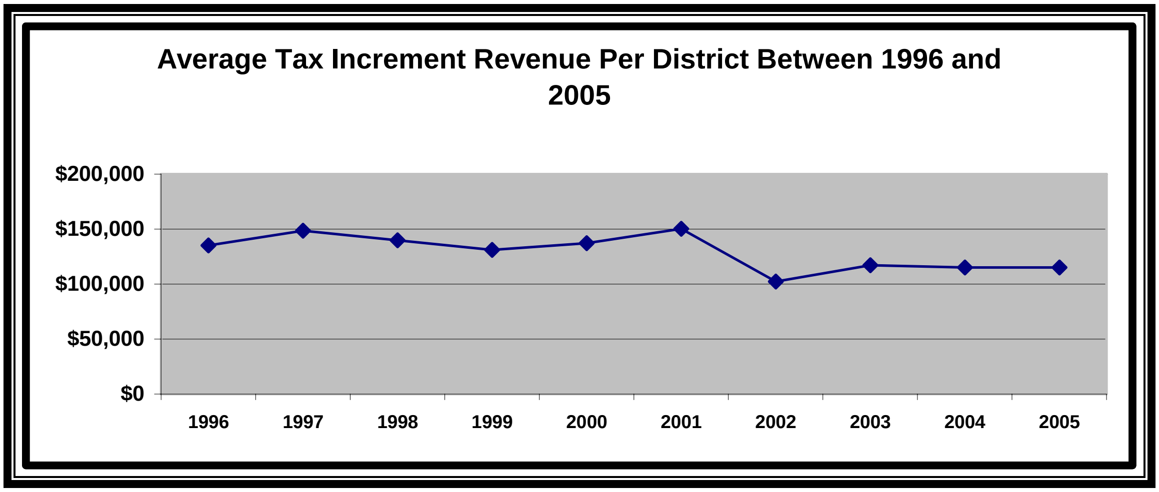
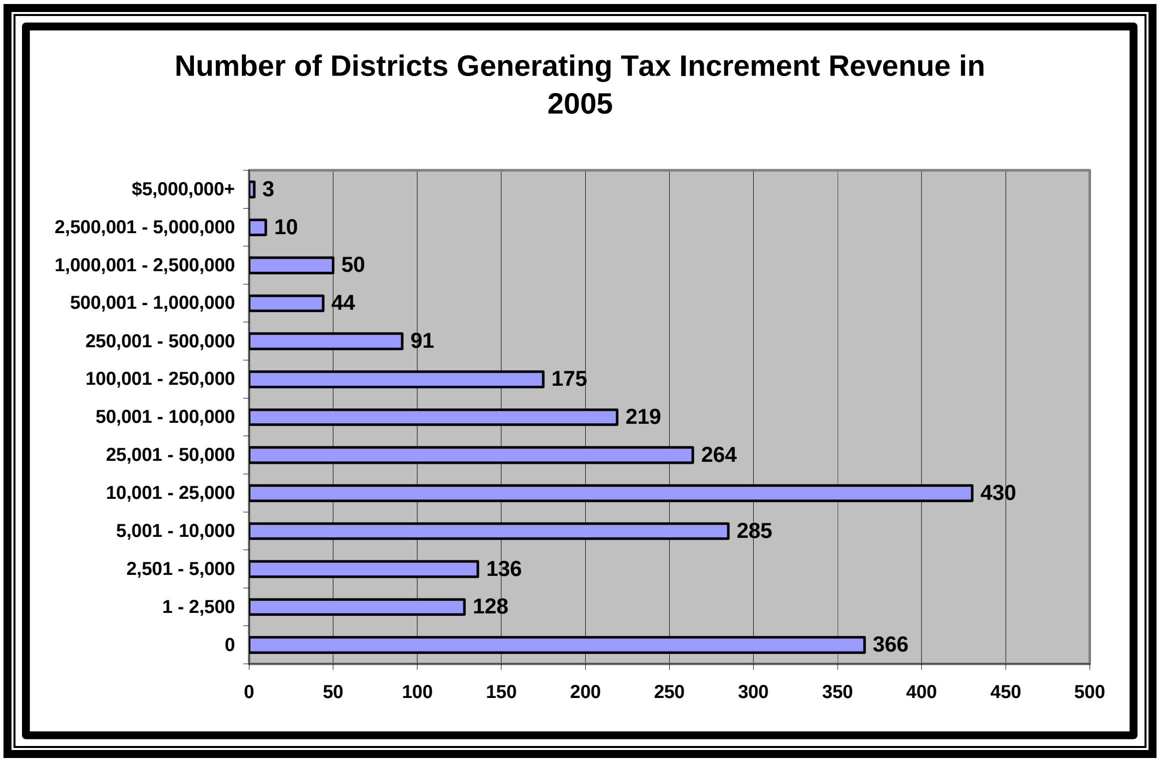


Figure 8(c).



There is a wide range in the amount of revenues generated by different TIF districts. The range in the tax increment generated by the TIF districts is further illustrated by Figure 8(c).

Revenue Information by Region

By identifying revenue information by region, a startling fact becomes apparent. The amount of tax increment generated per district in a region shows that a disproportional share is generated in the Metro Area.

Figure 9(a).

Tax Increment by Region Through 2005

Regional Development Commission	Region	Tax Increment Revenue Through 12/31/2004	Tax Increment Revenue In 2005	Total Tax Increment
Northwest RDC	1	$11,019,987	$1,120,858	$12,140,845
Headwaters RDC	2	$7,223,735	$475,808	$7,699,543
Arrowhead RDC	3	$183,512,803	$9,290,091	$192,802,894
West Central Initiative Fund	4	$45,666,154	$5,298,510	$50,964,664
Region 5 RDC	5	$21,871,606	$3,202,018	$25,073,624
Mid-Minnesota Valley RDC	6E	$20,566,446	$1,604,416	$22,170,862
Upper Minnesota Valley RDC	6W	$8,007,956	$530,806	$8,538,762
East Central RDC	7E	$23,952,876	$2,807,864	$26,760,740
Region 7W	7W	$142,246,470	$12,244,703	$154,491,173
Southeast RDC	8	$45,180,497	$3,014,980	$48,195,477
Region Nine Development Commission	9	$54,958,527	$4,629,105	$59,587,632
Region 10	10	$97,156,662	$8,878,611	$106,035,273
Metropolitan Council	11	$3,031,778,475	$200,725,777	$3,232,504,252
Total Tax Increment		$3,693,142,194	$253,823,547	$3,946,965,741

The amount of tax increment revenue generated allocated by region is shown above in Figures 9(a). It initially appears startling. Approximately 80% of the total amount of tax increment revenue, or roughly $200.7 million, generated in 2005 was from TIF districts located within the Metro Area.

The cities of St. Paul and Minneapolis accounted for approximately $17.2 million or 8.5% and $63.4 million or 31.6%, respectively, of the tax increment revenue in the Metro Area. These two cities had a combined amount of roughly $80.6 million, or about 40%, of the total tax increment revenue in the Metro Area. The remaining $120.1 million, or about 60%, was spread among the suburban areas.

Figure 9(b).

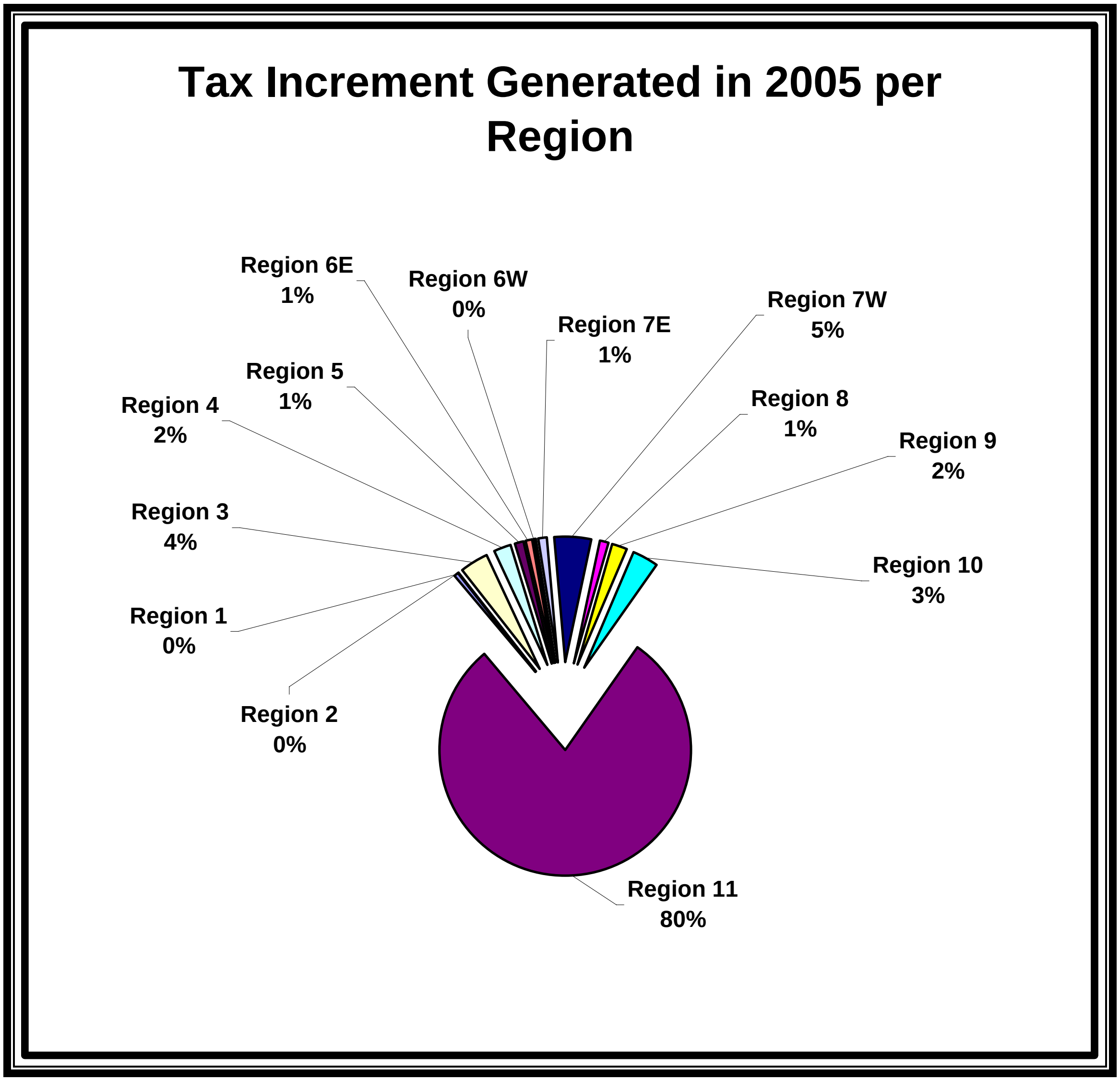
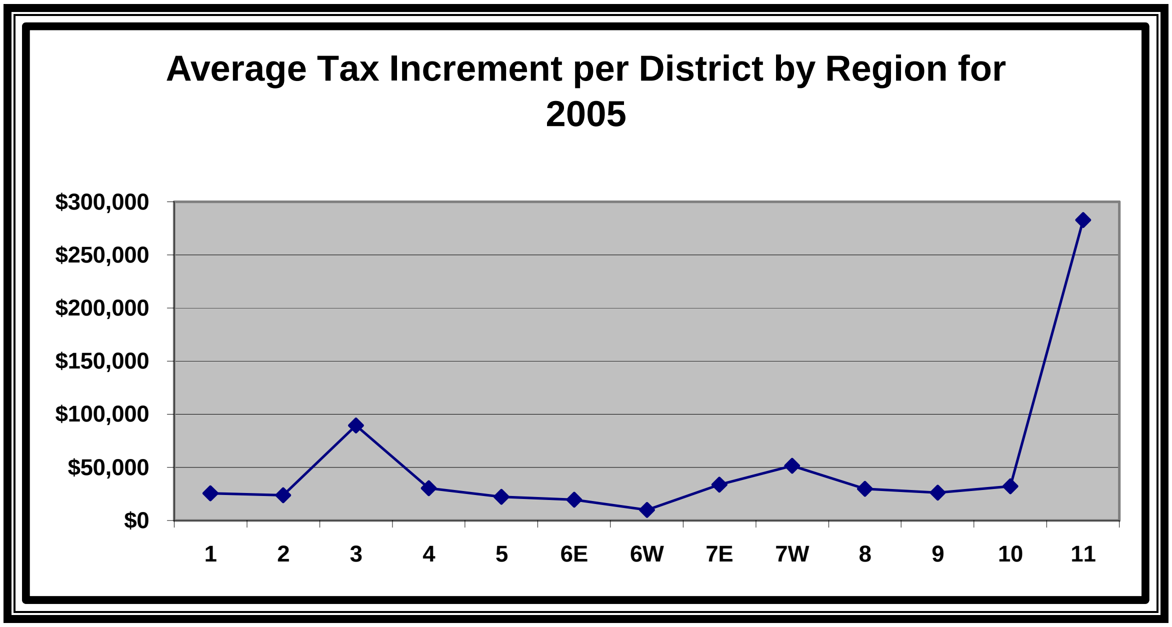


Figure 9(b) shows this information more graphically. Minneapolis and St. Paul represent geographically the most fully-developed and densely populated areas in the State. Acquiring and clearing substandard buildings, removing hazardous substances, and preparing a site, i.e., the redevelopment TIF district's leveling of the playing field to induce development to the inner cities, is a substantial cost.

Figure 10(a).

Number of Districts and Average Tax Increment Per District by Region				
Regional Development Commission	**Region**	**Number of TIF Districts**	**Tax Increment in 2005**	**Average tax Increment**
Northwest RDC	1	44	$1,120,858	$25,474
Headwaters RDC	2	20	$475,808	$23,790
Arrowhead RDC	3	104	$9,290,091	$89,328
West Central Initiative Fund	4	174	$5,298,510	$30,451
Region 5 RDC	5	144	$3,202,018	$22,236
Mid-Minnesota Valley RDC	6E	82	$1,604,416	$19,566
Upper Minnesota Valley RDC	6W	53	$530,806	$10,015
East Central RDC	7E	83	$2,807,864	$33,830
Region 7W	7W	238	$12,244,703	$51,448
Southeast RDC	8	101	$3,014,980	$29,851
Region Nine Development Commission	9	176	$4,629,105	$26,302
Region 10	10	275	$8,878,611	$32,286
Metropolitan Council	11	710	$200,725,777	$282,712

Figure 10(b).



Figures 10(a) and 10(b) above show by chart and graph the average amount of tax increment per district by region. In Region 11, the Metro Area would reasonably generate more tax increment per district because the value of the constructed improvements built on the sites improved with tax increment revenues could be of substantially greater size.

Figure 11.

Average Tax Increment Revenue Per District for the Top 50 Authorities

	TIF Authority	Tax Increment Revenue in 2005	Number of TIF Districts for 2005	Average Tax Increment per District in 2005		TIF Authority	Tax Increment Revenue in 2005	Number of TIF Districts for 2005	Average Tax Increment per District in 2005
1	Bloomington PA	$6,530,439	4	$1,632,610	26	Blaine EDA	$2,301,415	8	$287,677
2	Edina	$6,802,831	5	$1,360,566	27	Stillwater	$1,864,235	7	$266,319
3	Champlin	$2,602,890	2	$1,301,445	28	Shoreview	$1,556,678	6	$259,446
4	Brooklyn Center	$4,667,217	4	$1,166,804	29	Eden Prairie	$2,289,646	9	$254,405
5	Golden Valley	$4,048,915	4	$1,012,229	30	Inver Grove Heights	$1,001,685	4	$250,421
6	Mendota Heights	$1,012,082	1	$1,012,082	31	Fridley HRA	$3,224,205	13	$248,016
7	Anoka	$1,696,204	2	$848,102	32	Dakota Cty CDA	$2,609,860	11	$237,260
8	Brooklyn Park EDA	$8,217,649	11	$747,059	33	Crystal	$1,415,231	6	$235,872
9	Minnetonka	$3,411,752	5	$682,350	34	Rogers	$2,653,958	12	$221,163
10	Minneapolis	$63,432,086	96	$660,751	35	Richfield HRA	$4,379,797	20	$218,990
11	South St Paul HRA	$1,294,075	2	$647,038	36	Moorhead	$2,617,735	12	$218,145
12	Chaska EDA	$4,276,298	7	$610,900	37	Maple Grove	$1,886,438	10	$188,644
13	Apple Valley	$1,636,846	3	$545,615	38	Marshall	$1,456,905	12	$121,409
14	Burnsville EDA	$3,082,951	6	$513,825	39	Columbia Heights EDA	$1,085,952	9	$120,661
15	St Paul HRA	$13,360,593	27	$494,837	40	Sauk Rapids HRA	$1,664,338	14	$118,881
16	Mounds View EDA	$1,886,486	4	$471,622	41	Oakdale	$1,226,517	11	$111,502
17	St Louis Park EDA	$5,199,221	12	$433,268	42	Buffalo HRA	$1,092,933	10	$109,293
18	St Paul Port Auth	$3,851,976	9	$427,997	43	New Brighton	$2,817,671	26	$108,372
19	Wayzata	$1,700,435	4	$425,109	44	Vadnais Heights	$1,596,806	15	$106,454
20	Duluth EDA	$6,793,997	18	$377,444	45	New Hope	$991,475	10	$99,148
21	Ramsey	$2,794,946	8	$349,368	46	Farmington	$1,337,449	15	$89,163
22	Waite Park	$1,389,526	4	$347,382	47	Mankato	$1,422,629	17	$83,684
23	Andover EDA	$1,285,639	4	$321,410	48	Coon Rapids	$2,081,323	28	$74,333
24	Savage	$1,580,603	5	$316,121	49	St Cloud HRA	$1,987,496	31	$64,113
25	Roseville	$2,351,703	8	$293,963	50	Rochester	$1,234,487	27	$45,722

Figure 11 above shows the average amount of tax increment per TIF district generated in 2005 for the top 50 authorities. Of the top 50 authorities, few are located outside of the Metro Area. Minneapolis has the most TIF districts, as well as the highest amount of tax increment generated each year, yet ranks tenth in 2005 in the average amount of tax increment per district.

Figure 12.

Tax Increment Generated in 2005 Per Capita for the Seven County Metro Area

	TIF Authority	Tax Increment Revenue in 2005	2004 Population	Tax Increment Per Capita for 2005
1	Lilydale	$412,989	790	$522.77
2	Rogers	$2,653,958	5,760	$460.76
3	Wayzata	$1,700,435	4,070	$417.80
4	Osseo	$577,674	2,522	$229.05
5	Chaska EDA	$4,276,298	21,478	$199.10
6	Golden Valley	$4,048,915	20,674	$195.85
7	Minneapolis	$63,432,086	382,400	$165.88
8	Brooklyn Center	$4,667,217	29,005	$160.91
9	Mounds View EDA	$1,886,486	12,865	$146.64
10	Edina	$6,802,831	48,050	$141.58
11	Ramsey	$2,794,946	20,040	$139.47
12	Long Lake	$248,381	1,804	$137.68
13	Richfield HRA	$4,379,797	34,496	$126.97
14	Circle Pines	$627,488	4,950	$126.77
15	New Brighton	$2,817,671	22,333	$126.17
16	Vadnais Heights	$1,596,806	13,270	$120.33
17	Brooklyn Park EDA	$8,217,649	68,992	$119.11
18	Fridley HRA	$3,224,205	27,088	$119.03
19	St Louis Park EDA	$5,199,221	44,511	$116.81
20	Champlin	$2,602,890	23,659	$110.02
21	Stillwater	$1,864,235	17,215	$108.29
22	Anoka	$1,696,204	18,150	$93.45
23	Newport	$330,209	3,700	$89.25
24	Mendota Heights	$1,012,082	11,720	$86.36
25	St Paul Park	$418,971	5,052	$82.93
26	Farmington	$1,337,449	16,775	$79.73
27	Landfall HRA	$57,835	748	$77.32
28	Bloomington PA	$6,530,439	85,442	$76.43
29	Roseville	$2,351,703	34,080	$69.01
30	Minnetonka	$3,411,752	51,480	$66.27
31	Savage	$1,580,603	24,018	$65.81
32	Mound	$627,715	9,740	$64.45
33	Little Canada	$635,489	9,890	$64.26
34	South St Paul HRA	$1,294,075	20,249	$63.91
35	Crystal	$1,415,231	22,831	$61.99
36	Lauderdale	$144,304	2,330	$61.93
37	White Bear Twp EDA	$724,516	11,800	$61.40
38	Shoreview	$1,556,678	26,381	$59.01
39	Columbia Heights EDA	$1,085,952	18,600	$58.38
40	Hopkins	$970,846	17,675	$54.93
41	St Anthony Village	$410,968	7,855	$52.32
42	Hilltop	$38,814	768	$50.54
43	Burnsville EDA	$3,082,951	61,425	$50.19
44	Hugo	$434,325	8,760	$49.58
45	New Hope	$991,475	20,748	$47.79
46	St Paul HRA	$13,360,593	287,410	$46.49
47	Maple Plain	$93,887	2,070	$45.36
48	Blaine EDA	$2,301,415	51,002	$45.12
49	Arden Hills EDA	$434,075	9,620	$45.12
50	Oakdale	$1,226,517	27,657	$44.35
51	Andover EDA	$1,285,639	29,262	$43.94
52	Forest Lake	$700,835	16,800	$41.72
53	Bayport	$119,441	3,132	$38.14
54	Lexington	$81,874	2,160	$37.90
55	Eden Prairie	$2,289,646	60,460	$37.87
56	Robbinsdale	$525,584	13,950	$37.68
57	Victoria	$195,873	5,480	$35.74
58	Belle Plaine EDA	$182,744	5,300	$34.48
59	Apple Valley	$1,636,846	48,875	$33.49
60	Coon Rapids	$2,081,323	62,243	$33.44
61	Maple Grove	$1,886,438	56,754	$33.24
62	Spring Lake Park	$220,534	6,805	$32.41
63	Inver Grove Heights	$1,001,685	32,193	$31.11
64	Chanhassen EDA	$678,271	22,042	$30.77
65	Corcoran	$177,245	5,875	$30.17
66	Watertown	$106,578	3,750	$28.42
67	Falcon Heights	$151,516	5,560	$27.25
68	North St Paul	$316,683	12,273	$25.80
69	Cottage Grove	$774,022	31,774	$24.36
70	White Bear Lake HRA	$535,098	24,922	$21.47
71	New Prague	$129,605	6,046	$21.44
72	Mahtomedi	$172,230	8,105	$21.25
73	Dayton	$103,584	4,964	$20.87
74	Lino Lakes EDA	$291,450	18,725	$15.56
75	Waconia	$133,519	8,622	$15.49
76	Hastings HRA	$304,320	20,546	$14.81
77	Lakeville	$723,493	49,097	$14.74
78	Maplewood	$500,794	35,892	$13.95
79	St Paul Port Auth	$3,851,976	287,410	$13.40
80	Anoka HRA	$240,277	18,150	$13.24
81	Prior Lake	$267,072	21,156	$12.62
82	Medina	$52,035	4,650	$11.19
83	Shakopee	$314,858	28,913	$10.89
84	Centerville	$39,349	3,644	$10.80
85	Bloomington HRA	$791,345	85,442	$9.26
86	Plymouth	$582,513	70,682	$8.24
87	Greenfield	$22,734	2,820	$8.06
88	West St Paul	$139,217	19,481	$7.15
89	Dakota Cty CDA	$2,609,860	383,046	$6.81
90	Orono	$49,041	7,728	$6.35
91	Norwood/Young America	$19,749	3,340	$5.91
92	Bloomington	$466,659	85,442	$5.46
93	Jordan	$22,079	4,544	$4.86
94	Loretto	$2,832	622	$4.55
95	St Francis	$27,693	6,500	$4.26
96	Carver EDA	$7,399	2,060	$3.59
97	Eagan	$185,021	65,764	$2.81
98	Rosemount PA	$47,044	17,740	$2.65
99	Woodbury	$80,157	50,050	$1.60
100	Excelsior	$2,381	2,400	$0.99
101	Afton	$2,860	2,945	$0.97
102	Oak Grove	$2,787	7,455	$0.37
103	Plymouth HRA	$0	70,682	$0.00
104	Shakopee EDA	$0	28,913	$0.00
105	Shorewood	$0	7,625	$0.00
106	Spring Park	$0	1,659	$0.00
107	Washington Cty HRA	$0	217,435	$0.00

Figure 12 above identifies the authorities in the Metro Area as well as the amount of tax increment revenue per capita for 2005. There are at least two cities that have more than one authority listed. The City of St. Paul has both the HRA and the Port Authority that utilizes TIF and the city has a combined amount of tax increment per capita of $59.89. In addition, the City of Bloomington has three authorities that utilize TIF, the HRA, Port Authority and the city itself with a combined amount of tax increment per capita of $91.15. The City of Anoka also has a HRA and the city itself as an authority with a combined per capita amount of $106.69.

As seen in Figure12, Minneapolis does not have the highest amount of tax increment per capita as some may believe. The authority with the highest amount of 2005 tax increment per capita in the Metro Area is the City of Lilydale. This is due to the relatively large increase in the property tax base due to new redevelopment in relationship to the relatively small size of the existing property tax base of the city. When public improvement costs with respect to the new redevelopment are paid and the TIF district decertified, the property tax base of the new development will be available to the city, the county, and school district.

PROJECT AND TIF EXPENSES

Expenditures for development activity must be made within statutorily prescribed limitations. State and federal grant programs identify the uses for which grant monies can be used, prescribe bidding procedures, public hearing and other legal requirements. Tax increment revenues must be expended as permitted in its underlying development authority and in the TIF Act. Authorities are required to keep invoices for all expenditures made with tax increment revenues. Market value homestead credit, interest earned on invested TIF funds, and sales and lease proceeds generated from tax increment revenues are characterized as tax increment and must be expended accordingly. Figure 13 provides a summary listing of expenditures from tax increment revenues and other financing uses for 2005 and for prior years.

Figure 13.

Expenditures and Other Financing Uses				
	Prior Years	2005	Total	% of Total
Land/Building Acquisition	$1,307,696,194	$57,898,666	$1,365,594,860	14.9%
Site Improvements/ Preparation Costs	$709,693,401	$42,516,253	$752,209,654	10.9%
Installation of Public Utilities	$321,707,004	$12,004,738	$333,711,742	3.1%
Public Parking Facilities	$169,875,353	$8,763,618	$178,638,971	2.3%
Streets and Sidewalks	$239,487,840	$8,319,819	$247,807,659	2.1%
Public Park Facilities	$32,747,186	$228,514	$32,975,700	0.1%
Social, Recreational, or Conference Facilities	$275,516,772	$189,292	$275,706,064	0.0%
Interest Reduction Payments	$25,151,572	$400,739	$25,552,311	0.1%
Bond Interest Payments	$973,716,991	$43,319,477	$1,017,036,468	11.2%
Loan Principal Payments	$184,757,791	$7,837,155	$192,594,946	2.0%
Loan/Note Interest Payments	$156,534,586	$23,177,212	$179,711,798	6.0%
Administrative Expenses	$248,686,681	$10,834,461	$259,521,142	2.8%
Transfers out	$1,831,235,139	$125,722,849	$1,956,957,988	32.4%
All Other Expenditures	$948,058,836	$47,288,648	$995,347,484	12.2%
Total	$7,424,865,346	$388,501,441	$7,813,366,787	100.0%

******Percentage of Total 2005 Expenditures*

Due to the nature of generally accepted accounting principles, the actual costs of a project are accounted for twice. For example, the original costs of a project are paid for from bond proceeds. Tax increment revenue is then used to pay the principal and interest payments on the bonds. The annual TIF reports sent to the authorities by the TIF Division require tax increment information to be submitted pursuant to these generally accepted accounting principles.

The information contained on the TIF reports includes both the authorized costs of a project as well as the debt service (principal and interest), resulting in expenditures being accounted for twice. To more accurately identify expenditures without accounting for them twice, bond principal payments have been deleted from the table above and the two charts that follow. Two other categories listed in Figure 13, namely (i) loan principal payments and (ii) transfers-out, include substantial indebtedness for which tax increment revenues were expended for repayment. Since it is not possible to ascertain the extent to which tax increment revenues were expended to repay such indebtedness, those two categories were not deleted. It is believed, however, that substantial double counting is represented in those two categories. Therefore, some degree of accounting for revenues twice is still known to exist in the above table and in Figure 12(a) and Figure 12 (b) that follow.

Figure 14(a).

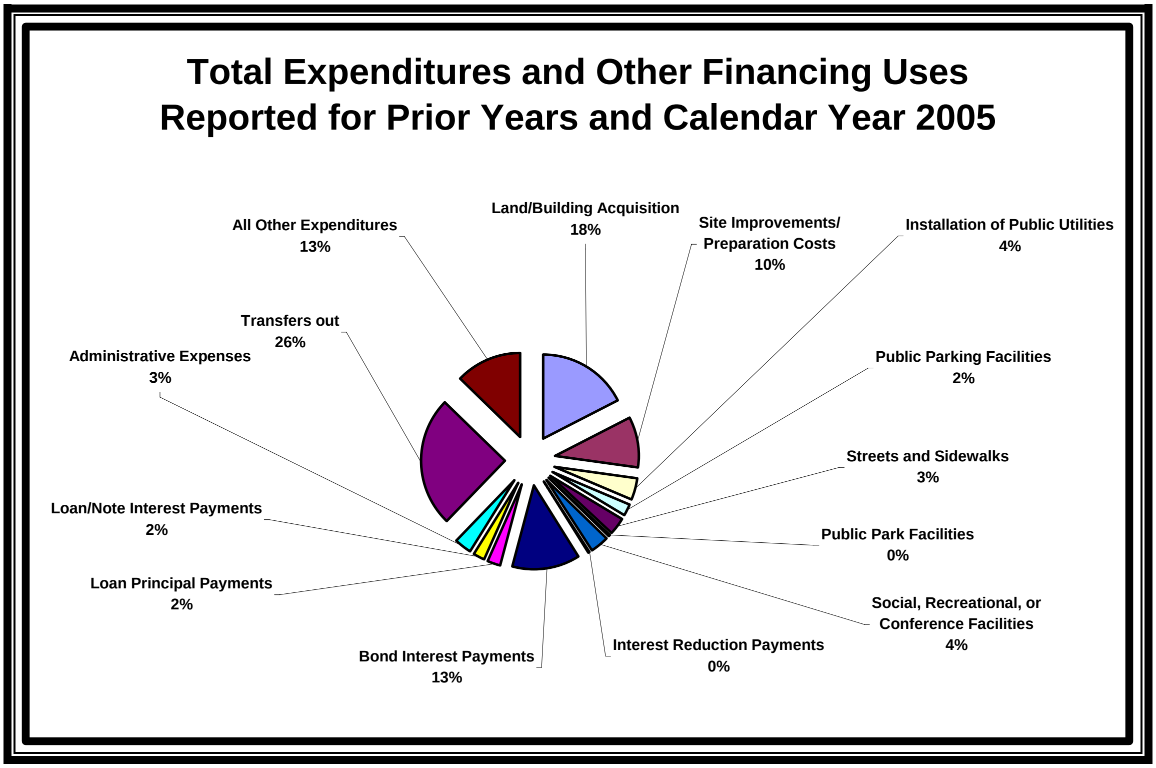


Figure 14(b).

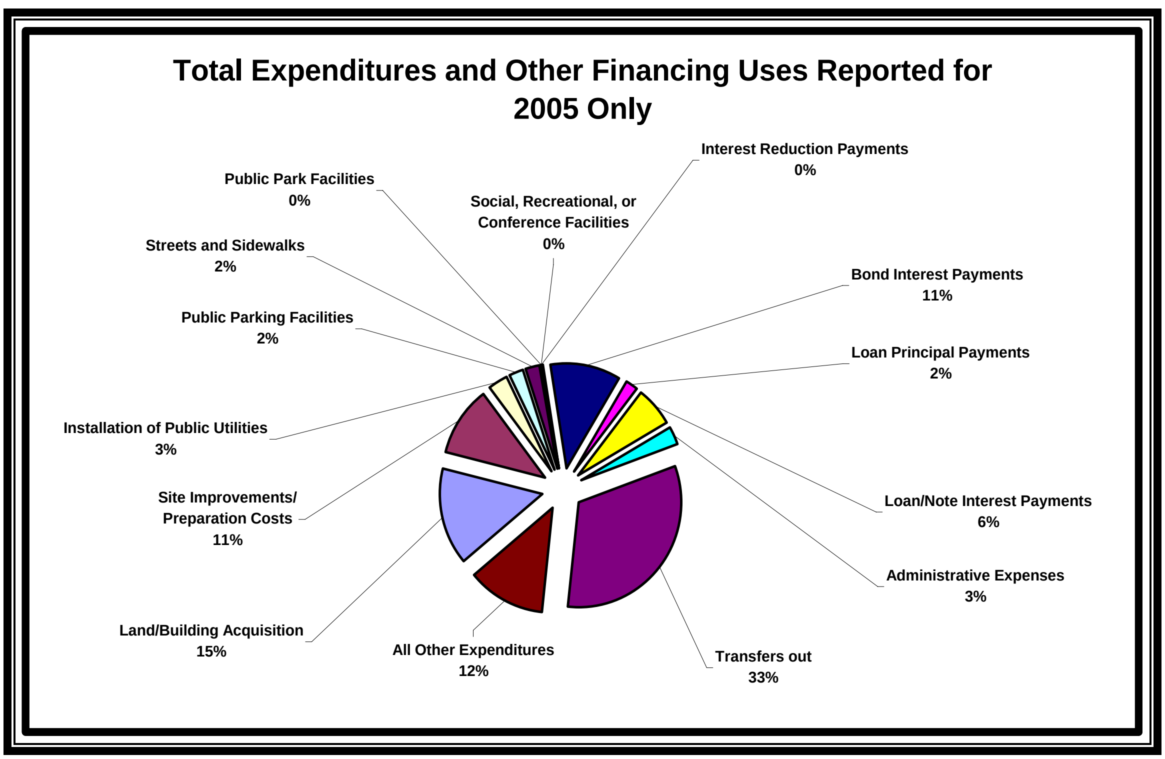
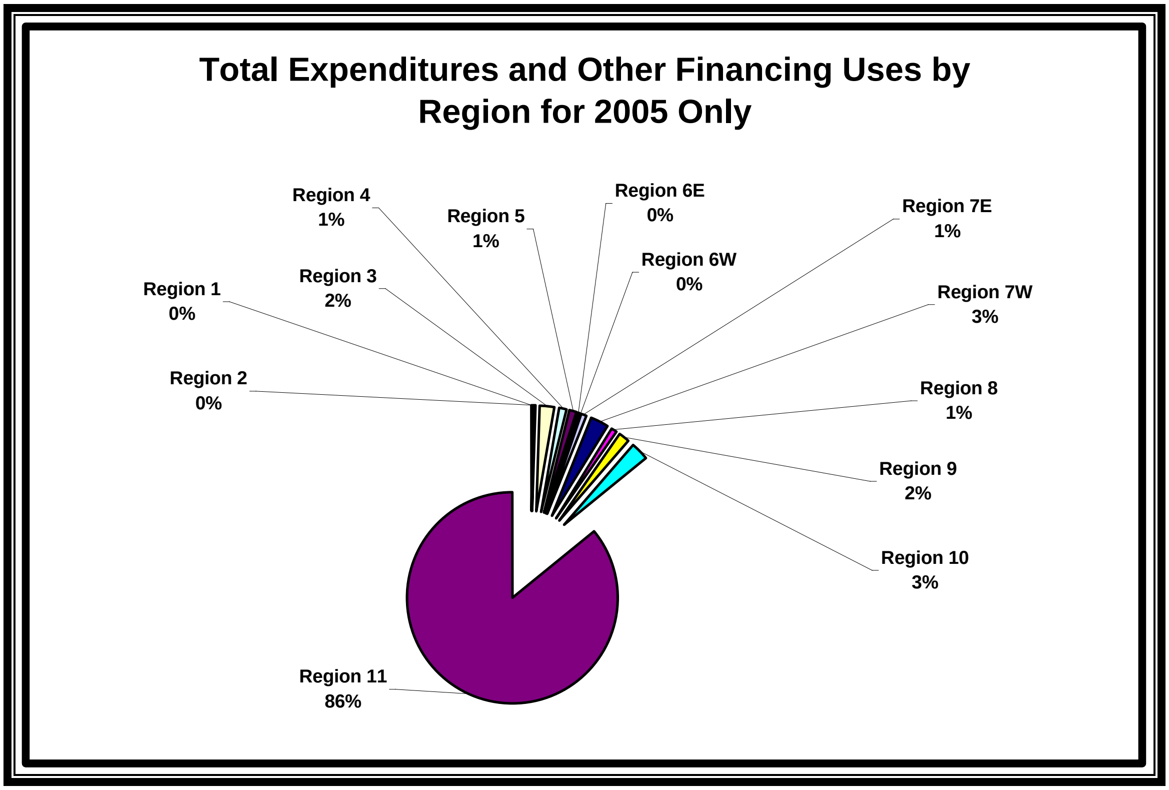


Figure 14(c).



The amounts shown as the total uses of funds in Figures 14(a) and 14(b) above are broken down by Region in Figure 14(c). As seen above with the amount of revenue by region, the Metro Area has the largest amount of expenditures with approximately 86% of the total expenditures in 2005 coming from districts located within this area.

Tax Capacity Information by Region

Tax increment is the difference between the current property taxes and the property taxes generated after publicly assisted development has occurred. In order to determine the amount of tax increment generated in a particular TIF district, the tax capacity must first be determined. The tax capacity is determined by multiplying the estimated market value, as determined by the assessor, by the class rate identified in statute.[16] After a TIF district has been approved and a request by the municipality has been made, the county certifies the original net tax capacity and the original local tax rate. The difference between the total tax capacity after development and the original tax capacity is identified as the captured tax capacity. The captured tax capacity is then multiplied by the local tax rate and this results in the tax increment.

[16] The class rate table was taken from the Department of Revenue website www.taxes.state.mn.us and is located at the back of this report.

Figure 15(a).[17]

Captured Net Tax Capacity as a Percentage of Total Net Tax Capacity by Region				
Regional Development Commission	**Region**	**Total Net Tax Capicity for 2005**	**Captured Net Tax Capacity for 2005**	**% of Captured Tax capacity in 2005**
Northwest RDC	1	$47,863,634	$730,901	1.53%
Headwaters RDC	2	$51,802,055	$309,012	0.60%
Arrowhead RDC	3	$225,472,681	$8,664,409	3.84%
West Central Initiative Fund	4	$166,257,703	$3,578,125	2.15%
Region 5 RDC	5	$154,242,734	$2,705,809	1.75%
Mid-Minnesota Valley RDC	6E	$84,460,636	$1,168,547	1.38%
Upper Minnesota Valley RDC	6W	$35,196,473	$456,480	1.30%
East Central RDC	7E	$109,288,604	$2,249,111	2.06%
Region 7W	7W	$286,371,879	$10,943,093	3.82%
Southeast RDC	8	$90,072,763	$2,324,246	2.58%
Region Nine Development Commission	9	$171,228,563	$4,336,211	2.53%
Region 10	10	$356,220,703	$8,096,549	2.27%
Metropolitan Council	11	$2,871,481,161	$199,397,121	6.94%
Total		$4,649,959,589	$244,959,614	5.27%

Figure 15(b).

Captured Net Tax Capacity and Tax Increment Revenue in 2005 by Region			
Regional Development Commission	**Region**	**Captured Net Tax Capacity in 2005**	**Tax Increment Revenue in 2005**
Northwest RDC	1	$730,901	$1,120,858
Headwaters RDC	2	$309,012	$475,808
Arrowhead RDC	3	$8,664,409	$9,290,091
West Central Initiative Fund	4	$3,578,125	$5,298,510
Region 5 RDC	5	$2,705,809	$3,202,018
Mid-Minnesota Valley RDC	6E	$1,168,547	$1,604,416
Upper Minnesota Valley RDC	6W	$456,480	$530,806
East Central RDC	7E	$2,249,111	$2,807,864
Region 7W	7W	$10,943,093	$12,244,703
Southeast RDC	8	$2,324,246	$3,014,980
Region Nine Development Commission	9	$4,336,211	$4,629,105
Region 10	10	$8,096,549	$8,878,611
Metropolitan Council	11	$199,397,121	$200,725,777
Total		$244,959,614	$253,823,547

17 The amounts identified under "Total Net Tax Capacity for 2005" were provided by the Department of Revenue.

As seen in Figure 15(a) above, the amount of captured net tax capacity is relatively small. The Metro Area has the highest amount of captured net tax capacity in the state at just under 7%, with the state average being just over 5 %. Figure 15(b) shows the amount of captured tax capacity and the amount of tax increment generated by region for 2005.

ENFORCEMENT

In addition to the less formal reviews, the TIF Division of the State Auditor's Office conducts field audits of TIF authorities. After completion of a TIF field audit, if the State Auditor finds that a TIF authority is not in compliance with the TIF Act, the State Auditor will send an initial notice of noncompliance to the governing body of the municipality that approved the TIF district in which the violation arose. The notice of noncompliance provides the basis for the State Auditor's findings and describes the possible consequences of the noncompliance.

The governing body is required by law to respond in writing to the State Auditor within 60 days after receiving the initial notice of noncompliance. In its response, the municipality must state whether it accepts, in whole or in part, the State Auditor's findings and indicate the basis for any disagreement with the findings. After consideration of the municipality's response, the State Auditor submits its final notice of noncompliance to the municipality. The State Auditor forwards information regarding unresolved findings of noncompliance to the appropriate county attorney, who may bring an action to enforce the TIF Act. All information and communications remain confidential until the final notice of noncompliance is submitted.

If the county attorney does not commence an action against the TIF authority within one year after receiving a referral of a notice of noncompliance from the State Auditor and the matter is not otherwise resolved to the State Auditor's satisfaction, the State Auditor refers the notice of noncompliance to the Attorney General. If the Attorney General finds that the TIF authority violated a provision of the TIF Act and the violation was substantial, the Attorney General will commence an action in the tax court to suspend the use of TIF by the TIF authority. Before commencing the action in the tax court, however, the Attorney General must attempt to resolve the dispute using appropriate alternative dispute resolution procedures. If the Attorney General commences an action and the tax court finds that the TIF authority violated the TIF Act and the violation was substantial, the tax court may suspend the use of TIF by the authority for a period of up to five years.[18]

Summary of Findings

State law requires the State Auditor to provide a summary of the responses it received from the municipalities audited and copies of the responses themselves to the chairs of

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[18] Minn. Stat. § 469.1771, subd. 2b(c).

the legislative committees with jurisdiction over tax increment financing.[19] This section of the report discusses details of the various TIF legal compliance audits and investigations completed as of December 31, 2006. Audits were completed and initial and final notices of noncompliance sent to the following municipalities:

1. City of Bayport – An initial notice of noncompliance was sent on December 31, 2005. A final notice of noncompliance was sent on May 12, 2006.

2. City of Le Center – An initial notice of noncompliance was sent May 22, 2006. A final notice of noncompliance was sent on August 9, 2006.

3. City of Lake City – An initial notice of noncompliance was sent on August 17, 2006. A final notice of noncompliance was sent on November 8, 2006.

4. City of Willmar – An initial notice of noncompliance was sent on April 10, 2006. The final notice of noncompliance was sent on May 18, 2006.

Complete copies of the initial and final notices of noncompliance and the municipalities' responses are provided in the appendices, found in Volume II to this report.

District Does Not Qualify as an Economic Development District

City of Bayport

TIF District 2

In its initial notice of noncompliance, the State Auditor found that TIF District 2 did not qualify as an economic development district and that TIF revenues received by the City were invalidly received.

Council minutes and other documentation reviewed indicate that the proposed manufacturing facility was to be a 325,000 square foot cutting plant and warehouse, to be built on the 245 acre site Anderson Corporation purchased from the Minnesota Department of Natural Resources (DNR) in 1994. In 1998 the City received a $400,000 grant from the State of Minnesota to defray the costs of constructing the sewer line to this second Anderson Windows site. Anderson Windows decided not to develop the site for this purpose and the $400,000 grant was returned. The return of the grant was an indication that the manufacturing facility was not to be constructed on the site.

The manufacturing plant, as originally contemplated, qualified under Minn. Stat. § 469.176, subd. 4c, but the manufacturing plant was never built. Anderson Windows, instead, constructed its manufacturing plant in Menomonie, Wisconsin and sold its Bayport site in 2005 for $7.27 million for 328 high-end residential housing units. Despite

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[19] Minn. Stat. § 469.1771, subd. 1(c).

the fact that TIF District 2 no longer met the findings for which the district was established, the City continued to collect tax increment revenues.

In its response, the City concurred that any tax increment received from the construction of single-family houses would result in tax increment revenues that could not be spent in accordance with the provisions for an economic development district. The City continued to contend the weather research facility that was constructed on the site did qualify as an integral part of the manufacturing process and therefore did constitute qualifying tax increment revenues from an economic development district. The State Auditor did not agree.

In its final notice of noncompliance, the State Auditor reiterated its finding that TIF District 2 did not qualify as an economic development district since the manufacturing facility was not constructed, the weather research facility could not be a part of a manufacturing facility that did not exist, and the weather research facility was not contemplated in the TIF plan. Therefore, the TIF revenues received by the City were invalidly received.

Tax Increment Received After Statutory Maximum Duration

City of Willmar

TIF Districts Brinton Veterinary Supply, Somody Supply, and Torgerson Holiday Inn Convention Center

In its initial notice of noncompliance, the State Auditor found that the city improperly received $2,507.48 of tax increment from the Brinton Veterinary Supply TIF District, $44,710.40 of tax increment from the Somody Supply TIF District, and $1,811.80 of tax increment from the Torgerson Holiday Inn Convention Center TIF District after the statutory maximum duration limit. The City's response stated that a check would be issued to the Kandiyohi County Auditor on May 2, 2006, for the tax increment received after the statutory maximum duration limit for these TIF districts. On May 18, 2006, the State Auditor received a copy of a cancelled check from the City, which included the tax increment from these TIF districts.

In its final notice of noncompliance, the State Auditor considered this matter resolved after receiving the cancelled check from the City substantiating that the tax increment had indeed been returned to the Kandiyohi County Auditor.

Failure to Comply with Four-Year Rule

City of Bayport

TIF District 2

In its initial notice of noncompliance, the State Auditor found that the City retained a parcel of property in TIF District 2 that did not qualify for retention under the four-year rule and, therefore, no tax increment may be taken from that parcel.

The City notified the Washington County Assessment, Taxpayer Services and Elections Department that two of the three parcels included in this district did not have any development activity and should be removed from the TIF district. In its response, the City stated that a weather research facility, the only development on the remaining parcel in TIF District 2, within four years from certification of the district, is a facility that constitutes an integral part of the manufacturing process and therefore should qualify. However, the State Auditor reviewed the facts and found that (i) the weather research facility was not considered in its TIF budget, (ii) the proposed 325,000 square foot cutting and manufacturing facility and warehouse plant proposed for the site was not constructed, and therefore, (iii) the weather research facility could not be an integral part of a manufacturing facility that was not constructed in the district. Anderson Windows subsequently constructed the manufacturing facility and warehouse plant in Menomonee, Wisconsin.

In its final notice of noncompliance, the State Auditor reiterated its finding that the City retained a parcel of property in TIF District 2 that did not qualify for retention under the four-year rule and, therefore, no tax increment may be taken from that parcel.

Unauthorized Expenditures Outside TIF District

City of Bayport

TIF District 2

In its initial notice of noncompliance, the State Auditor found that the City improperly expended tax increment generated from TIF district 2 to make debt service payments on the $1,850,000 General Obligation Tax Increment Bonds of 1990 (Bond), the proceeds of which were used to pay for costs that were not qualifying costs pursuant to its TIF plan and were primarily expended outside the district, not allowed pursuant to pooling restrictions.

In its response, the City stated the installation of utilities within TIF District 2 were a permitted expenditure in its TIF Plan, that the City was aware of the pooling restrictions and complied with such restrictions with respect to TIF District 2. The Project Manager certified that the proceeds of the Bond were spent on eligible costs within the boundaries of TIF District 2. The City states that, of the total project costs for Anderson sewer system, $354,307.15 was expended on costs within the geographic area of TIF district 2.

The proceeds of the Bond for TIF District 1 were not intended to be expended in TIF District 2. In the Council resolutions for the Bond, only tax increment revenues from TIF District 1 were pledged to the Bond. The tax increment revenues from TIF District 2 were not. TIF District 2 was established in 1995, after the effective date of the pooling restrictions. There is no authority for TIF District 2 to pay for the debt service on the Bond issued for TIF District 1.

In its final notice of noncompliance, the State Auditor reiterated its finding that the City improperly expended tax increment generated from TIF District 2 to make debt service payments on the Bond issued to pay the costs of TIF District 1

Inadequately Documented Expenditures

City of Lake City

TIF District 9

In its initial notice of noncompliance, the State Auditor found that absent supporting documentation, the City improperly expended $34,879 in tax increment revenues from TIF District 9 on debt service payments on a developer note. In its response, the City indicated that the Lake City EDA Director is working with the developer to obtain additional documentation. The City also indicated that when the documents were received, the documents would be forwarded to the State Auditor's Office. The City did provide documentation to support payments to the developer in the amount of $1,500.

In its final notice of noncompliance, the State Auditor found that the City improperly expended $33,379 of tax increment from TIF District 9 on debt service payments on the note.

City of Le Center

TIF Districts 12 and 15

In its initial notice of noncompliance, the State Auditor found that City improperly spent $28,767.76 of tax increment from TIF District 12 and $22,952.72 of tax increment from TIF District 15 on developer notes through December 31, 2004. In its response, the City indicated that it agreed with the findings. The City also indicated that previous staff did not maintain sufficient documentation to substantiate the use of tax increment and the City is now taking steps to ensure that adequate documentation is maintained in the future.

In its final notice of noncompliance, the State Auditor reiterated its finding that the City improperly spent $28,767.76 of tax increment from TIF District 12 and $22,952.72 of tax increment from TIF District 15 on developer notes through December 31, 2004.

Incomplete Public Hearing Notice

City of Lake City

TIF Districts 1, 8, and 9

In its initial notice of noncompliance, the State Auditor found that the failure of the City to publish maps of TIF Districts 1, 8, and 9 and/or the respective project areas was insufficient to invalidate the establishment of these districts. The failure of the City to comply with the publication requirements for all three districts audited, however, was considered sufficiently material for the matter to constitute a finding. In its response, the City stated that it concurred with this finding and that procedures have been implemented to ensure that the required information is included in future public hearing publications. The State Auditor did not forward this finding to the County Attorney.

Lack of Timely Notification of Fiscal and Economic Implications

City of Lake City

TIF District 1

In its initial notice of noncompliance, the State Auditor found that the City did not comply with the 30-day requirement that fiscal and economic implications of the TIF plan for TIF District 1 be submitted to the county and school boards. It was determined the failure to provide the full 30-day submission of information was not sufficient to invalidate the establishment of TIF District 1 but was sufficiently material to warrant a finding and curative measures. In its response, the City stated that it concurred with this finding and while it is impossible to cure this finding, procedures have been implemented to ensure that the required notifications are provided in a timely manner. The State Auditor did not forward this finding to the County Attorney.

Issues Emanating from the Contract for Private Development

City of Lake City

TIF District 1

In its initial notice of noncompliance, the State Auditor found that the City overpaid the developer $10,997 through 2004 and that the City collected $12,702 in excess tax increment from TIF District 1 that it was obligated, under the terms of the contract, to return to Goodhue County for redistribution to the local taxing jurisdictions. In its response, the City stated that in 2005 it contracted with a consultant to review the City's

TIF districts and reporting. This issue was identified at that time and no subsequent payments had been made to the developer. The City also stated that it is in the process of amending the agreement with the developer and correcting any overpayments.

In its final notice of noncompliance, the State Auditor reiterated its finding that through 2004 the City overpaid the developer $10,997 and collected $12,702 in excess tax increment that it was obligated, under the terms of the contract, to return to Goodhue County for redistribution.

Duplicate Funding Sources Authorized for Sewer Line to 245 Acre Anderson Corporation Site

City of Bayport

In its initial notice of noncompliance, the State Auditor found that the City illegally expended $759,675.94 in tax increment revenues on costs in which the City also assessed property owners and collected through special assessments.

The City assessed $759,675.94 to property owners who benefited from the sewer lines that were installed. Proceeds from the Bond were used to pay for these same costs. The City was advised in a January 7, 1998, letter by its legal counsel not to deposit the assessment proceeds into any TIF fund, because only tax increment revenues were pledged to debt service on the Bond. Records show the special assessment revenues were deposited in the Street and Utility Reconstruction Fund and used for other purposes. In its initial notice of noncompliance, the State Auditor found that the policy of the City was to specially assess all sanitary sewer costs and that the City did, in fact, specially assess a substantial portion of the sewer line costs. The City also collected tax increment revenues for these same costs. Since two funding sources were authorized and collected for the same costs, it was not found that *but for* the use of tax increment, the sanitary sewer costs would not be covered. The State Auditor questioned whether the City was receiving duplicate payments, otherwise referred to as “double dipping”.

In its response, the City stated that “[t]he City is not prohibited by law from assessing property owners for costs of public improvements even if there is another source of revenue to finance such public improvement costs.” The City states that duplicate revenue sources were received for the same expenditures, with the result that the City reimbursed itself twice for the same expenditure.

In its final notice of noncompliance, the State Auditor reiterated its finding that the City did not meet the “but for” test by having alternative funding available and therefore illegally expended $759,675.94 in tax increment revenues.

CONTACT INFORMATION

The TIF Division may be contacted at the following addresses and telephone/fax numbers:

Office of the State Auditor
TIF, Investment and Financing Division
525 Park Street, Suite 500
St. Paul, MN 55103
Telephone: (651) 296-4716
Fax: (651) 297-3689
Email: tifdivision@auditor.state.mn.us

Arlin B. Waelti, Assistant State Auditor/Director	(651) 296-7979
Lisa McGuire, Auditor & Database Analyst	(651) 296-9255
Kurt Mueller, Auditor	(651) 297-3680
Marsha Pattison, Database/Record Mgr.	(651) 296-4716
Suk Shah, Auditor	(651) 296-7001
Jenna Ofstie, Intern	(651) 297-8342
Robert Pilgrim, Intern	(651) 282-2386

This report can also be viewed at www.auditor.state.mn.us

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Exhibit 1

Development Regions for the State Consist of the Following Counties:

REGION 1	Kittson, Roseau, Marshall, Pennington, Red Lake, Polk, Norman
REGION 2	Lake of the Woods, Beltrami, Mahnomen, Clearwater, Hubbard
REGION 3	Koochiching, Itasca, St. Louis, Lake, Cook, Aitkin, Carlton
REGION 4	Clay, Becker, Wilkin, Otter Tail, Grant, Douglas, Traverse, Stevens, Pope
REGION 5	Cass, Wadena, Crow Wing, Todd, Morrison
REGION 6E	Kandiyohi, Meeker, Renville, McLeod
REGION 6W	Big Stone, Swift, Chippewa, Lac qui Parle, Yellow Medicine
REGION 7E	Mille Lacs, Kanabec, Pine, Isanti, Chisago
REGION 7W	Stearns, Benton, Sherburne, Wright
REGION 8	Lincoln, Lyon, Redwood, Pipestone, Murray, Cottonwood, Rock, Nobles, Jackson
REGION 9	Sibley, Nicollet, LeSueur, Brown, Blue Earth, Waseca, Watonwan, Martin, Faribault
REGION 10	Rice, Goodhue, Wabasha, Steele, Dodge, Olmsted, Winona, Freeborn, Mower, Fillmore, Houston
REGION 11	Anoka, Hennepin, Ramsey, Washington, Carver, Scott, Dakota (Metropolitan Council)

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EXHIBIT 2

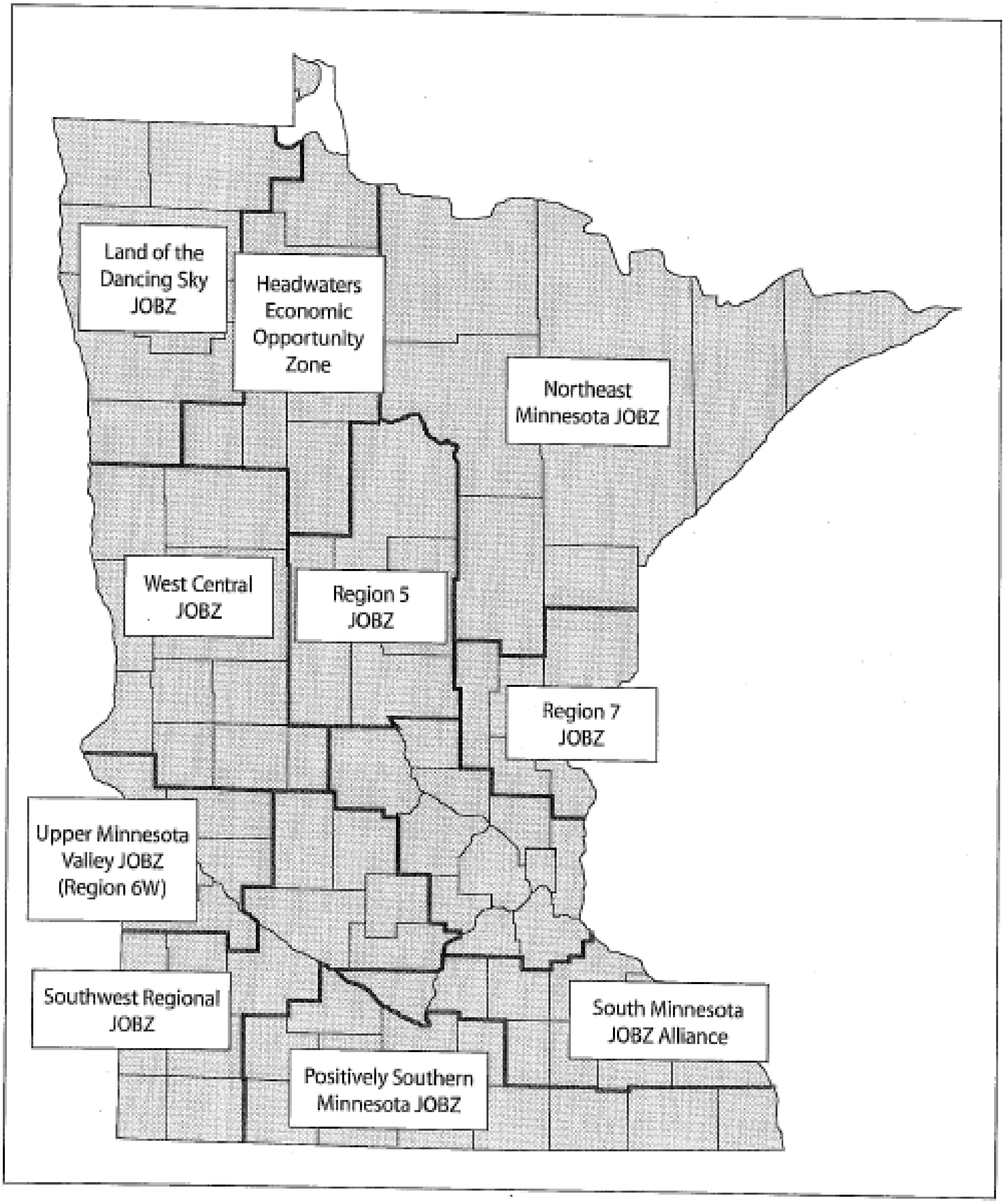

Figure 1. The Job Opportunity Building Zones of Minnesota.

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Exhibit 3

MINNESOTA · REVENUE

Class Rate Percentages of Real and Personal Property by Property Type
Taxes Payable 2006 and 2007

Class	Real Property Description	Payable 2006 Class Rate
1a	**Residential homestead**	
	first $500,000	1.00%
	over $500,000	1.25%
1b	**Blind/Paraplegic Veteran/Disabled homestead**	
	agricultural:	
	first $32,000	0.45%
	non-agricultural:	
	first $32,000	0.45%
1c	**Commercial seasonal - recreational residential - under 250 days and includes homestead**	
	first $500,000	0.55%
	$500,000 to $2,200,000	1.00%
	over $2,200,000	1.25% *
1d	**Migrant housing (structures only)**	
	first $500,000	1.00%
	over $500,000	1.25%
2a	**Agricultural homestead House, Garage, One Acre:**	
	first $500,000	1.00%
	over $500,000	1.25%
	Remainder of Farm:	
	first $600,000	0.55% **
	over $600,000	1.00% **

Class	Real Property Description	Payable 2007 Class Rate
1a	**Residential homestead**	
	first $500,000	1.00%
	over $500,000	1.25%
1b	**Blind/Paraplegic Veteran/Disabled homestead**	
	agricultural:	
	first $32,000	0.45%
	non-agricultural:	
	first $32,000	0.45%
1c	**Commercial seasonal - residential recreational - under 250 days and includes homestead**	
	first $500,000	0.55%
	$500,000 to $2,200,000	1.00%
	over $2,200,000	1.25% *
1d	**Migrant housing (structures only)**	
	first $500,000	1.00%
	over $500,000	1.25%
2a	**Agricultural homestead House, Garage, One Acre:**	
	first $500,000	1.00%
	over $500,000	1.25%
	Remainder of Farm:	
	first $690,000	0.55% **
	over $690,000	1.00% **

Class	Real Property Description	Payable 2006 Class Rate
2b	**Timberlands**	1.00% **
2b	**Private Airports**	1.00% **
2b	**Non-homestead agricultural land**	1.00% **
3a	**Commercial-Industrial and public utility**	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Public Utility Machinery	
3a	Electric generating public utility machinery	2.00%
3a	All other public utility machinery	2.00% *
3a	**Real property owned in fee by a utility for transmission line right-of-way**	2.00% *
3b	**Employment property**	
	border city:	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Rental housing	
4a	four or more units, including private for-profit hospitals	1.25%
4b(1)	Residential non-homestead one to three units that does not qualify for class 4bb	1.25%

Class	Real Property Description	Payable 2007 Class Rate
2b	**Timberlands**	1.00% **
2b	**Private Airports**	1.00% **
2b	**Non-homestead agricultural land**	1.00% **
3a	**Commercial-Industrial and public utility**	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Public Utility Machinery	
3a	Electric generating public utility machinery	2.00%
3a	All other public utility machinery	2.00% *
3a	**Real property owned in fee by a utility for transmission line right-of-way**	2.00% *
3b	**Employment property**	
	border city:	
	first $150,000	1.50% *
	over $150,000	2.00% *
	Rental housing	
4a	four or more units, including private for-profit hospitals	1.25%
4b(1)	Residential non-homestead one to three units that does not qualify for class 4bb	1.25%

Class	Real Property Description	Payable 2006 Class Rate
	Rental housing (continued)	
4b(2)	Unclassified manufactured homes	1.25%
4b(3)	Farm non-homestead containing more than one residence but fewer than four along with the garage and one acre	1.25%
4b(4)	Residential non-homestead not containing a structure	1.25%
4bb(1)	Residential non-homestead single unit	
	first $500,000	1.00%
	over $500,000	1.25%
4bb(2)	Single house, garage and 1st acre on ag non-homestead land	
	first $500,000	1.00%
	over $500,000	1.25%
4c(1)	**Seasonal recreational residential**	
	commercial	
	first $500,000	1.00% *
	over $500,000	1.25% *
	non-commercial	
	first $500,000	1.00% * **
	over $500,000	1.25% * **
4c(2)	**Qualifying golf courses**	1.25%
4c(3)	**Nonprofit community service oriented organization**	1.50%
4c(4)	**Post secondary student housing**	1.00% **

Class	Real Property Description	Payable 2007 Class Rate
	Rental housing (continued)	
4b(2)	Unclassified manufactured homes	1.25%
4b(3)	Farm non-homestead containing more than one residence but fewer than four along with the acre(s) and garage(s)	1.25%
4b(4)	Residential non-homestead not containing a structure	1.25%
4bb(1)	Residential non-homestead single unit	
	first $500,000	1.00%
	over $500,000	1.25%
4bb(2)	Single house, garage and 1st acre on ag non-homestead land	
	first $500,000	1.00%
	over $500,000	1.25%
4c(1)	**Seasonal residential recreational**	
	commercial	
	first $500,000	1.00% *
	over $500,000	1.25% *
	non-commercial	
	first $500,000	1.00% * **
	over $500,000	1.25% * **
4c(2)	**Qualifying golf courses**	1.25%
4c(3)	**Nonprofit community service oriented organization**	1.50%
4c(4)	**Post secondary student housing**	1.00% **

Class	Real Property Description	Payable 2006 Class Rate
4c(5)	**Manufactured home parks**	1.25%
4c(6)	**Metro non-profit recreational property**	1.25%
4c(7)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on leased land**	1.50%
4c(8)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on private land**	1.50%
4c(9)	**Bed and Breakfast up to 5 units**	1.25%
4d	**Qualifying low income - land and buildings**	0.75%
5(1)	**Unmined iron ore**	2.00% *
5(1)	**Low recovery iron ore**	2.00% *
5(2)	**All other property not included in any other class**	2.00%

Class	Real Property Description	Payable 2007 Class Rate
4c(5)	**Manufactured home parks**	1.25%
4c(6)	**Metro non-profit recreational property**	1.25%
4c(7)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on leased land**	1.50%
4c(8)	**Certain leased or privately owned non-commercial aircraft storage hangars (includes land) : on private land**	1.50%
4c(9)	**Bed and Breakfast up to 5 units**	1.25%
4d	**Qualifying low income - land and buildings**	0.75%
5(1)	**Unmined iron ore**	2.00% *
5(1)	**Low recovery iron ore**	2.00% *
5(2)	**All other property not included in any other class**	2.00%

* Subject to the state general property tax.

NOTE: For purposes of the state general property tax only, the net tax capacity of non-commercial class 4c(1) seasonal residential recreational property has the following class rate structure:

First $76,000	0.40%
$76,000 — $500,000	1.00%
Over $500,000	1.25%

In addition to the state tax base exemptions referenced by property classification, airport property exempt from city and school district property taxes under M.S. 473.625 is exempt from the state general property tax (MSP International Airport and Holman Field in St.Paul are exempt under this provision).

** Exempt from referendum market value based taxes.