State of Minnesota

Office of the State Auditor

Julie Blaha
State Auditor

Tax Increment Financing Legislative Report

TIF Reports for the Year Ended December 31, 2022
TIF Reviews Concluded for the Year Ended December 31, 2023

Description of the Office of the State Auditor

The Office of the State Auditor (OSA) helps ensure financial integrity and accountability in local government financial activities. The OSA is the constitutional office that oversees more than $40 billion in annual financial activity by local governments and approximately $20 billion of federal funding financial activity.

The OSA performs around 90 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office maintains the following seven divisions:

- **Audit Practice**: Helps ensure fiscal integrity by conducting financial and compliance audits of local governments and the federal compliance audit of the State of Minnesota.

- **Constitution:** Connects with the public via external communication, media relations, legislative coordination, and public engagements for the State Auditor.

  This division also supports the State Auditor's service on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, the Minnesota Historical Society, and the Rural Finance Authority Board.

- **Government Information**: Collects, analyzes, and shares local government financial data to assist in policy and spending decisions; administers and supports financial tools including the Small Cities and Towns Accounting System (CTAS) software and infrastructure comparison tools.

- **Legal/Special Investigations**: Provides legal analysis and counsel to the OSA and responds to outside inquiries about Minnesota local law relevant to local government finances; investigates local government financial records in response to specific allegations of theft, embezzlement, or unlawful use of public funds or property.

- **Operations:** Ensures the office runs efficiently by providing fiscal management and technology support to the office.

- **Pension:** Analyzes investment, financial, and actuarial reporting for Minnesota's local public pension plans and monitors pension plan operations.

- **Tax Increment Financing (TIF)**: Promotes compliance and accountability in local governments' use of tax increment financing through education, reporting, and compliance reviews.

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Office of the State Auditor

February 7, 2024

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TAX INCREMENT FINANCING LEGISLATIVE REPORT

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Executive Summary

Highlights and Trends

- In 2022, almost $232 million of tax increment revenue was generated statewide, which is a decrease of four percent from the $241 million generated in 2021. This is a second consecutive decline from a recent peak in 2020. (Pages 19 - 21)

- In 2022, 380 development authorities submitted reports to the OSA for 1,669 TIF districts. The number of districts since 2016 has largely remained constant at between 1,653 and 1,674 districts. (Pages 11 - 13)

- In 2022, 78 new TIF districts were certified, 26 less than the 104 new districts certified in 2021, and the fewest created over the last five years. In 2022, 100 districts were decertified, up 19 percent from 2021. The number of new certifications each year has fluctuated less over the last ten years than the number of annual decertifications. (Pages 14 - 17)

- In the latest five-year period, 79 percent of redevelopment and 77 percent of housing districts decertified early, compared to 39 percent of economic development districts decertifying early (a still-significant rate given their shorter statutory duration limits). Early decertification is more significant than merely getting value back into the tax base a year or two before reaching maximum limits; it often reduces the duration of value capture by a third or more. (Page 18)

- In 2022, development authorities returned $13,130,679 of tax increment revenue to county auditors for redistribution as property taxes to cities, counties, and school districts. (Page 22)

- In 2022, there was $1.8 billion of outstanding debt associated with TIF districts, an increase of one percent from 2021. Pay-As-You-Go (PAYG) obligations were the predominant type of debt, making up 70 percent of the debt reported. General Obligation (GO) bonds comprised about 14 percent of the total debt. Interfund loans (mostly from non-tax increment accounts) made up 11 percent of total debt. PAYG obligations have steadily made up an increasing share of TIF debt, while reliance on general obligation bonds has declined over the past ten years. (Page 24-25)

Scope and Methodology

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

The TIF Act requires development authorities to file with the OSA annual financial reports for each of their TIF districts. Reports must be submitted on or before August 1 of each year, starting the year in which a district is certified.[3] Reporting continues until the year following the year in which the district is both decertified and all remaining revenues derived from tax increment have been expended or returned to the county auditor.[4] Because new certifications and decertifications are not always reported in a timely manner, the data for prior years contained in this Report may differ from data presented in previous reports.

This 28th Annual Legislative Report (Report) was compiled from information reported by 380 development authorities currently exercising tax increment financing powers in Minnesota. The Report summarizes information reported by these development authorities for 1,669 districts for the calendar year ended December 31, 2022.[5] An additional four authorities were required but failed to submit reports on four districts for the period; accordingly, data for those districts is not reflected in this Report.[6]

The Report also provides a summary of any violations cited in the limited-scope reviews conducted by the OSA in 2023. This Report is provided annually to the chairs of the legislative committees with jurisdiction over TIF matters.[7]

[1] 1995 Minn. Laws, ch. 264, art. 5, § 34. The OSA's oversight of TIF began in 1996.
[2] The TIF Act can be found at: Minn. Stat. §§ 469.174 through 469.1799 inclusive, as amended. The OSA's oversight authority can be found at: Minn. Stat. § 469.1771.
[3] Minn. Stat. § 469.175, subd. 6.
[4] Minn. Stat. § 469.175, subd. 6b.
[5] The summarized information reflects reported activity as of the end of calendar year 2023. Late and resubmitted reports may result in slight changes. Likewise, prior year data in some of the tables and charts may have changed slightly from previously published reports.
[6] Bowlus, Morton, Orono and Sacred Heart failed to report for their single districts. The TIF Act provides for tax increment to be withheld when reports are not filed.
[7] Minn. Stat. § 469.1771, subd. 1(c).

Background

Tax increment financing is a financing tool established by the Legislature to support local economic development, redevelopment, and housing development. As its name suggests, TIF enables development authorities to finance development activities using the incremental property taxes, or "tax increments," generated by the increased taxable value of the new development.

TIF is not a tax reduction; taxes are paid on the full taxable value of the property. The original taxable value continues to be part of the tax base that supports the tax levies of the city, county, school district, and other taxing jurisdictions.[8] The new, additional value from development activity is "captured" from the tax base, and the taxes paid on the captured value yield the tax increments. During the life of the TIF district, tax increments are reserved (meaning they are not paid to the taxing jurisdictions) and instead are used to finance qualifying costs that make the new development possible.

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

The expenditures that qualify to be paid from tax increment depend on the type of development activity taking place, the type of TIF district created, and the year in which the TIF district was created. Examples of qualifying costs include: land and building acquisition, demolition of structurally substandard buildings, removal of hazardous substances, site preparation, installation of utilities, and road improvements.

A TIF district is created within a project area by a development authority. TIF districts are comprised of the parcels on which development activity occurs. Project areas can be larger than a TIF district and can contain multiple TIF districts. A development authority can be a city, an entity created by a city, or an entity created by a county.[10] Development authorities derive their authority to use TIF and assist projects from various development acts that underlie and are incorporated into the TIF Act by reference: the Housing and Redevelopment Authorities (HRA) Act, the Port Authorities Act, the Economic Development Authorities (EDA) Act, the City

[8] A hazardous substance subdistrict may capture original value due to the higher expense involved in cleaning up hazardous substances. Minn. Stat. §§ 469.174, subds. 7(b) and 23; 469.175, subd. 7.
[9] Minn. Stat. § 469.175, subd. 3(b)(2).
[10] Counties and towns may also be development authorities in certain instances.

Development District Act, and the Rural Development Financing Authorities Act.[11] These acts govern the development projects, whereas the TIF Act governs the use of tax increments.

TIF districts are terminated, or decertified, when they reach the earliest of the following times: (1) the applicable maximum duration limit provided in the TIF Act for each type of TIF district; (2) a shorter duration limit established by the authority in the TIF plan; (3) upon collecting sufficient increment to pay all in-district obligations and/or reaching the end of the term of the last outstanding pay-as-you-go note pursuant to the Six-Year Rule; or (4) upon written request by the authority to the county auditor to decertify the district.[12] Decertification ends the capture of the new value and the collection of increment, but many districts remain active and continue to report until all remaining tax increment revenues have been expended or returned to the county auditor. Most districts decertify before reaching the maximum duration limit.

Development Authorities

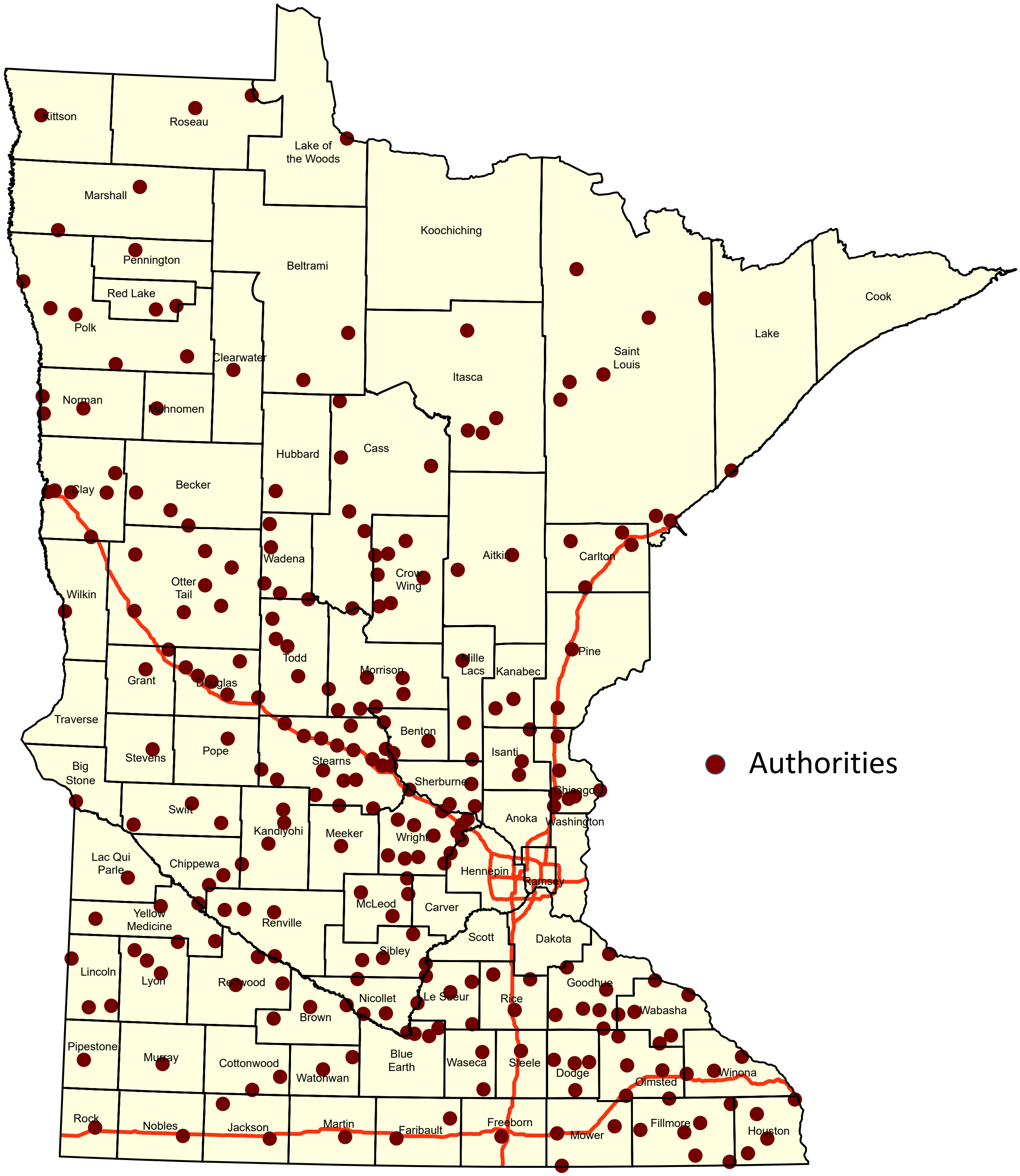
In 2022, there were 384 development authorities in Minnesota actively using TIF, which is three less than the number active in 2021. Seven authorities became inactive, and four inactive development authorities became active again.

In 2022, of the 384 active development authorities, 283 were located in Greater Minnesota, and 101 were located in the Seven-County Metropolitan Area (Metro Area). Maps 1 and 2 on the following pages show the locations of these authorities. Map 3 identifies counties that have a development authority using TIF.[13]

[11] Minn. Stat. § 469.174, subd. 2 (listing the statutory citations for the various development acts).
[12] Minn. Stat. § 469.177, subd. 12.
[13] This map does not include the following joint authority: Southeast Minnesota Multi-County HRA.

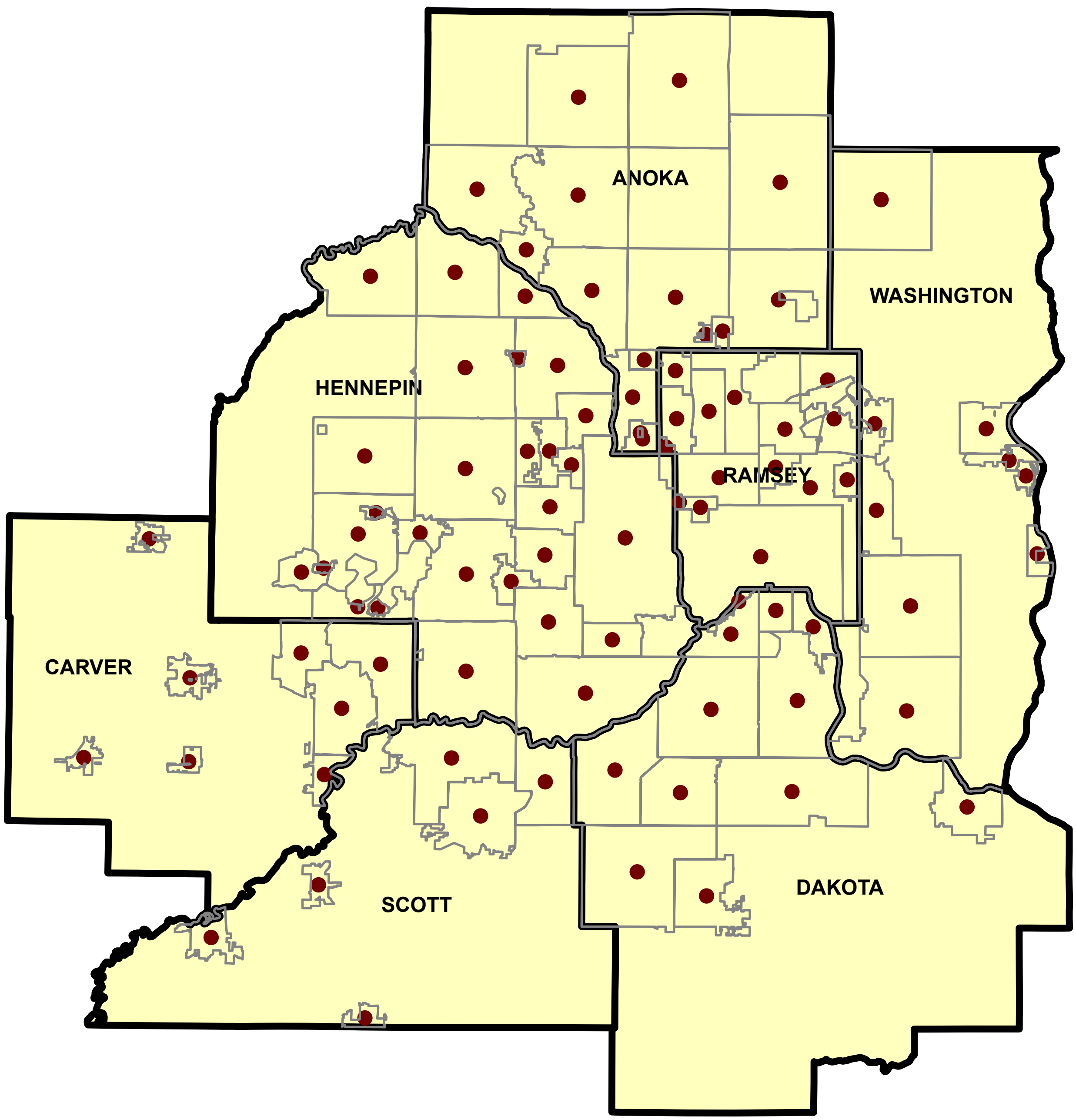
Map 1.

Development Authorities in Greater Minnesota, 2022



Map 2.

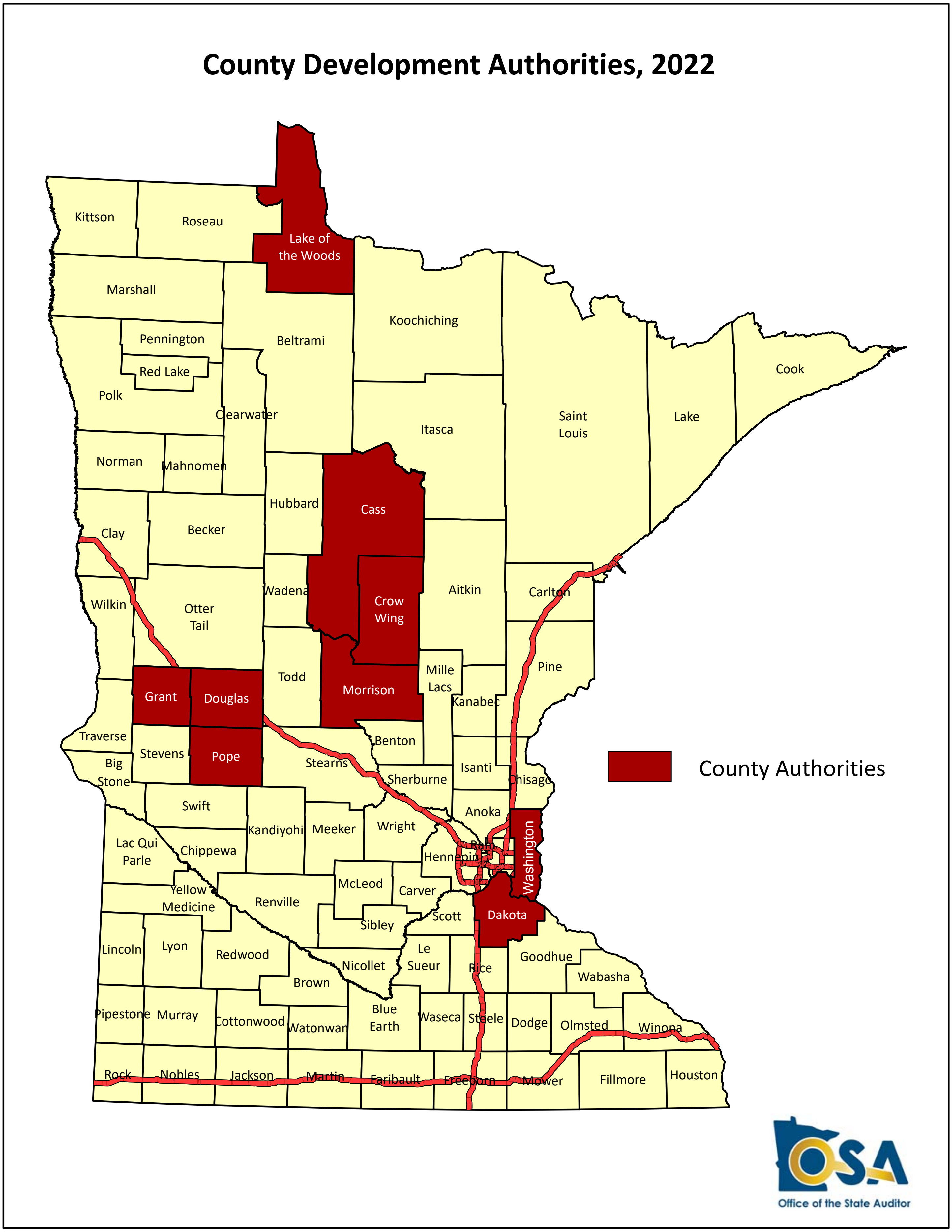
Development Authorities in Metro Area, 2022



● Authorities

Office of the State Auditor

Map 3.


County Development Authorities, 2022
County Authorities
Kittson
Roseau
Lake of the Woods
Marshall
Koochiching
Pennington
Beltrami
Red Lake
Polk
Clearwater
Itasca
Saint Louis
Lake
Cook
Norman
Mahnomen
Hubbard
Cass
Clay
Becker
Wadena
Crow Wing
Aitkin
Carlton
Wilkin
Otter Tail
Todd
Mille Lacs
Pine
Grant
Douglas
Morrison
Kanabec
Traverse
Stevens
Pope
Benton
Big Stone
Stearns
Sherburne
Isanti
Chisago
Swift
Anoka
Kandiyohi
Meeker
Wright
Lac Qui Parle
Chippewa
Ram
Hennepin
Washington
Yellow Medicine
Renville
McLeod
Carver
Sibley
Scott
Dakota
Lincoln
Lyon
Redwood
Le Sueur
Goodhue
Nicollet
Rice
Wabasha
Brown
Pipestone
Murray
Cottonwood
Watonwan
Blue Earth
Waseca
Steele
Dodge
Olmsted
Winona
Rock
Nobles
Jackson
Martin
Faribault
Freeborn
Mower
Fillmore
Houston
Office of the State Auditor

Creation of TIF Districts

The first step a development authority takes in creating a TIF district is to adopt a TIF plan. The TIF plan outlines the development activity to be funded with tax increment.[14]

A development authority must obtain approval of the TIF plan from the governing body of the municipality in which the TIF district is to be located. For example, if a city's port authority proposes creating a TIF district in the city, the city council must first approve the TIF plan for the district. Approval of the TIF plan authorizes the use of tax increment to pay TIF-eligible project costs. Before approving a TIF plan, the municipality must publish a notice and hold a public hearing.[15]

Before the notice for a public hearing is published, the development authority must provide a copy of the proposed TIF plan to the county auditor and the clerk of the school board who, in turn, must provide copies of these documents to the members of the county board of commissioners and the school board.[16] The county board and school board may comment on the proposed district, but cannot prevent its creation.[17]

Types of TIF Districts

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

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

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

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

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[14] Minn. Stat. § 469.175, subd. 1.
[15] Minn. Stat. § 469.175, subd. 3.
[16] Minn. Stat. § 469.175, subd. 2.
[17] When the county is the municipality that must approve the TIF plan, the county board may prevent the creation of a TIF district.

Redevelopment Districts – The purpose of a redevelopment district is to eliminate certain blighted conditions.[18] Redevelopment districts are designed to conserve the use of existing utilities, roads, and other public infrastructure, and to discourage urban sprawl. Qualifying tax increment expenditures include: acquiring sites containing substandard buildings, streets, utilities, parking lots, or other similar structures; demolishing and removing substandard structures; eliminating hazardous substances; clearing the land; and installing utilities, sidewalks, and parking facilities. These TIF-financed activities are generally considered a means to "level the playing field" so that blighted property can compete with property that is not blighted for development. These districts have a statutory maximum duration limit of 25 years after first receipt of tax increment.[19]

Economic Development Districts – The purpose of an economic development district is to: (1) discourage commerce, industry, or manufacturing from moving to another state or city; (2) increase employment in the state; (3) preserve and enhance the tax base; or (4) satisfy requirements of a workforce housing project.[20] Tax increment revenue from economic development districts is used primarily to assist manufacturing, warehousing, storage and distribution, research and development, telemarketing, and tourism, but can also be used for workforce housing projects (as of 2017 and sunsetting in 2027).[21] Use of tax increment in these districts for commercial development (retail sales) is excluded by law, except in "small cities."[22] Economic development districts are short-term districts with a limit of eight years after first receipt of tax increment.[23]

Housing Districts – The purpose of a housing district is to encourage development of owner-occupied and rental housing for low- and moderate-income individuals and families. Tax increment revenue can be used in the construction of low- and moderate-income housing and to acquire and improve the housing site. These districts have a statutory maximum duration limit of 25 years after first receipt of tax increment.[24]

Renewal and Renovation Districts – The purpose of a renewal and renovation district is similar to that of a redevelopment district, except the amount of blight to be removed may be less, and

[18] Minn. Stat. § 469.174, subd. 10(a).
[19] Minn. Stat. § 469.176, subd. 1b(a)(4). Note that a duration of 25 years *after* first receipt of tax increment permits 26 years of collection.
[20] Minn. Stat. § 469.174, subd. 12.
[21] Minn. Stat. § 469.176, subd. 4c, identifies allowable purposes. Minn. Stat. § 469.175, subd. 3(g), contains the sunset, barring districts from being certified for requests made after June 30, 2027.
[22] Minn. Stat. § 469.174, subd. 27 (defining small cities as, generally, those with a population of 5,000 or less located five miles or more from a city of 10,000 or more), and Minn. Stat. § 469.176, subd. 4c. (The five-mile parameter was ten miles for districts with a request for certification on or before July 1, 2023.)
[23] Minn. Stat. § 469.176, subd. 1b(a)(3). Note that a duration of eight years *after* first receipt of tax increment permits nine years of collection.
[24] Minn. Stat. § 469.176, subd. 1b(a)(4). Note that a duration of 25 years *after* first receipt of tax increment permits 26 years of collection.

the development activity relates more to inappropriate or obsolete land use. The statutory maximum duration limit for these districts is 15 years after first receipt of tax increment.[25]

Soils Condition Districts – The purpose of a soils condition district is to assist in the redevelopment of land which cannot otherwise be developed due to the presence of hazardous substances, pollutants, or contaminants. The estimated cost of the proposed removal and remediation must exceed the fair market value of the land before the remediation is completed.[26] The statutory maximum duration limit for these districts is 20 years after first receipt of tax increment.[27]

Pre-1979 Districts – These districts were created prior to the 1979 TIF Act and have all been decertified.[28]

Uncodified Districts – Special laws have been enacted to address unique issues and permit the use of TIF for geographic areas that do not meet the statutory qualifications for the main statutory types of TIF districts. They are referred to as "uncodified" districts. Examples of uncodified districts are housing transition districts for the cities of Crystal, Fridley, Minneapolis, and St. Paul, and a district addressing distressed rental properties in Brooklyn Park.

Hazardous Substance Subdistricts – The purpose of a hazardous substance subdistrict (HSS) is to finance the cleanup of hazardous substance sites within a TIF district so that development or redevelopment can occur.[29] The subdistrict may be established at the time of approval of the TIF plan, or added later by modification, and requires certain findings and a development response action plan approved by the Minnesota Pollution Control Agency (PCA).[30] The HSS captures additional increment by reducing the original net tax capacity (ONTC) by the estimated costs of the removal actions.[31] The payment of these costs comes from what would normally be the "frozen" property tax base of the district and yields immediate increment without requiring any increase in property value. The additional increment may be used only to pay or reimburse specified costs, such as removal or remedial actions, pollution testing, purchase of environmental insurance, and related administrative and legal costs.[32] The statutory maximum duration limit for an HSS can extend beyond that of the overlying district and is 25 years from the date the extended period began or the period necessary to recover the costs specified in the development response plan, whichever occurs first.[33]

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[25] Minn. Stat. § 469.176, subd. 1b(a)(1). Note that a duration of 15 years *after* first receipt of tax increment permits 16 years of collection.
[26] Minn. Stat. § 469.174, subd. 19.
[27] Minn. Stat. § 469.176, subd. 1b(a)(2). Note that a duration of 20 years *after* first receipt of tax increment permits 21 years of collection.
[28] Minn. Stat. § 469.176, subd. 1c. Princeton's TIF 1 Downtown Redevelopment District is the last pre-1979 district that is still reporting.
[29] Minn. Stat. § 469.174, subds. 16 and 23; Minn. Stat. § 469.175, subd. 7.
[30] Minn. Stat. § 469.174, subd. 17.
[31] Minn. Stat. § 469.174, subd. 7(b).
[32] Minn. Stat. § 469.176, subd. 4e.
[33] Minn. Stat. § 469.176, subd. 1e.

Special Legislation

The legislature has enacted special legislation allowing exceptions to the TIF Act for individual districts with some frequency. As of 2022, 117 TIF districts reported having special laws. The most common types of special legislation include: (1) extending the five-year deadline for entering into contracts or issuing bonds, (2) extending the duration limit of a TIF district, (3) creating an exception to requirements or findings needed to create a TIF district, and (4) creating an exception to the limitations on the use of tax increment.

Number of TIF Districts

In 2022, 380 development authorities submitted reports to the OSA for 1,669 TIF districts. Of these districts, 1,020 (61 percent) were located in Greater Minnesota and 649 (39 percent) were located in the Metro Area.[34] (See Figure 1.)

Figure 1.

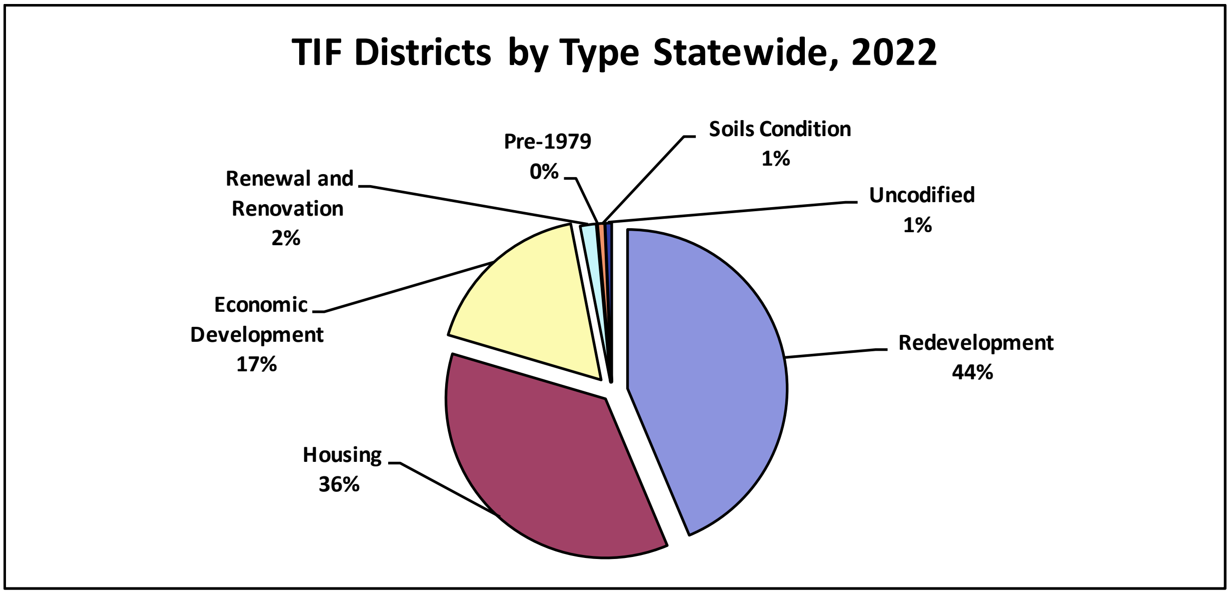
TIF Districts by Type: Statewide, Greater MN, & Metro Area; 2022

Type of District	Statewide	Greater MN	Metro Area
Redevelopment	729	390	339
Housing	599	390	209
Economic Development	290	227	63
Renewal and Renovation	27	8	19
Pre-1979	1	1	0
Soils Condition	12	4	8
Uncodified	11	0	11
Total	1,669	1,020	649
Hazardous Substance Subdistricts	22	2	20

In 2022, redevelopment districts made up 44 percent of all TIF districts statewide, followed by housing districts at 36 percent, and economic development districts at 17 percent. Combined, these three types made up 97 percent of all districts. (See Figure 2.)

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

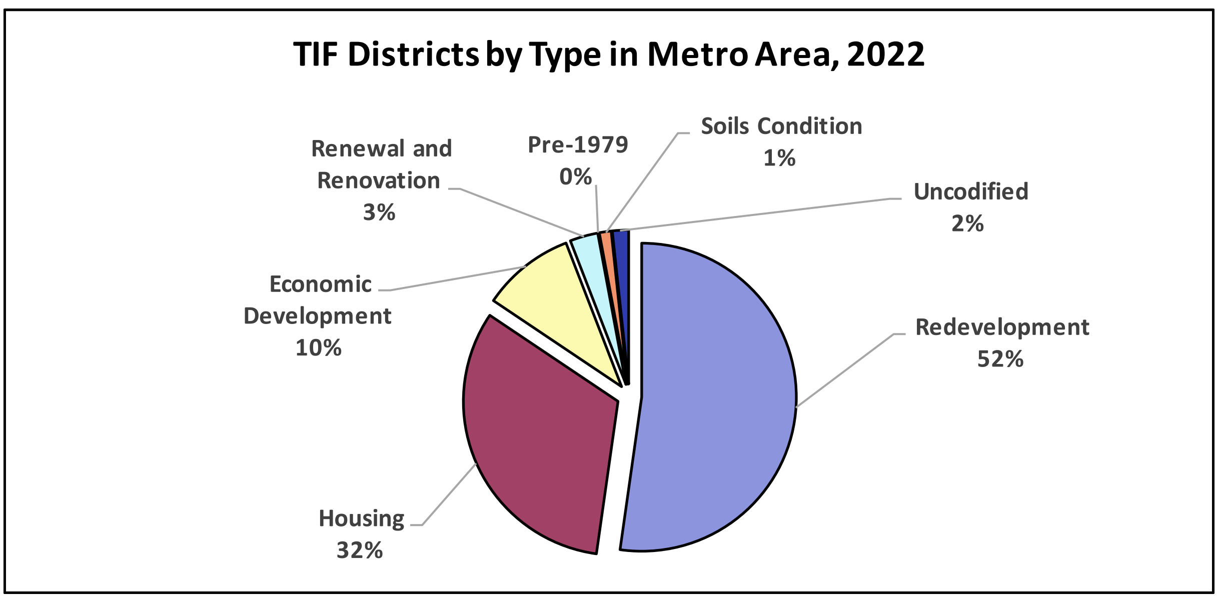
Figure 2.



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

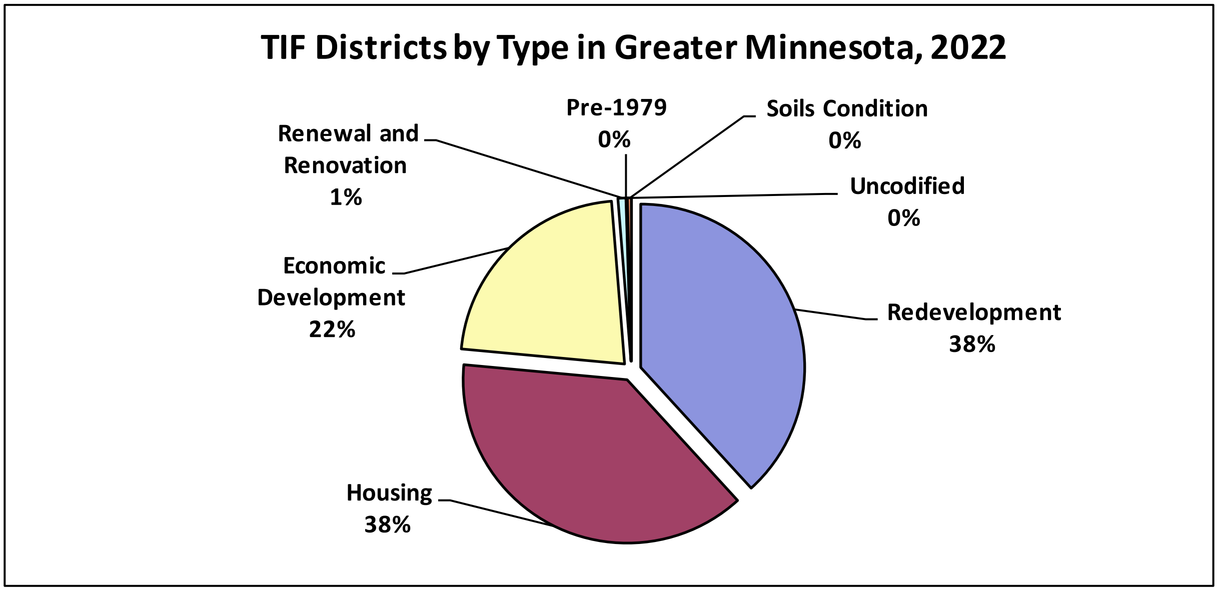
In the Metro Area, redevelopment districts made up over half (52 percent) of all districts, followed by housing districts at 32 percent, and economic development districts at ten percent. (See Figure 3.)

Figure 3.



In Greater Minnesota, redevelopment districts were also the largest type of district, again followed by housing and economic development districts. However, redevelopment districts made up a significantly smaller portion of districts compared to the Metro Area, while economic development districts in particular were far more prevalent in Greater Minnesota. (See Figure 4.)

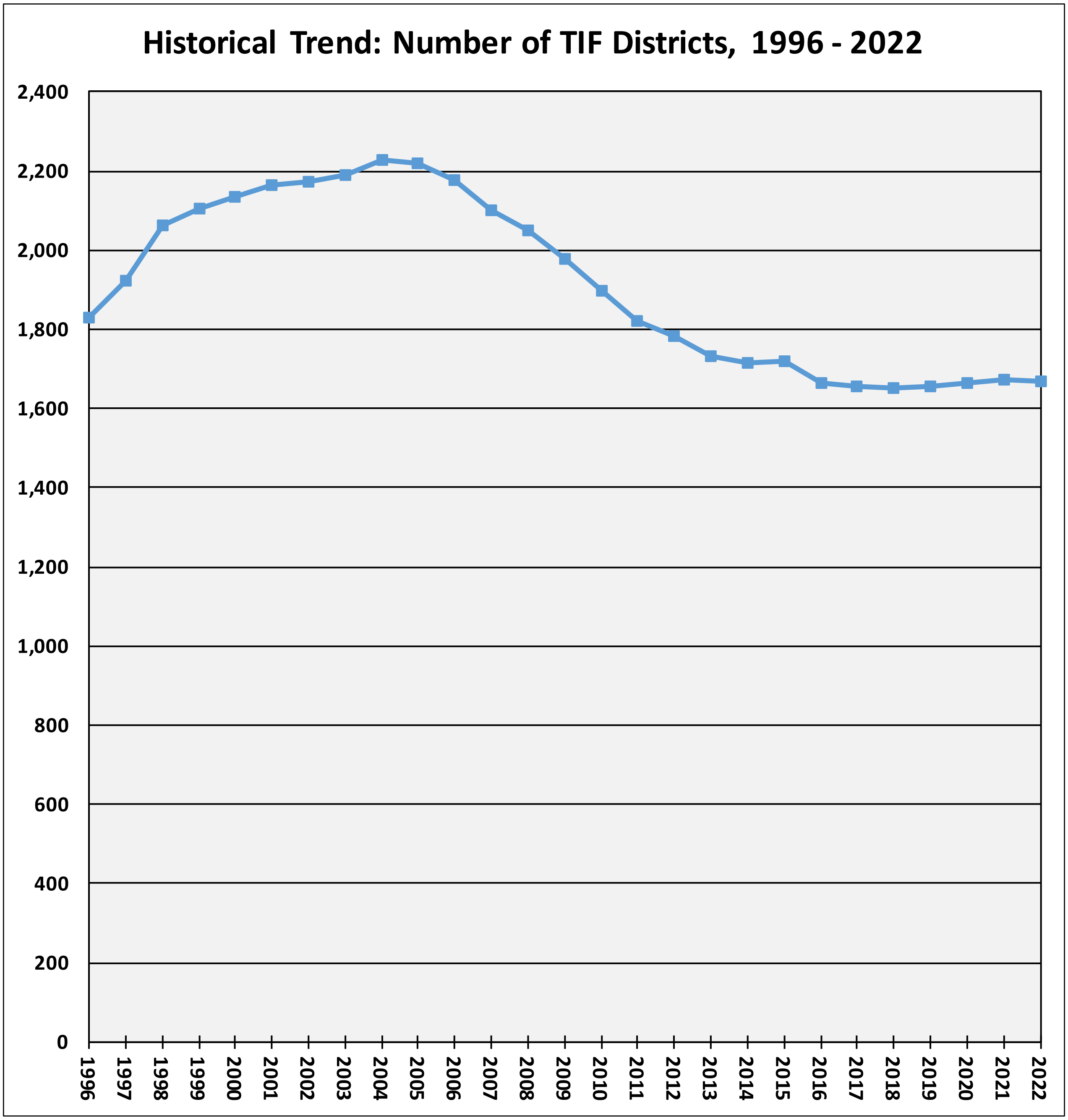
Figure 4.



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

Figure 5 shows the total number of districts reporting to the OSA for each year since 1996, which is when the OSA began oversight of TIF. Between 1996 and 2004, the number of TIF districts increased each year, growing from 1,830 to 2,226 districts over that period. From 2004 to 2016, the total number had declined each year, (except for a very slight increase of two districts in 2015), dropping to 1,665 districts. This decline reflected, among other things, large numbers of older districts created prior to moderating reforms in 1990 reaching their statutory duration limits. With the majority of pre-1990 districts having decertified, the number of districts since 2016 has largely remained constant at between 1,653 and 1,674 districts. The 1,669 districts reporting for 2022 is just one more than the 1,668 reporting in 2021.

Figure 5.



New Districts Certified

In 2022, 78 new TIF districts were certified, 26 less than the 104 new districts certified in 2021. Figure 6 shows new district certifications by type over the past five years. The number of certifications in 2022 was down 25 percent compared to 2021. While the 2021 high mark might have reflected some activity delayed by the uncertainty of the pandemic in 2020, the 2022 amount is the fewest created over the five-year period at one less than the 2020 pandemic year and significantly less than prior years. In particular, redevelopment district certifications dropped off substantially and saw a five-year low. Housing district certifications have remained consistently higher than the other district types with less fluctuation. Economic development district certifications were somewhat lower in 2022 but exceeded the number in 2020. Activity among other district types has remained limited to just a district or two in most years, although no uncodified districts have been created in each of the last three years.

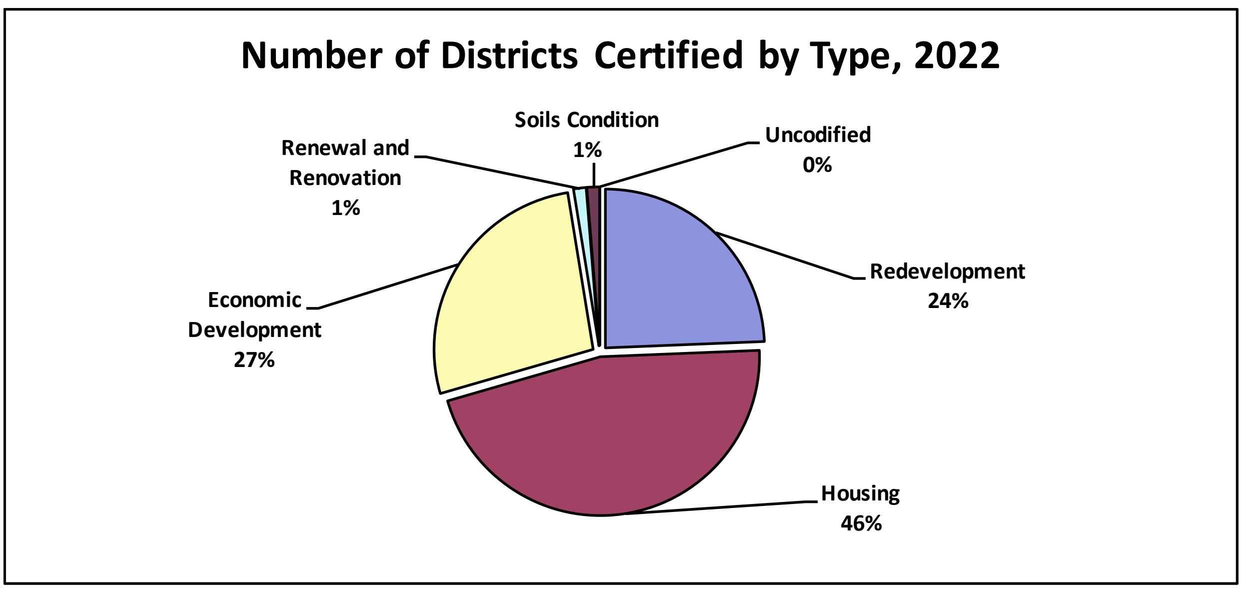
Figure 6.

Number of TIF Districts Certified by Type, 2018 - 2022

	2018	2019	2020	2021	2022
Redevelopment	32	29	24	39	19
Housing	35	34	34	40	36
Economic Development	23	31	19	23	21
Renewal and Renovation	2	1	0	2	1
Soils Condition	2	1	2	0	1
Uncodified	1	2	0	0	0
Total	95	98	79	104	78

In 2022, housing districts accounted for 46 percent of new districts. Economic development districts made up 27 percent of certifications, and redevelopment districts dropped to 24 percent after nearly matching housing districts for the most in 2021. (See Figure 7.)

Figure 7.



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

Districts Decertified

Unlike the full discretion involved in creating new districts, decertifications are more often driven by the satisfaction of in-district obligations (where decertification may be required by the Six-Year Rule), or as a result of reaching duration limits.[35]

In 2022, 100 districts were decertified, up 19 percent from 2021. Figure 8 displays decertifications by type of district for the last five years, which is largely marked by variability. The 100 decertifications in 2022 were a five-year high.

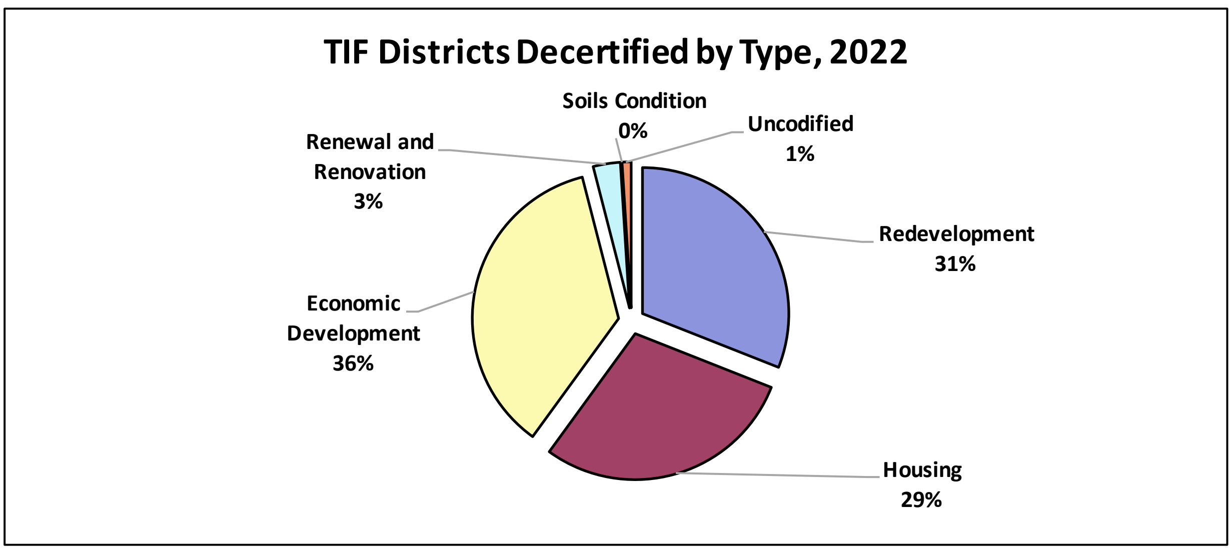
Figure 8.

Number of TIF Districts Decertified by Type, 2018 - 2022

	2018	2019	2020	2021	2022
Redevelopment	40	27	36	35	31
Housing	23	23	26	14	29
Economic Development	29	14	35	32	36
Renewal and Renovation	1	1	2	1	3
Soils Condition	0	1	0	1	0
Uncodified	0	0	0	1	1
Total	93	66	99	84	100

In 2022, 31 percent of decertified districts were redevelopment districts, 36 percent were economic development districts, and 29 percent were housing districts. (See Figure 9.)

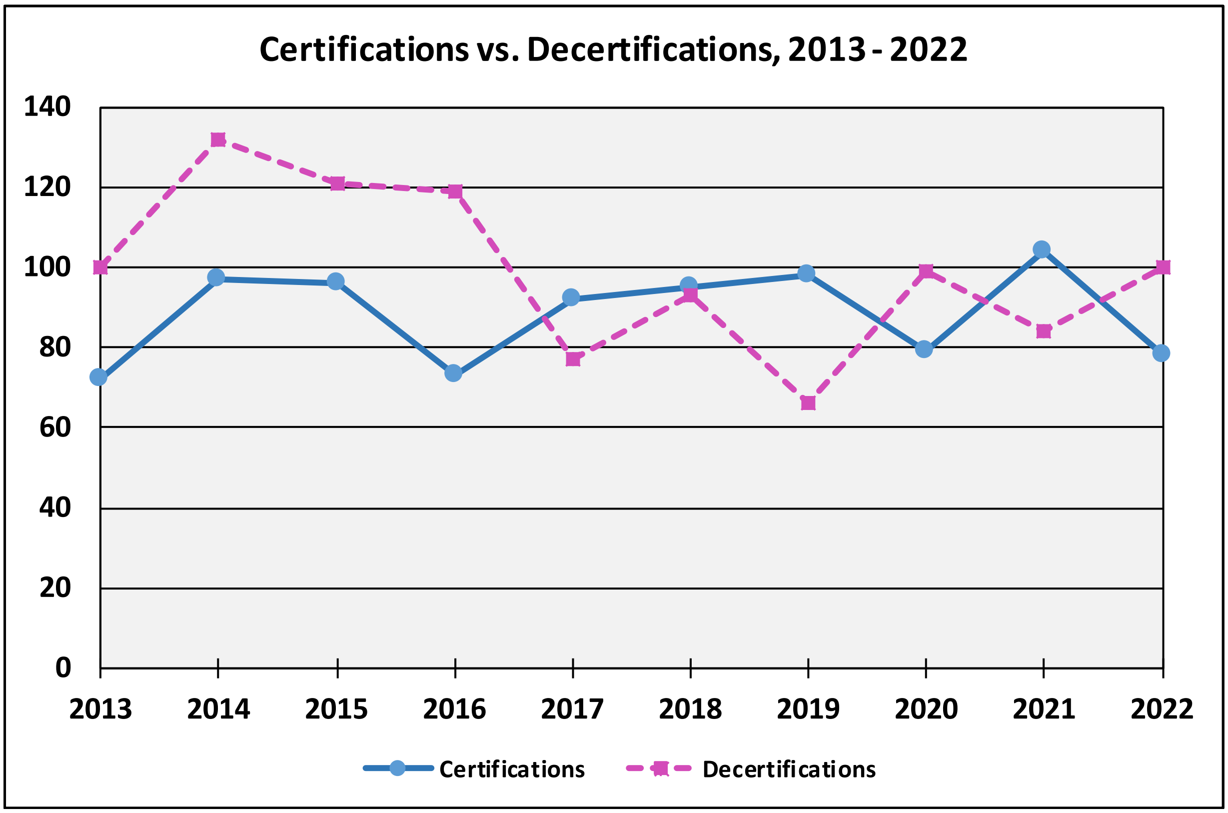
Figure 9.



[35] The Five-Year Rule (Minn. Stat. § 469.1763, subd. 3) generally identifies "in-district" obligations as those established in the first five years. The Six-Year Rule (Minn. Stat. § 469.1763, subd. 4) generally requires that beginning in the sixth year, an authority must decertify when an amount sufficient to pay in-district obligations has been collected and/or the end of the term of the last outstanding pay-as-you-go note is reached.

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

Figure 10.



The prevalence of early decertification is seen in Figure 11, which compares, for districts that decertified from 2018 through 2022, the number of districts that decertified early versus those that ran for their full duration.

Figure 11.

Decertifications 2018 - 2022: Full Duration vs. Early Decertification*

District Type / (Max Duration[36])	Decertified Districts	Lasted Full Duration	Decertified Early Percent	Decertified Early Avg Yrs
Redevelopment (26 years)	169	21%	79%	10
Housing (26 years)	115	23%	77%	9
Economic Development (9 years)	146	61%	39%	3
Renewal and Renovation (16 years)	8	75%	25%	0
Soils Condition (21 years)	2	0%	100%	3

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

From 2018 to 2022, 79 percent of redevelopment and 77 percent housing districts decertified early, while 39 percent of economic development districts decertified early. The lower rate for economic development districts is to be expected given their shorter statutory duration limit. The early decertification rate for housing districts has stayed consistently close to 80 percent since this metric was first included in the 2014 TIF Legislative Report. The rate of early decertification for redevelopment districts has increased each year from a low of 48 percent in the 2015 TIF Legislative Report and is up slightly from the 78 percent reported in 2021.[37] The 39 percent early decertification rate for economic development districts is also up slightly from last year's 38 percent rate.

Figure 11 also displays, by district type, the average number of years prior to the statutory maximum duration that the early decertifying districts decertified. Redevelopment and housing districts have, on average, decertified ten and nine years earlier than their respective statutory duration limits. Economic development districts that decertified early, decertified three years early on average. Early decertification is more significant than merely getting value back into the tax base a year or two before reaching maximum limits; it often reduces the duration of value capture by a third or more.

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

[36] This table was changed compared to previous years' reports to express the maximum durations in terms of the number of years of increment that may be received instead of the number of years after first receipt.
[37] See prior TIF Legislative Reports for each year's data.

Tax Increment Revenue

In 2022, almost $232 million of tax increment revenue was generated statewide. While most districts are located in Greater Minnesota, most tax increment revenue is generated in the Metro Area. Approximately $182 million of tax increment, or 79 percent, was generated in the Metro Area in 2022. (See Figure 12.)

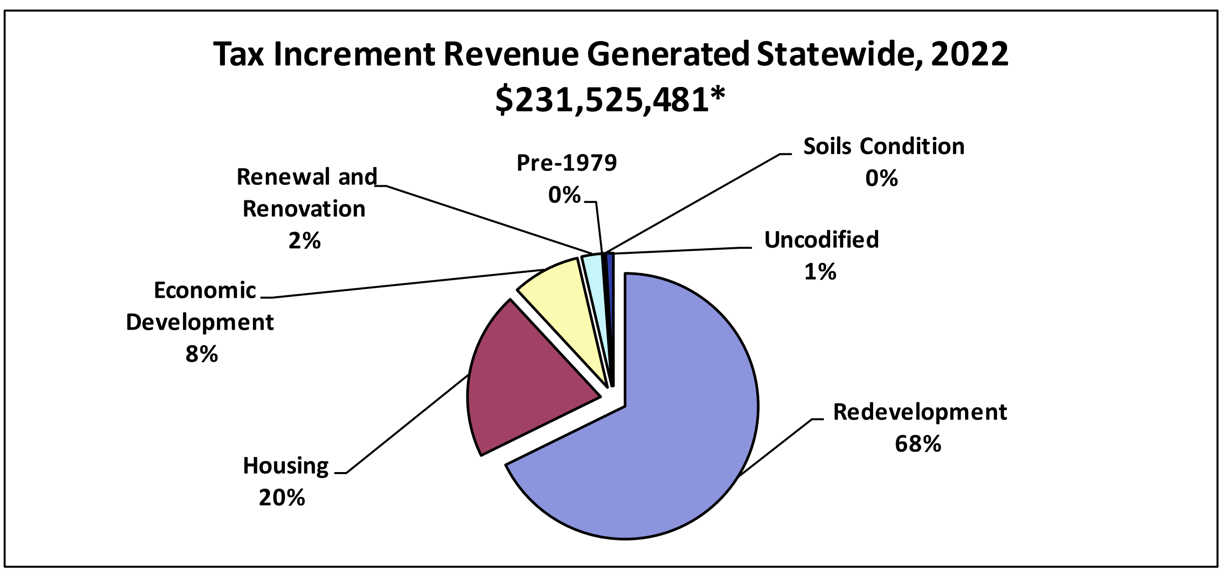
Figure 12.

Revenue Generated by Type: Statewide, Greater MN, & Metro Area; 2022

Type of District	Statewide	Greater MN	Metro Area
Redevelopment	$ 156,790,618	$ 22,789,795	$ 134,000,823
Housing	$ 47,220,033	$ 14,717,079	$ 32,502,954
Economic Development	$ 19,089,187	$ 11,348,000	$ 7,741,187
Renewal and Renovation	$ 5,742,366	$ 672,603	$ 5,069,763
Pre-1979	$ -	$ -	$ -
Soils Condition	$ 559,917	$ 97,941	$ 461,976
Uncodified	$ 2,123,360	$ -	$ 2,123,360
Total	$ 231,525,481	$ 49,625,418	$ 181,900,063

Figures 13, 14, and 15 illustrate the mixes of tax increment revenue generated in 2022 by type of district for the whole state, the Metro Area, and Greater Minnesota, respectively.

Figure 13.



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

Statewide, while redevelopment districts made up 44 percent of the TIF districts, they generated 68 percent of total tax increment revenue. This is driven by districts in the Metro Area, where redevelopment districts generated 74 percent of the tax increment revenue despite representing only 52 percent of the districts. In Greater Minnesota, the share of increment from redevelopment districts also outsizes their share of the number of districts, but to a much smaller degree (46 percent of revenue versus 38 percent of districts).

Figure 14.

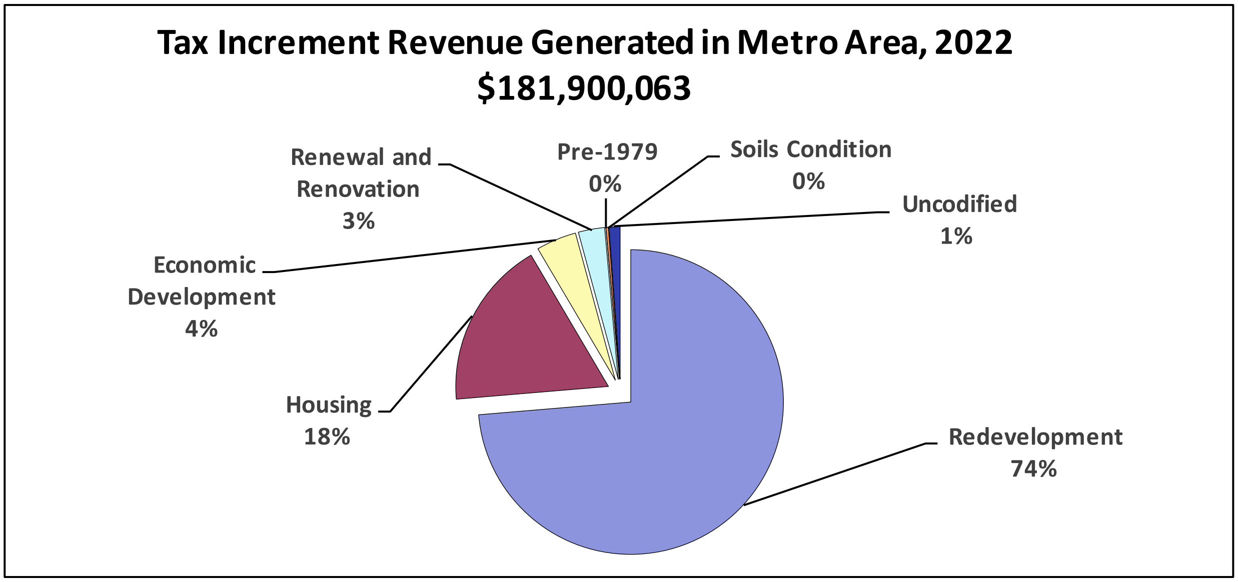
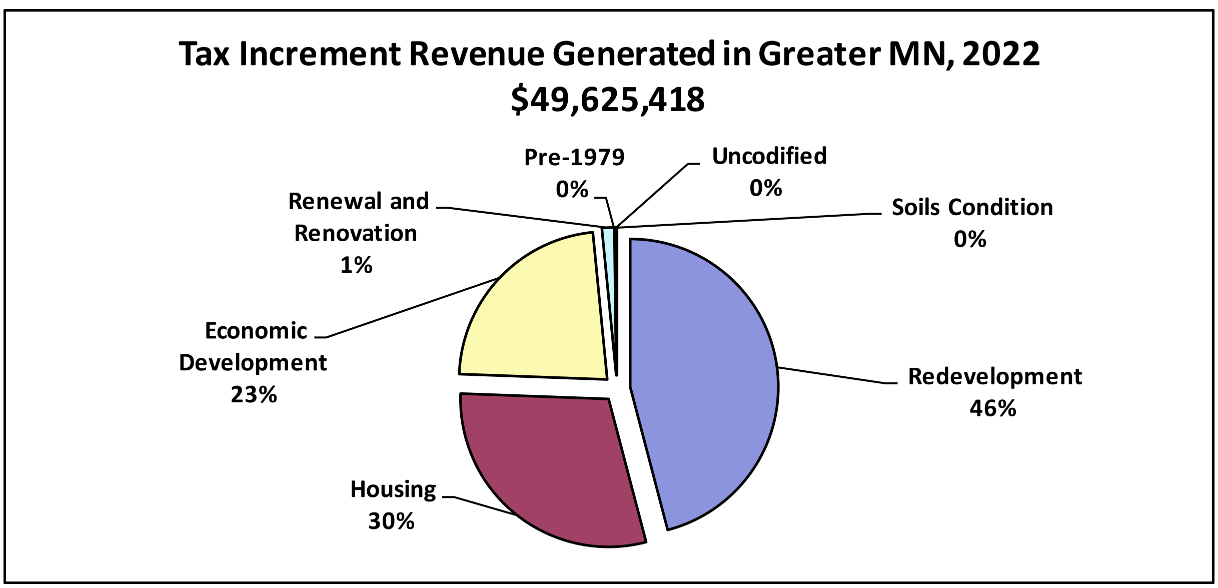


Figure 15.



In 2022, tax increment revenue decreased nearly four percent from the $241 million generated in 2021. Figure 16 shows the total tax increment revenue over the last ten years. The 2022 total was a second consecutive decline from a recent peak in 2020.

Figure 16.

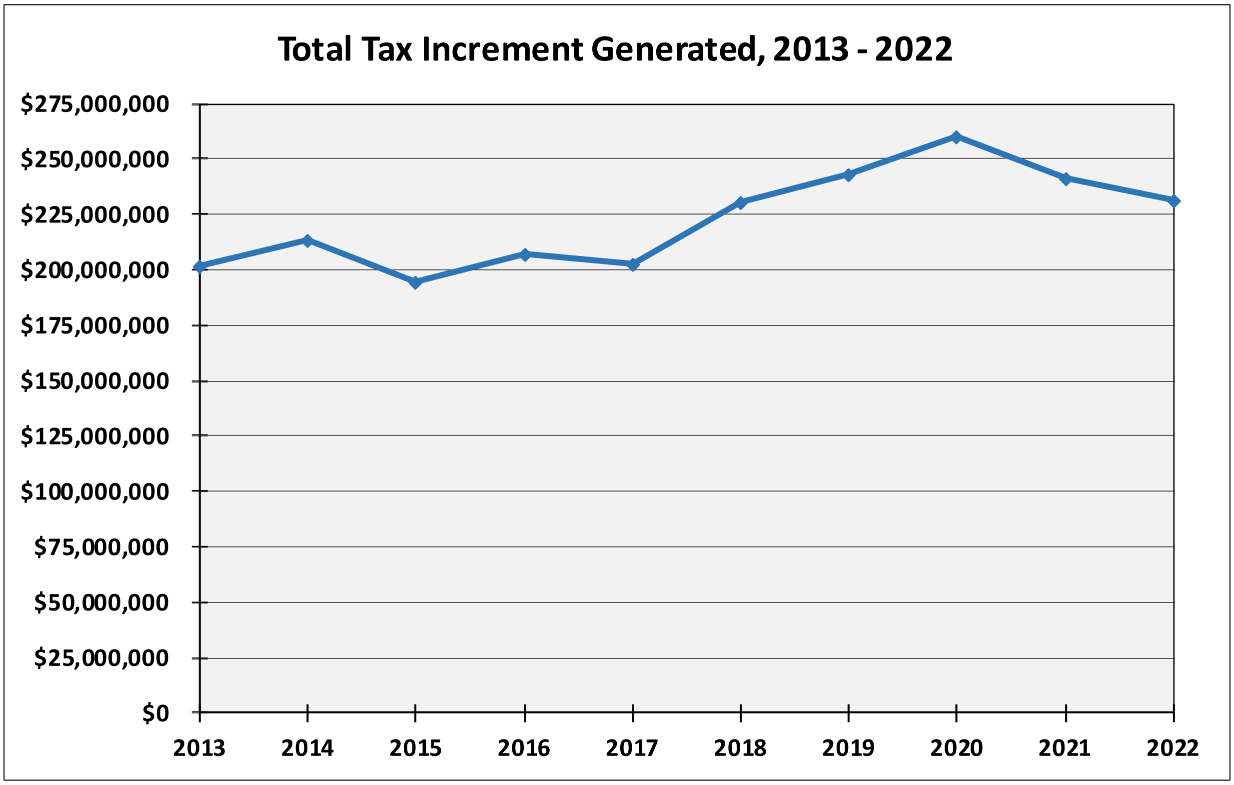
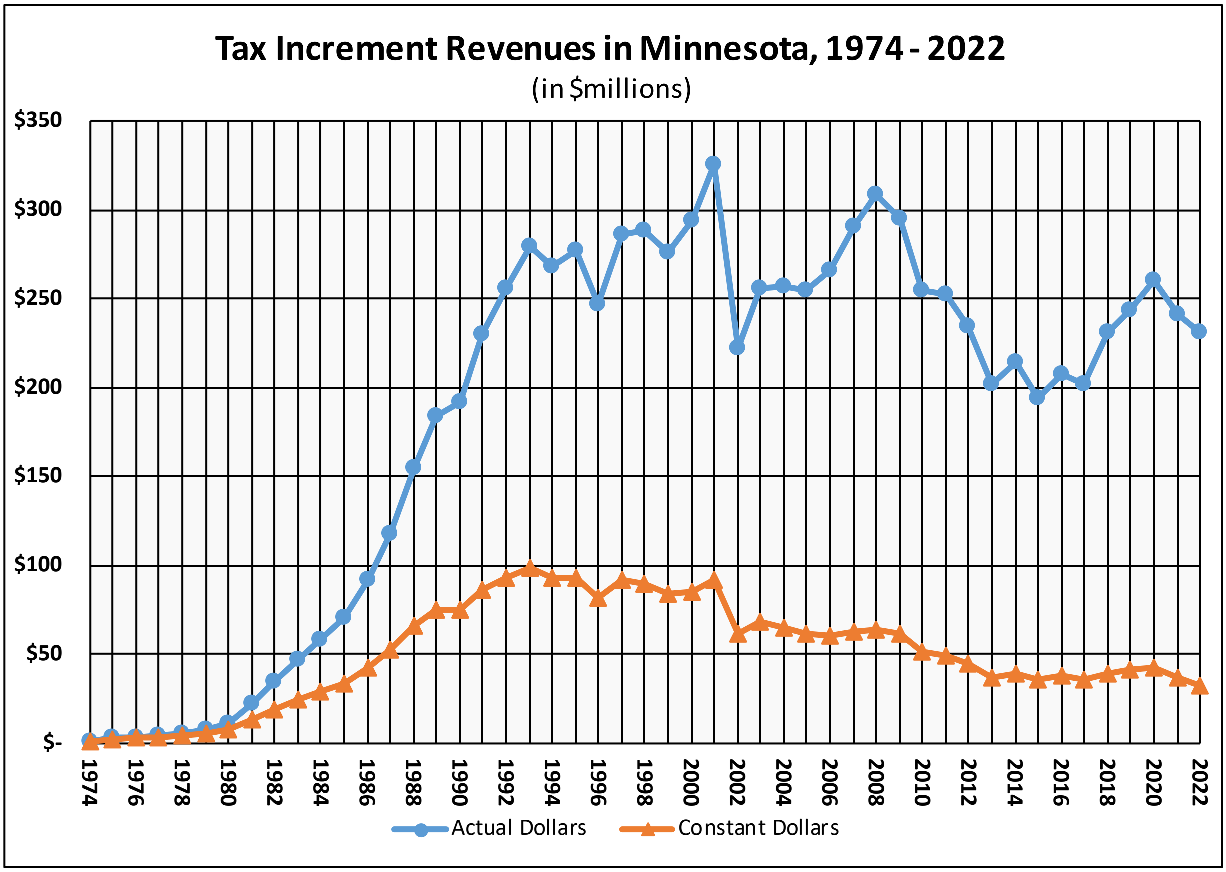


Figure 17 provides a longer view of tax increment revenue, illustrating the fully-recorded span of TIF usage in Minnesota, both in actual dollars and inflation-adjusted, or constant, dollars.[38] The substantial decline in revenue in 2002 reflects the impact of class rate reductions from the 2001 property tax reforms. Otherwise, actual tax increment revenues were generally rising until they reached a peak in 2008, just a few years after the number of districts peaked in 2004. The second consecutive decline in 2022 follows three consecutive years of increases, but remains higher than the preceding five-year stretch of modest ups and downs. In inflation-adjusted constant dollars, the past decade of revenues has been less than totals in the previous two decades and is more on par with totals from the mid-1980s.

[38] "Inflation-adjusted" and "constant dollars" refer to data adjusted for inflation using the Implicit Price Deflator for State and Local Governments setting 1974 as the base year (N.I.P.A. Table 1.1.9, October 2023).

Figure 17.



Sources: Minnesota Department of Revenue, *Property Taxes Levied in Minnesota*; 2003 Assessments, Taxes Payable 2004; Property Tax Bulletin No. 33; Table 22 (for 1995 and prior year actual dollars); and TIF annual reporting by development authorities to the OSA (for 1996 - 2022 actual dollars).[39] Constant dollars have been calculated by the OSA.

Returned Tax Increment

In 2022, development authorities returned $13,130,679 of tax increment revenue to county auditors for redistribution as property taxes to the cities, counties, and school districts. Tax increment revenue must be returned when a district receives excess tax increment revenue (increment exceeding the amount authorized in the TIF plan for expenditures) or when tax increment revenue is improperly received (such as increment received after the district should have been decertified) or improperly spent (such as for purposes not permitted by law). Authorities also return unneeded increment that isn't formally identified as excess tax increment.

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

Reported Debt

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

The TIF Act defines bonds broadly to include: [40]

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

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

Revenue Bonds – A revenue bond generally includes a pledge of only the tax increment revenue generated from the TIF district (and possibly other revenues like special assessments) for the required debt service payments and does not pledge the full faith and credit of the municipality as security for the bond.

Interfund Loans – An interfund loan is created when an authority or municipality loans or advances money from its General Fund or from any other fund for which it has legal authority. The loan or advance must be authorized by resolution of the governing body not later than 60 days after money is transferred, advanced, or spent. The terms and conditions for repayment of the loan must be in writing and include, at a minimum, the principal amount, the interest rate, and maximum term.[41] The authority or municipality bears the risks if the tax increment generated is not sufficient to repay the interfund loan.

Pay-As-You-Go Obligations – With a PAYG obligation, development costs are initially paid by the developer pursuant to the terms of a (re)development agreement. After the qualifying costs are substantiated, the developer is reimbursed from tax increments pursuant to the terms of the PAYG note. Generally, in PAYG financing, the developer or note holder accepts the risks, and will not be reimbursed in full if sufficient tax increments are not generated as anticipated.

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

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[40] *See* Minn. Stat. § 469.174, subd. 3.

[41] Minn. Stat. § 469.178, subd. 7. Terms may be modified or amended.

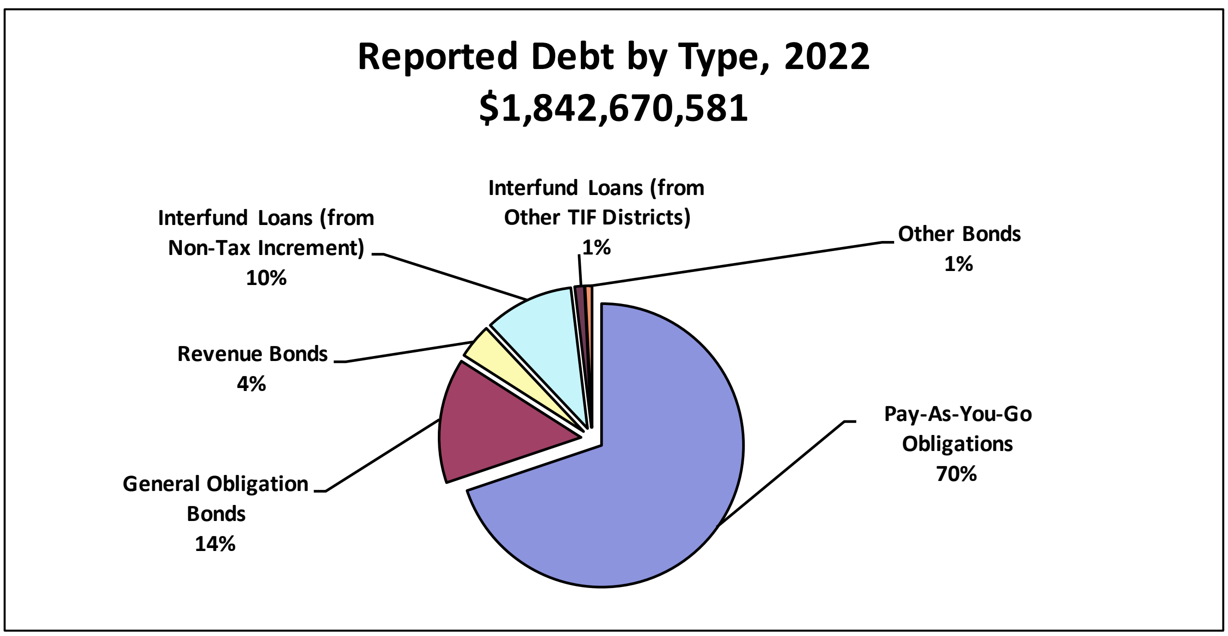
Figures 18 and 19 identify and illustrate the amount of debt by type of obligation for 2022. In 2022, there was a total of $1.8 billion of outstanding debt associated with TIF districts, an increase of one percent from 2021. PAYG obligations were the predominant type of debt, making up almost 70 percent of the debt reported (up from 68 percent in 2021). GO bonds comprised about 14 percent of the total debt. Interfund loans (mostly from non-tax increment accounts) made up 11 percent of total debt. Revenue bonds made up four percent of total debt, and other bonds made up the rest.

Figure 18.

Reported Amount of Debt by Type, 2022

Type of Debt	Amount Outstanding
Pay-As-You-Go Obligations	$1,286,705,916
General Obligation Bonds	$261,834,426
Revenue Bonds	$72,686,305
Interfund Loans (from Non-Tax Increment)	$186,810,562
Interfund Loans (from Other TIF Districts)	$20,025,187
Other Bonds	$14,608,185
Total	$1,842,670,581

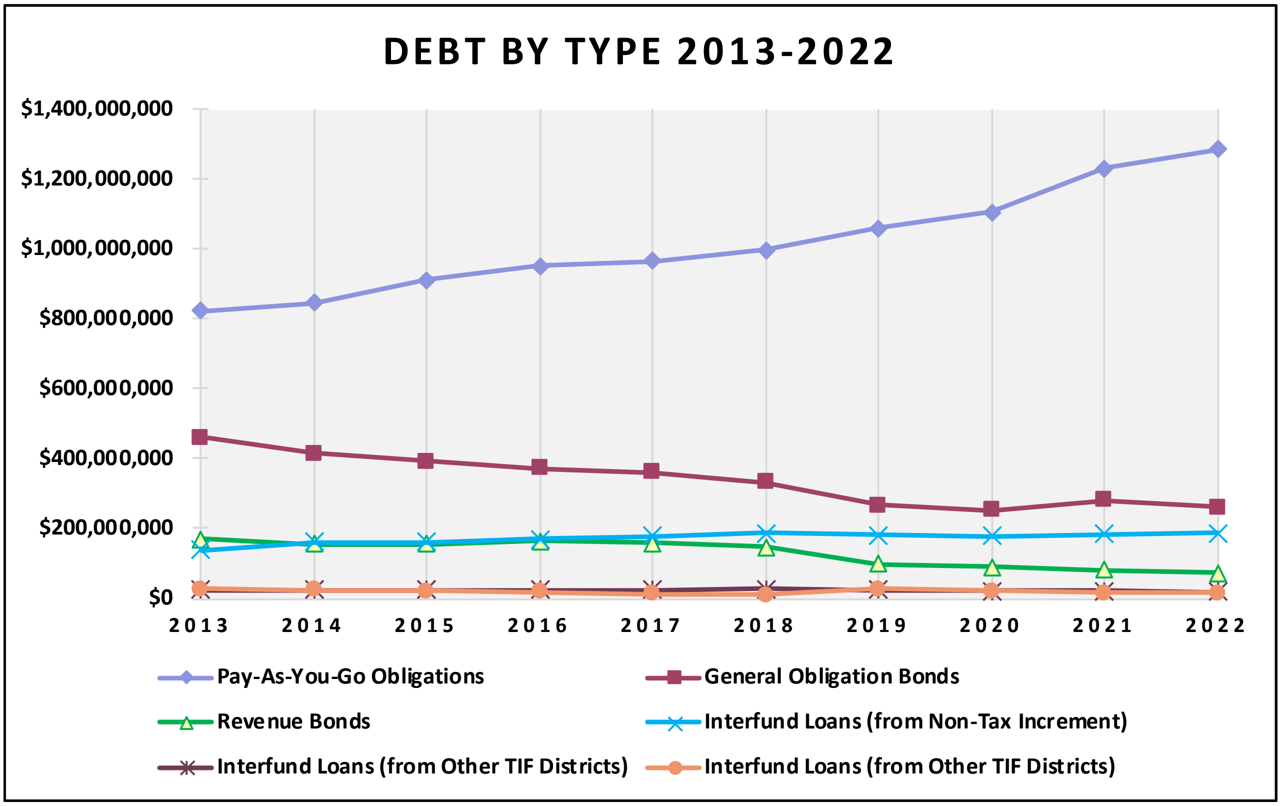
Figure 19.



Debt by Type

Figure 20 shows the trends of each type of debt over the past ten years. Pay-as-you-go obligations have steadily made up an increasing share of TIF debt, while reliance on general obligation bonds has declined. This likely reflects a desire by TIF authorities to mitigate risks for taxpayers should projects not yield projected tax increment revenues. Revenue bonds have also been on a declining trajectory, whereas usage of interfund loans has risen slightly.

Figure 20.



Findings and Responses

The OSA oversees TIF and conducts reviews on the use of TIF by development authorities. Communication between the OSA and the development authorities often resolves issues identified in these reviews. Proactive steps by an authority to remedy potential problems often eliminate the need for the OSA to make formal findings and pursue compliance remedies. However, if the OSA finds that an authority is not in legal compliance with the TIF Act, the OSA generally sends an initial notice of noncompliance (Initial Notice) to the governing body of the municipality that approved the TIF district in which the violation arose. The Initial Notice provides the findings and their bases and describes the possible consequences of the noncompliance.

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

Summary of Findings and Responses

State law requires the OSA to provide a summary of the responses to notices of noncompliance it received from the municipalities and copies of the responses themselves to the chairs of the legislative committees with jurisdiction over tax increment financing.[42] This section of the Report summarizes the TIF legal compliance reviews and investigations concluded as of December 31, 2023. An Initial Notice and Final Notice were sent to the following municipality:

1. City of Renville – An Initial Notice was sent on October 24, 2023. A Response from the City of Renville was received on December 15, 2023. A Final Notice was sent on December 20, 2023.

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

Improper Use of Increment

City of Renville

TIF District 2-1

In the Initial Notice, the OSA found that the City of Renville had used $13,103 of tax increment from TIF District No. 2-1 in violation of the TIF Act by transferring that balance amount to the general fund rather than using it for authorized purposes or returning to the county auditor.

In the City Response, the City stated that it accepts the finding of the OSA and indicated and documented that payment of $13,103 was made to the Renville County Auditor. The OSA considers this Finding Resolved.

Appendix A

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

October 24, 2023

The Honorable Janette Wertish, Mayor
The Honorable Alma Gasca, Council Member
The Honorable Dave Grund, Council Member
The Honorable David Van Hove, Jr., Council Member
The Honorable Pete Peterson, Council Member
The Honorable Adam Zaske, Council Member
City of Renville
P.O. Box 371
Renville, MN 56284

Re: TIF District 2-1 – Initial Notice of Noncompliance

Dear Mayor Wertish and Council Members:

The Office of the State Auditor (OSA) has examined the tax increment financing (TIF) plan, audited financial reports, and annual reporting forms regarding TIF District 2-1 (Eastridge Ct), a housing district established in 2002 by the City of Renville (City). Based on its review, the OSA finds that the City is not in compliance with the TIF Act.[1] This Initial Notice of Noncompliance (Initial Notice) contains one OSA finding (Finding).

State law requires the City to send its response to the Initial Notice (Response) in writing within 60 days after receipt of the Initial Notice. The Response must state whether the City accepts the OSA's Findings, in whole or in part, and the basis for any disagreement.[2] After reviewing the Response, the OSA is required to forward information on any unresolved issues to the Renville County Attorney for review.[3]

If the City pays to Renville County (County) an amount equal to the amount found to be in noncompliance, the OSA will consider the Finding to be resolved. Minnesota law provides that the City will receive its proportionate share of the redistribution of the funds that have been returned to the County if the City makes the payment within 60 days after the City receives this Initial Notice.[4]

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

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[1]*See* Minn. Stat. §§ 469.174 to 469.1799 inclusive, as amended.
[2]Minn. Stat. § 469.1771, subd. 1 (c).
[3]Minn. Stat. § 469.1771, subd. 1 (b).
[4]Minn. Stat. § 469.1771, subd. 5.
[5]*See* Minn. Stat. § 6.715 (Information relating to an examination is confidential and/or protected nonpublic until the audit is complete); Minn. Stat. § 13.03, subdivision 4 (c) (To the extent data is sent to another government entity, the data retains the same classification.).

FINDING OF NONCOMPLIANCE

The OSA's finding of noncompliance is as follows:

Finding 1. TIF District 2-1 – Improper Use of Tax Increment

The TIF Act's general limitation on the use of tax increment provides that tax increment revenues must be used in accordance with the TIF plan and, generally, may be solely used: (1) to pay the principal and interest on bonds (including pay-as-you-go notes) issued to finance a project, or (2) to finance or pay capital and administrative costs pursuant to the various development acts found in Minnesota Statutes Chapter 469.[6] If an authority expends tax increment revenues for a purpose not permitted under this and other limitations, the authority must pay to the county auditor an amount equal to the expenditures made in violation of the law.[7]

The TIF plan of the district acknowledged the aforementioned general limitation provision of the TIF Act by citing it in a section identifying "Use of Tax Increment."[8] A section titled "Administration of Tax Increment District No. 2-1" also stated:

> "The Tax Increments received as a result of increases in the net tax capacity of Tax Increment District No. 2-1 will be maintained in a special account separate from all other municipal accounts and expended only upon municipal activities identified in the Development Program and Tax Increment Financing Plan."[9]

TIF District 2-1 was approved and certified in 2002 and was decertified in 2010, at which point annual reporting for the district identified that the sole obligation of the TIF district (a pay-as-you-go note) had been satisfied. Annual reporting for the district was required to continue due to the presence of a balance of tax increment revenues remaining in the fund.[10] In the years since 2010 and through 2021, the only reported activity had been the accumulation of some interest in some of the years.

The 2022 TIF Annual Reporting Form for this district was submitted on September 19, 2023, and identified that the remaining balance of $13,603 was put to an "other" use with a comment explaining that it had been transferred to the general fund to close the long-decertified district.[11] This transfer is also reflected

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[6]*See* Minn. Stat. § 469.176, subd. 4.
[7]Minn. Stat. § 469.1771, subd. 3.
[8]*See* Section 4.16 of the TIF plan.
[9]*See* Section 4.23 of the TIF plan.
[10]Minn. Stat. § 469.177, subd. 5, requires the segregation of tax increment revenues in a special account or accounts on its official books and records (or as otherwise established by resolution to be held by a trustee or trustees), and Minn. Stat. § 469.175, subd. 6b, provides that the reporting requirement ends when a district is both decertified and all remaining revenues derived from tax increments paid by properties in the district are expended or returned to the county auditor. The funds for this district have been segregated into a nonmajor special revenue fund in the City's financial statements (identified as 211 – TIF 2-1 East Ridge).
[11]The reporting form had also alternately suggested that the amount was transferred pursuant to 2021 Temporary Transfer Authority, but the form preparer clarified by phone on October 20, 2023, that it was indeed transferred to the general fund rather than under that authority.

in the audited financial statements. Such a transfer violates the requirements of the TIF Act and the provisions of the TIF plan. Expenditure of tax increment for general city purposes violates the TIF Act.

Upon examination of early reporting, however, we note that the transferred fund balance appears to have included $500 that was not tax increment revenue. This $500 appears to have been the remaining $500 of a reported developer deposit of $7,000 used to pay $6,500 of early administrative expenses. Because this amount does not constitute tax increment revenue, the improper transfer of tax increment revenues was $13,103 (the $13,603 transfer less $500).

We find that the City of Renville has used $13,103 of tax increment from TIF District 2-1 in violation of the TIF Act. Therefore, the City must pay $13,103 to the county auditor.

When the City provides documentation that it returned **$13,103** to the Renville County Auditor, the OSA will consider this Finding resolved.

CONCLUSION

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

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

Sincerely,

/s/ Jason Nord

Jason Nord
Assistant State Auditor
TIF Division Director

cc: Shane Wohlman, Administrator

CITY OF Renville

Growing Through Collaboration

Equal Opportunity Employer

221 North Main Street
PO Box 371
Renville, MN 56284
Phone: 320-329-8366
Fax: 320-329-8367
Website: ci.renville.mn.us

December 15, 2023

Jason Nord
Assistant State Auditor
TIF Division Director
Suite 500
525 Park Street
Saint Paul, MN 55103

Re: TIF District 2-1 (Eastridge Ct.)

Dear Mr. Nord,

The City of Renville recognizes and accepts the Office of the State Auditor (OSA) findings regarding TIF District 2-1 (Eastridge Ct.).

The City of Renville submitted a check to the Renville County Auditor/Treasurer on December 15, 2023, in the amount of $13,103.00. See attached exhibit of the receipt.

Please acknowledge that this letter and payment satisfies OSA's findings within the 60-day notice.

Shane Wohlman
City Administrator/Clerk
City of Renville

cc: Janette Wertish, Mayor
Lisa Meints, Renville County Auditor/Treasurer
Sara Oberloh, City Auditor, Oberloh & Oberloh

STATE OF MINNESOTA

Office of the State Auditor

Julie Blaha
State Auditor

Suite 500
525 Park Street
Saint Paul, MN 55103

December 20, 2023

The Honorable Janette Wertish, Mayor
The Honorable Alma Gasca, Council Member
The Honorable Dave Grund, Council Member
The Honorable David Van Hove, Jr., Council Member
The Honorable Pete Peterson, Council Member
The Honorable Adam Zaske, Council Member
City of Renville
P.O. Box 371
Renville, MN 56284

Re: TIF District 2-1 – Final Notice of Noncompliance

Dear Mayor Wertish and Council Members:

On October 24, 2023, the Office of the State Auditor (OSA) sent the City of Renville (City) an Initial Notice of Noncompliance (Initial Notice) containing one OSA finding (Finding) for TIF District No. 2-1 (Eastridge Ct). The OSA received the City's Response (City Response) on December 15, 2023.

This letter is the Final Notice of Noncompliance (Final Notice) of the Office of the State Auditor. It summarizes the initial finding and the City Response and provides the OSA's final conclusion regarding the issue raised by the review.

FINDING OF NONCOMPLIANCE

One finding of noncompliance was made:

Finding 1. City of Renville TIF District No. 2-1 – Improper Use of Tax Increment – RESOLVED

In the Initial Notice, the OSA found that the City had used $13,103 of tax increment from TIF District 2-1 in violation of the TIF Act by transferring that balance amount to the general fund rather than using it for authorized purposes or returning it to the county auditor.

In the City Response, the City stated that it accepts the finding of the OSA and indicated that payment of $13,103 was made to the Renville County Auditor. Documentation of the payment was provided, and receipt was confirmed by the county.

CONCLUSION

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

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

Sincerely,

/s/ Jason Nord

Jason Nord
Assistant State Auditor
TIF Division Director

cc: Shane Wohlman, Administrator