

**SENATE
STATE OF MINNESOTA
NINETY-FIRST SESSION**

S.F. No. 4501

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DATE
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Introduction and first reading
Referred to Taxes

OFFICIAL STATUS

1.1 A bill for an act
1.2 relating to taxation; property; tax increment financing; increasing pooling for
1.3 certain housing projects; amending Minnesota Statutes 2018, section 469.1763,
1.4 subdivision 2.

1.5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.6 Section 1. Minnesota Statutes 2018, section 469.1763, subdivision 2, is amended to read:

1.7 Subd. 2. **Expenditures outside district.** (a) For each tax increment financing district,
1.8 an amount equal to at least 75 percent of the total revenue derived from tax increments paid
1.9 by properties in the district must be expended on activities in the district or to pay bonds,
1.10 to the extent that the proceeds of the bonds were used to finance activities in the district or
1.11 to pay, or secure payment of, debt service on credit enhanced bonds. For districts, other
1.12 than redevelopment districts for which the request for certification was made after June 30,
1.13 1995, the in-district percentage for purposes of the preceding sentence is 80 percent. Not
1.14 more than 25 percent of the total revenue derived from tax increments paid by properties
1.15 in the district may be expended, through a development fund or otherwise, on activities
1.16 outside of the district but within the defined geographic area of the project except to pay,
1.17 or secure payment of, debt service on credit enhanced bonds. For districts, other than
1.18 redevelopment districts for which the request for certification was made after June 30, 1995,
1.19 the pooling percentage for purposes of the preceding sentence is 20 percent. The revenues
1.20 derived from tax increments paid by properties in the district that are expended on costs
1.21 under section 469.176, subdivision 4h, paragraph (b), may be deducted first before calculating
1.22 the percentages that must be expended within and without the district.

2.1 (b) In the case of a housing district, a housing project, as defined in section 469.174,
2.2 subdivision 11, is an activity in the district.

2.3 (c) All administrative expenses are for activities outside of the district, except that if the
2.4 only expenses for activities outside of the district under this subdivision are for the purposes
2.5 described in paragraph (d), administrative expenses will be considered as expenditures for
2.6 activities in the district.

2.7 (d) The authority may elect, in the tax increment financing plan for the district, to increase
2.8 by up to ten percentage points the permitted amount of expenditures for activities located
2.9 outside the geographic area of the district under paragraph (a). As permitted by section
2.10 469.176, subdivision 4k, the expenditures, including the permitted expenditures under
2.11 paragraph (a), need not be made within the geographic area of the project. Expenditures
2.12 that meet the requirements of this paragraph are legally permitted expenditures of the district,
2.13 notwithstanding section 469.176, subdivisions 4b, 4c, and 4j. To qualify for the increase
2.14 under this paragraph, the expenditures must:

2.15 (1) be used exclusively to assist housing that meets the requirement for a qualified
2.16 low-income building, as that term is used in section 42 of the Internal Revenue Code; and

2.17 (2) not exceed the qualified basis of the housing, as defined under section 42(c) of the
2.18 Internal Revenue Code, less the amount of any credit allowed under section 42 of the Internal
2.19 Revenue Code; and

2.20 (3) be used to:

2.21 (i) acquire and prepare the site of the housing;

2.22 (ii) acquire, construct, or rehabilitate the housing; or

2.23 (iii) make public improvements directly related to the housing; or

2.24 (4) be used to develop housing:

2.25 (i) if the market value of the housing does not exceed the lesser of:

2.26 (A) 150 percent of the average market value of single-family homes in that municipality;

2.27 or

2.28 (B) \$200,000 for municipalities located in the metropolitan area, as defined in section
2.29 473.121, or \$125,000 for all other municipalities; and

2.30 (ii) if the expenditures are used to pay the cost of site acquisition, relocation, demolition
2.31 of existing structures, site preparation, and pollution abatement on one or more parcels, if
2.32 the parcel contains a residence containing one to four family dwelling units that has been

3.1 vacant for six or more months and is in foreclosure as defined in section 325N.10, subdivision
3.2 7, but without regard to whether the residence is the owner's principal residence, and only
3.3 after the redemption period has expired.

3.4 (e) The authority under paragraph (d), clause (4), expires on December 31, 2016.
3.5 Increments may continue to be expended under this authority after that date, if they are used
3.6 to pay bonds or binding contracts that would qualify under subdivision 3, paragraph (a), if
3.7 December 31, 2016, is considered to be the last date of the five-year period after certification
3.8 under that provision.

3.9 (f) The authority may elect, in the tax increment financing plan for the district, to increase
3.10 by up to 35 percentage points the permitted amount of expenditures for activities located
3.11 outside the geographic area of the district under paragraph (a). To qualify for the increase
3.12 under this paragraph, the expenditures must be used to acquire, prepare, construct, or
3.13 rehabilitate residential rental housing in which ten percent or more of the residential units
3.14 are occupied by individuals whose income is 30 percent or less of area median gross income,
3.15 without regard to whether the housing meets the requirements of a qualified building under
3.16 section 42 of the Internal Revenue Code. Expenditures that meet the requirements of this
3.17 paragraph are permitted expenditures of the district, notwithstanding section 469.176,
3.18 subdivisions 4b, 4c, and 4j.

3.19 **EFFECTIVE DATE.** This section is effective the day following final enactment for
3.20 all tax increment financing districts regardless of when the request for certification was
3.21 made.