



November 2005

Tax Increment Financing Division Newsletter

- *Pooling-for-Deficits Explained*
- *Tax Reform Deficit Procedure Simplified*
- *Pooling-for-Deficits Trumps Other Pooling Limitations*
- *TIF Division Will Not Take Action on TIF Plan Modification Question*

Pooling-for-Deficits Explained

Reform of the Minnesota property tax system in years 1997 through 2001 substantially reduced TIF revenues available to meet debt service and other pre-existing obligations in pre-2001 TIF districts, often causing deficits. Possible payment of these deficits is provided through an exception to the TIF Act pooling limitations, referred to as “pooling-for-deficits”. The exception permits TIF revenues from another authority or district in the municipality to be used to cover such deficits if (i) the certification request date (CRD) of the TIF district is prior to August 1, 2001, (ii) the deficient TIF district has used all its available TIF revenues to eliminate the deficit, and (iii) the reduction in increments is a result of the property tax reform class rate changes or the elimination of the general education tax levy.

Minn. Stat. § 469.1763, subd. 6

Tax Reform Deficit Procedure Simplified

It was difficult to calculate part two of the above statutory provision, meant to demonstrate the reduction in TIF revenues in a TIF district was a result of tax reform measures. A 2005 TIF Act amendment permits an authority to now skip that part of the calculation if it makes an irrevocable commitment, by resolution, to use transferred increments from other districts to only cover

qualified deficits and county administrative expenses. In addition, Minn. Stat. § 469.176, subd. 2 (b) (iv), the “excess increment provision”, was clarified so excess increments from other districts can be transferred to cover qualified pooling-for-deficit costs.

Pooling-for-Deficits Trumps Other Pooling Limitations

The pooling-for-deficits exception ran counter to TIF Act provisions limiting pooling of TIF revenues from other types of TIF districts. A 2005 TIF Act amendment clarified that, upon a finding that a qualified deficit exists, TIF revenues from these types of districts can be used for pooling-for-deficits purposes.

Minn. Stat. § 469.1763, subd. 6(e)(1)

TIF Division Will Not Take Action on TIF Plan Modification Question

The law is unclear whether TIF plan budgets from other districts must be modified, or how the plans should be modified, to permit them to make pooling-for-deficit expenditures. A 2006 clarifying amendment is anticipated. In the interim, the TIF Division will not take any action with respect to this question due to lack of statutory clarity as long as there is a council resolution, with required findings, approving pooling-for-deficit expenditures.

If you have any questions please contact us:

Arlin Waelti

651-296-7979 Arlin.Waelti@state.mn.us

Kurt Mueller

651-297-3680 Kurt.Mueller@state.mn.us

Lisa McGuire

651-296-9255 Lisa.McGuire@state.mn.us

Suk Shah

651-296-7001 Suk.Shah@state.mn.us

Marsha Pattison

651-296-4716 Marsha.Pattison@state.mn.us

Maggie Gebhard

651-296-7446 Maggie.Gebhard@state.mn.us