Tax Increment Financing Reforms Effective, But More May Be Needed

SUMMARY

According to a study released by the Legislative Auditor's Office, recent legislative restrictions on cities' use of tax increment financing (TIF) have addressed many previously identified problems and helped slow the growth of tax increment financing activity.

Tax increment financing is a local development financing tool. TIF allows cities and certain other jurisdictions to finance redevelopment, economic development, housing, and other projects by "capturing" the additional property taxes generated by the project to finance up-front development costs.

Captured tax capacity increased by an average of only 2 percent per year between 1990 and 1995, compared with an average of 24 percent per year between 1984 and 1989. In 1995, Minnesota had 1,436 tax increment districts in 363 cities and towns. The districts had $203 million in captured tax capacity, or 8 percent of the total tax capacity in those jurisdictions.

Program Evaluation Report:

Tax Increment Financing

March 8, 1995

Key Findings:

- Legislative restrictions have addressed many previously identified problems with TIF and helped slow the growth of TIF activity.
- Legislative restrictions have not addressed the use of tax increments from districts established before 1990 to fund general public improvements and community projects.

Recommendation:

- The Legislature should consider placing restrictions on the use of tax increment revenues from pre-1990 districts.

For copies of the full report, call 612/296-4708.

As a result of 1990 legislative restrictions on TIF, recent retail and office projects have occurred, for the most part, in areas that need redevelopment, rather than on vacant ground. Recent laws have also reduced the tendency of cities to use "redevelopment districts" for purposes other than eliminating blight.

Legislative restrictions on the use of TIF, however, have not addressed the use of tax increments from districts established in the 1980s. Generally, cities do not terminate districts before their expiration dates and frequently use tax increment revenues as a general purpose funding source after their original projects have been completed. The study found that many cities have amended tax increment plans for districts created in the 1980s to use tax increment revenues to fund general public improvements, such as park and recreation improvements, community centers, freeway interchanges, bridges, and wastewater treatment plants. The report recommends that the Legislature consider placing restrictions on the use of tax increment revenues from pre-1990 districts for general public improvements.

The Legislature enacted laws to limit the spending of tax increments in districts created after April 30, 1990. But, since most "post-1990" districts are less than five years old and are not yet generating large amounts of tax increment revenues, it is still too early to evaluate these restrictions.

The report concludes that the changes made to the TIF law in recent years have been reasonable, even though they have made TIF more difficult to use. More comprehensive monitoring and oversight will be needed to ensure that the new laws are properly enforced, and the report suggests ways the Office of the State Auditor could focus its new enforcement responsibilities. However, improved enforcement of existing laws will not guarantee that local governments are providing TIF assistance to encourage developments that would not have occurred otherwise. Ultimately, the decision to use TIF is based on cities' perspectives, not the state's.

Copies of the report, entitled *Tax Increment Financing*, may be obtained from the Office of the Legislative Auditor. The executive summary may be found on the World Wide Web at http://www.auditor.leg.state.mn.us/tif.htm. For more information, call Susan Von Mosch or Roger Brooks at 612/296-4708.

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