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State of Minnesota
HOUSE OF REPRESENTATIVES

EIGHTY-SIXTH
SESSION

HOUSE FILE No. **2511**

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The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

relating to taxation; tax increment financing; housing replacement districts; allowing additional authority to spend increments for housing replacement district plans; authorizing the city of Brooklyn Park to establish housing replacement districts; eliminating the local contribution requirement for housing replacement districts; reauthorizing the cities of St. Paul and Fridley to use special laws for housing replacement; amending Minnesota Statutes 2008, section 469.1763, subdivision 2; Laws 1995, chapter 264, article 5, sections 44, subdivision 4, as amended; 45, subdivision 1, as amended.

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

Section 1. Minnesota Statutes 2008, section 469.1763, subdivision 2, is amended to read:

Subd. 2. Expenditures outside district. (a) For each tax increment financing district, an amount equal to at least 75 percent of the total revenue derived from tax increments paid by properties in the district must be expended on activities in the district or to pay bonds, to the extent that the proceeds of the bonds were used to finance activities in the district or to pay, or secure payment of, debt service on credit enhanced bonds. For districts, other than redevelopment districts for which the request for certification was made after June 30, 1995, the in-district percentage for purposes of the preceding sentence is 80 percent. Not more than 25 percent of the total revenue derived from tax increments paid by properties in the district may be expended, through a development fund or otherwise, on activities outside of the district but within the defined geographic area of the project except to pay, or secure payment of, debt service on credit enhanced bonds. For districts, other than redevelopment districts for which the request for certification was made after June 30, 1995, the pooling percentage for purposes of the preceding sentence is 20 percent. The revenue derived from tax increments for the district that are expended on

2.1 costs under section 469.176, subdivision 4h, paragraph (b), may be deducted first before
 2.2 calculating the percentages that must be expended within and without the district.

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

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

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

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

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

2.22 (3) be used to:

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

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

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

2.26 (4) be used to develop housing that does not exceed 150 percent of the average
 2.27 market value of single-family homes in that municipality and to pay the cost of site
 2.28 acquisition, relocation, demolition of existing structures, site preparation, and pollution
 2.29 abatement on one or more parcels, if the parcel:

2.30 (i) contains a residence containing one to four family dwelling units that has been
 2.31 vacant for three or more months;

2.32 (ii) contains a residence containing one to four family dwelling units that is
 2.33 structurally substandard, as defined in section 469.174, subdivision 10;

2.34 (iii) is in foreclosure as defined in section 325N.10, subdivision 7, but without regard
 2.35 to whether the residence is the owner's principal residence; or

3.1 (iv) is a vacant site, if the authority uses the parcel in connection with the
 3.2 development or redevelopment of a parcel qualifying under items (i) to (iii).

3.3 (e) For a district created within a biotechnology and health sciences industry zone
 3.4 as defined in section 469.330, subdivision 6, or for an existing district located within
 3.5 such a zone, tax increment derived from such a district may be expended outside of the
 3.6 district but within the zone only for expenditures required for the construction of public
 3.7 infrastructure necessary to support the activities of the zone, land acquisition, and other
 3.8 redevelopment costs as defined in section 469.176, subdivision 4j. These expenditures are
 3.9 considered as expenditures for activities within the district.

3.10 (f) The authority under paragraph (d), clause (4), expires on December 31, 2015.
 3.11 Increments may continue to be expended under this authority after that date, if they are
 3.12 used to pay bonds or binding contracts that would qualify under subdivision 3, paragraph
 3.13 (a), if December 31, 2015, is considered to be the last date of the five-year period after
 3.14 certification under that provision.

3.15 **EFFECTIVE DATE.** This section is effective for any district that is subject to
 3.16 the provisions of Minnesota Statutes, section 469.1763, regardless of when the request
 3.17 for certification of the district was made.

3.18 Sec. 2. Laws 1995, chapter 264, article 5, section 44, subdivision 4, as amended by
 3.19 Laws 1996, chapter 471, article 7, section 21, and Laws 1997, chapter 231, article 10,
 3.20 section 12, and Laws 2008, chapter 154, article 9, section 18, is amended to read:

3.21 Subd. 4. **Authority.** For housing replacement projects in the city of Crystal,
 3.22 "authority" means the Crystal economic development authority. For housing replacement
 3.23 projects in the city of Fridley, "authority" means the housing and redevelopment authority
 3.24 in and for the city of Fridley or a successor in interest. For housing replacement
 3.25 projects in the city of Minneapolis, "authority" means the Minneapolis community
 3.26 development agency or its successors and assigns. For housing replacement projects
 3.27 in the city of St. Paul, "authority" means the St. Paul housing and redevelopment
 3.28 authority. For housing replacement projects in the city of Duluth, "authority" means the
 3.29 Duluth economic development authority. For housing replacement projects in the city of
 3.30 Richfield, "authority" is the authority as defined in Minnesota Statutes, section 469.174,
 3.31 subdivision 2, that is designated by the governing body of the city of Richfield. For
 3.32 housing replacement projects in the city of Columbia Heights, "authority" is the authority
 3.33 as defined in Minnesota Statutes, section 469.174, subdivision 2, that is designated by
 3.34 the governing body of the city of Columbia Heights. For housing replacement projects in
 3.35 the city of Brooklyn Park, "authority" is the authority, as defined in Minnesota Statutes,

4.1 section 469.174, subdivision 2, that is designated by the governing body of the city of
 4.2 Brooklyn Park.

4.3 **EFFECTIVE DATE.** This section is effective the day following final enactment
 4.4 and applies to the city of Brooklyn Park without local approval under Minnesota Statutes,
 4.5 section 645.023, subdivision 1, clause (a).

4.6 Sec. 3. Laws 1995, chapter 264, article 5, section 45, subdivision 1, as amended by
 4.7 Laws 1996, chapter 471, article 7, section 22, and Laws 1997, chapter 231, article 10,
 4.8 section 13, and Laws 2002, chapter 377, article 7, section 6, and Laws 2008, chapter 154,
 4.9 article 9, section 19, is amended to read:

4.10 Subdivision 1. **Creation of projects.** (a) An authority may create a housing
 4.11 replacement project under sections 44 to 47, as provided in this section.

4.12 (b) For the cities of Crystal, Fridley, Richfield, ~~and~~ Columbia Heights, and Brooklyn
 4.13 Park, the authority may designate up to 50 parcels in the city to be included in a housing
 4.14 replacement district. No more than ten parcels may be included in year one of the district,
 4.15 with up to ten additional parcels added to the district in each of the following nine years.
 4.16 For the cities of St. Paul and Duluth, each authority may designate not more than 200
 4.17 parcels in the city to be included in a housing replacement district over the life of the
 4.18 district. For the city of Minneapolis, the authority may designate not more than ~~400~~
 4.19 500 parcels in the city to be included in housing replacement districts over the life of
 4.20 the districts. The only parcels that may be included in a district are (1) vacant sites, (2)
 4.21 parcels containing vacant houses, or (3) parcels containing houses that are structurally
 4.22 substandard, as defined in Minnesota Statutes, section 469.174, subdivision 10.

4.23 ~~(c) The city in which the authority is located must pay at least 25 percent of the~~
 4.24 ~~housing replacement project costs from its general fund, a property tax levy, or other~~
 4.25 ~~unrestricted money, not including tax increments.~~

4.26 ~~(d)~~ The housing replacement district plan must have as its sole object the acquisition
 4.27 of parcels for the purpose of preparing the site to be sold for market rate housing. As
 4.28 used in this section, "market rate housing" means housing that has a market value that
 4.29 does not exceed 150 percent of the average market value of single-family housing in that
 4.30 municipality.

4.31 **EFFECTIVE DATE.** This section is effective the day following final enactment
 4.32 and applies to the affected cities without local approval under Minnesota Statutes, section
 4.33 645.023, subdivision 1, clause (a).

5.1 Sec. 4. **CITIES OF ST. PAUL AND FRIDLEY; AUTHORITY TO EXERCISE**
5.2 **SPECIAL LAW AUTHORITY.**

5.3 Notwithstanding the failure of the governing bodies of the city of St. Paul and
5.4 Fridley to approve Laws 1995, chapter 264, article 5, sections 44 to 47, as required by
5.5 Laws 1995, chapter 264, article 5, section 49, the provisions of sections 44 to 47, as
5.6 amended, apply to the city of St. Paul and to the city of Fridley without local approval
5.7 under Minnesota Statutes, section 645.023, subdivision 1, clause (a).

5.8 **EFFECTIVE DATE.** This section is effective the day following final enactment.