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State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-THIRD SESSION

H. F. No. 4404

02/28/2024 Authored by Youakim, Howard and Acomb
The bill was read for the first time and referred to the Committee on Taxes

1.1 A bill for an act
1.2 relating to taxation; property; tax increment financing; expanding eligible uses of
1.3 increment from tax increment financing districts to include transfers to local housing
1.4 trust funds; imposing requirements on use of transferred increment; amending
1.5 Minnesota Statutes 2022, section 469.1763, by adding a subdivision; Minnesota
1.6 Statutes 2023 Supplement, section 469.1763, subdivision 2.

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

1.8 Section 1. Minnesota Statutes 2023 Supplement, section 469.1763, subdivision 2, is
1.9 amended to read:

1.10 Subd. 2. Expenditures outside district. (a) For each tax increment financing district,
1.11 an amount equal to at least 75 percent of the total revenue derived from tax increments paid
1.12 by properties in the district must be expended on activities in the district or to pay bonds,
1.13 to the extent that the proceeds of the bonds were used to finance activities in the district or
1.14 to pay, or secure payment of, debt service on credit enhanced bonds. For districts, other
1.15 than redevelopment districts for which the request for certification was made after June 30,
1.16 1995, the in-district percentage for purposes of the preceding sentence is 80 percent. Not
1.17 more than 25 percent of the total revenue derived from tax increments paid by properties
1.18 in the district may be expended, through a development fund or otherwise, on activities
1.19 outside of the district but within the defined geographic area of the project except to pay,
1.20 or secure payment of, debt service on credit enhanced bonds. For districts, other than
1.21 redevelopment districts for which the request for certification was made after June 30, 1995,
1.22 the pooling percentage for purposes of the preceding sentence is 20 percent. The revenues
1.23 derived from tax increments paid by properties in the district that are expended on costs

2.1 under section 469.176, subdivision 4h, may be deducted first before calculating the  
2.2 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 considered to be expenditures for activities outside  
2.6 of the district, except that if the only expenses for activities outside of the district under this  
2.7 subdivision are for the purposes described in paragraph (d), administrative expenses will  
2.8 be considered as expenditures for activities in the district.

2.9 (d) The authority may elect, in the tax increment financing plan for the district, to increase  
2.10 by up to ~~ten~~ 15 percentage points the permitted amount of expenditures for activities located  
2.11 outside the geographic area of the district under paragraph (a). As permitted by section  
2.12 469.176, subdivision 4k, the expenditures, including the permitted expenditures under  
2.13 paragraph (a), need not be made within the geographic area of the project. Expenditures  
2.14 that meet the requirements of this paragraph are legally permitted expenditures of the district,  
2.15 notwithstanding section 469.176, subdivisions 4b, 4c, and 4j. To qualify for the increase  
2.16 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 the  
2.20 Internal Revenue Code, less the amount of any credit allowed under section 42 of the Internal  
2.21 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:

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

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

2.29 or

2.30 (B) \$200,000 for municipalities located in the metropolitan area, as defined in section  
2.31 473.121, or \$125,000 for all other municipalities; and

3.1 (ii) if the expenditures are used to pay the cost of site acquisition, relocation, demolition  
 3.2 of existing structures, site preparation, and pollution abatement on one or more parcels, if  
 3.3 the parcel contains a residence containing one to four family dwelling units that has been  
 3.4 vacant for six or more months and is in foreclosure as defined in section 325N.10, subdivision  
 3.5 7, but without regard to whether the residence is the owner's principal residence, and only  
 3.6 after the redemption period has expired; ~~or~~

3.7 (5) be used to assist owner-occupied housing that meets the requirements of section  
 3.8 469.1761, subdivision 2; or

3.9 (6) be used for transfer to a housing trust fund established pursuant to section 462C.16  
 3.10 for expenditure in accordance with subdivision 7.

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

3.16 (f) For purposes of determining whether the minimum percentage of expenditures for  
 3.17 activities in the district and maximum percentages of expenditures allowed on activities  
 3.18 outside the district have been met under this subdivision, any amounts returned to the county  
 3.19 auditor as excess increment, as returned increment under subdivision 4, paragraph (g), or  
 3.20 as remedies under section 469.1771, subdivision 2, shall first be subtracted from the total  
 3.21 revenues derived from tax increments paid by properties in the district. Any other amounts  
 3.22 returned to the county auditor for purposes other than a remedy under section 469.1771,  
 3.23 subdivision 3, are considered to be expenditures for activities in the district.

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

3.25 Sec. 2. Minnesota Statutes 2022, section 469.1763, is amended by adding a subdivision  
 3.26 to read:

3.27 **Subd. 7. Increment transferred to a housing trust fund.** (a) A city making a transfer  
 3.28 under subdivision 2, paragraph (d), clause (6), must allocate the transferred increment in  
 3.29 conformity with the city's ordinance or policy establishing the division of funds for rental  
 3.30 and homeownership distributions. Funds distributed under this subdivision must follow the  
 3.31 following income requirements:

3.32 (1) for funds used for rental housing purposes, the funds must benefit households at or  
 3.33 below 60 percent of area median income; and

4.1 (2) for funds used for homeownership housing purposes, the funds must benefit  
4.2 households at or below 120 percent of area median income.

4.3 (b) Any increment transferred for use pursuant to this subdivision is no longer considered  
4.4 increment within the meaning of section 469.174, subdivision 25, and is not subject to the  
4.5 annual reporting requirements imposed by section 469.175.

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