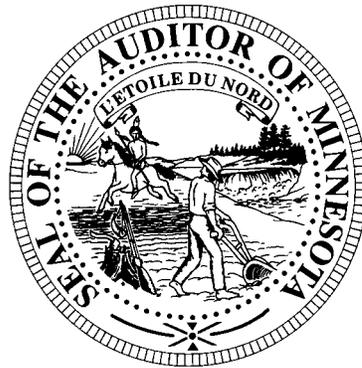


STATE OF MINNESOTA

Office of the State Auditor



Patricia Anderson
State Auditor

TAX INCREMENT FINANCING LEGISLATIVE REPORT

TIF Reports For the Year Ended December 31, 2003
TIF Audits Concluded For the Year Ended December 31, 2004

Description of the Office of the State Auditor

The Office of the State Auditor serves as a watchdog for Minnesota taxpayers by helping to ensure financial integrity, accountability, and cost-effectiveness in local governments throughout the state.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 250 financial and compliance audits per year and has oversight responsibilities for over 4,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits for local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government.

Pension Oversight - monitors investment, financial, and actuarial reporting for over 700 public pension funds;

Tax Increment Financing (TIF) - promotes compliance and accountability in local governments' use of TIF through financial and compliance audits;

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employee's Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**TAX INCREMENT
FINANCING REPORT**

March 1, 2005

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TAX INCREMENT FINANCING REPORT

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EXHIBIT 1— Pooling For Deficits Memo

EXHIBIT 2— TIF Market Value Homestead Credit Memo

TAX INCREMENT FINANCING LEGISLATIVE REPORT

EXECUTIVE SUMMARY

Enforcement Authority

The Tax Increment Financing Division (the “TIF Division”) of the Office of the State Auditor has, for nine years, been compiling information, conducting audits, and submitting an annual Tax Increment Financing Legislative Report (the “TIF Legislative Report”) to the chairs of the committees of the Legislature with jurisdiction over tax increment financing matters, as well as other interested parties, pursuant to the statutory enforcement provisions set forth in Laws of 1995, chapter 264, article 5, section 34.

Source of Information in Database

The compiled information in the TIF Legislative Report comes from unaudited annual TIF reports of municipalities and development authorities submitted to the State Auditor. For the year ending December 31, 2003, TIF Reports were filed on behalf of 443 TIF authorities with 2,184 active TIF districts. Only one authority failed to file its 2003 TIF Report. The TIF Division is working closely with the Department of Revenue in information gathering and sharing, to assure a TIF database that is comprehensive and reliable. An upgraded database system for on-line reporting will be available for the 2004 reporting cycle.

New Tax Increment Financing Districts

There were 76 new TIF districts certified in Minnesota in 2003 and 58 districts decertified. The number of new TIF districts certified each year continues to decline. The number of TIF districts decertified remains constant from year to year. Of the 76 TIF districts certified, 50 were in Greater Minnesota and 26 were in the Seven County Metro Area. There were 20 housing TIF districts and 20 economic development TIF districts established in Greater Minnesota. There were almost seven times as many economic development TIF districts established in Greater Minnesota than in the Seven County Metro Area. Redevelopment TIF districts were the predominant districts established in the Seven County Metro Area.

Findings of Noncompliance and Local Responses

The TIF Division did TIF field audits in eight municipalities in 2004, of which seven were completed by the end of the year. This report summarizes the findings of noncompliance made by the TIF Division and the municipal responses for the audits completed. Following are some of the findings that appeared in many of the audits:

- Revenues were not segregated by district, making it difficult and in some cases impossible to determine whether tax increment revenues were expended for eligible costs.
- Authorities did not follow the procedures for creating TIF districts, including failure to make statutory findings, provide the county and school district with the authority's estimate of the fiscal and economic implications of the proposed TIF district, publish maps and notices of public hearings.
- Tax increment revenues were expended in excess of the total tax increment expenditures authorized in TIF plan budgets.
- Authorities retained excess increments that should have been returned to the county for redistribution. In 2003, TIF authorities returned \$3,521,848 in tax increment revenues to their respective counties. Since 1996, \$24,136,950 in tax increment revenues were returned to the counties. The returned revenues were primarily (i) excess increment, (ii) violation payments, and (iii) increment received after the end of the term of a TIF district.

Memos for Pooling for Deficits and TIF Market Value Homestead Credit

The State Auditor, in consultation with members of its TIF Panel, the Department of Revenue and other resource personnel issued its memo on TIF Market Value Homestead Credit on February 10, 2004, and its memo on Pooling for Deficits on October 15, 2004. These memos can be found at the end of the text of the report.

INTRODUCTION

The Legislature, in its 1995 Omnibus Tax Act, assigned compliance oversight responsibility for tax increment financing ("TIF") to the Office of the State Auditor (the "State Auditor"). The State Auditor was directed to examine and audit the use of TIF by political subdivisions, as authorized by the Minnesota Tax Increment Financing Act (the "TIF Act"). The State Auditor is to annually provide a summary of the findings and responses from these audits to the chairs of the legislative committees with jurisdiction over TIF matters.

This report is the ninth report the State Auditor has so submitted. This report is being distributed to (i) the Governor's Office, (ii) the Office of the Attorney General, (iii) members of the Legislature, (iv) appropriate state agencies, (v) local governmental authorities, (vi) members of the State Auditor's TIF Panel, and (vii) members of the public who have requested information, as well as to the chairs of the applicable legislative committees. For the year ended December 31, 2003, political subdivisions filed TIF reports for almost 2,200 TIF districts with the State Auditor. This report represents the information received from those 2003 TIF Reports, as well as a summary of the audits completed by the TIF Division of the State Auditor in the year 2004.

BACKGROUND

What Is Tax Increment Financing?

Tax increment financing is a statutory financing tool to promote economic development, redevelopment, and housing in areas where it would not otherwise occur. A TIF authority, which could be a city, an entity created by a city, or an entity created by a county, “captures” the revenues generated by the increase in net tax capacity resulting from new development within a designated geographic area called a TIF district. The TIF authority uses the tax increments to finance some public and other qualifying costs or all of the qualifying costs related to the new development that generated the increase in net tax capacity.

Tax increment financing is not a property tax abatement program. The owner of the property in the TIF district continues to pay the same amount of property taxes that would have otherwise been payable absent the existence of the TIF district. Instead of being paid to the various taxing jurisdictions for their general use, however, the portion of these property taxes generated by the new development is used to pay public and qualifying costs that make the development possible. Examples of such costs include: land and building acquisition, demolition of structurally substandard buildings, removal of hazardous substances, site preparation, installation of utilities, and road improvements. The costs that may be paid from tax increment depend on the type of project created, the type of TIF district created, and the year in which the TIF district was created.

In some TIF districts, bonds are sold by the municipality or development authority at the outset of the project so that funds are available for front-end costs such as pollution clean-up. The bonds are then fully or partially paid with tax increment revenues from the TIF district. In other TIF districts, the authority or municipality advances or loans money from its general fund or any other fund under which it has legal authority to do so. The loan or advance must be authorized by resolution of the governing body before money is transferred, advanced, or spent, whichever is earliest. The terms and conditions for repayment of the loan must be provided in writing and include, at a minimum, the principal amount, the interest rate, and maximum term.¹

An alternative to up-front financing, known as pay-as-you-go financing, may also be used. Under this type of arrangement, the development costs are initially paid by the developer pursuant to the terms of a redevelopment agreement. The developer is then reimbursed pursuant to the terms of the agreement if, and when, tax increment is generated by the TIF district. Generally, in pay-as-you-go financing, the developer accepts the risks of failed development. If the tax base does not increase, and tax increments are not generated as anticipated, the developer does not get reimbursed.

¹ Minn. Stat. § 469.178, subd. 7.

The TIF Act

The TIF Act² governs the creation and administration of TIF districts. The TIF Act has been amended frequently since its creation in 1979. A TIF district is usually governed by the laws in effect in the year in which the district was created.

The TIF Act divides TIF districts into several types:

- Redevelopment districts
- Renovation and renewal districts
- Soils condition districts
- Housing districts
- Economic development districts

Each type of TIF district has different requirements for the creation of a district. In addition to the types of districts listed above, there are districts that were created prior to the enactment of the TIF Act (called Pre-1979 districts) and districts that have been created under special laws (called special districts). Each type of district also has different maximum duration limitations and different restrictions on the use of tax increment from the district.

Who Uses TIF?

The TIF Act authorizes TIF authorities to create TIF districts. TIF authorities include cities using city development districts law, housing and redevelopment authorities, port authorities, economic development authorities, and rural development financing authorities.

Creation of TIF Districts

The TIF authority takes the first step in creating a TIF district by adopting a TIF plan for the district. The TIF plan provides information about the project being funded by tax increment from the TIF district and authorizes the use of tax increment from the district to pay TIF-eligible project costs.³ To create a new TIF district, the TIF authority must obtain approval of the TIF plan for the district from the governing body of the municipality in which the TIF district is located after the municipality has published a notice and held a public hearing.⁴ For example, if a city's port authority proposes to

² Initially, the TIF Act was codified at Minn. Stat. §§ 273.71 through 273.78. It has since been recodified and now consists of Minn. Stat. §§ 469.174 through 469.1799.

³ Minn. Stat. § 469.175, subd. 1.

⁴ Minn. Stat. § 469.175, subd. 3.

create a TIF district in the city, the city council must approve the TIF plan for the district. If a county's housing and redevelopment authority proposes to create a TIF district in a township in the county, the county board must approve the TIF plan.

Before a TIF district is created, the TIF authority must provide a copy of the proposed TIF plan and certain information about the proposed TIF district to the county auditor and the clerk of the school board, who in turn provide copies of these documents to the members of the county board of commissioners and the school board.⁵ The county board and school board may comment on the proposed district, but cannot prevent the creation of the district.⁶

State Auditor's Role in TIF

The Legislature gave the State Auditor responsibility for determining whether local governments are in compliance with the TIF Act.⁷ In January 1996, the State Auditor created a TIF Division to perform these TIF enforcement and data-collection functions. The operations of the TIF Division are funded exclusively from revenue derived by deducting a percentage of all tax increment that county auditors or treasurers distribute to TIF authorities and municipalities. The county treasurers deduct the revenue before distributing the tax increment to local governments, and then pay the deducted revenue to the Commissioner of Finance. The amount of revenue to fund the TIF Division varies with the number of TIF districts and the amount of tax increment they produce.

The State Auditor reviews all TIF reports it receives each year for substantial completeness and returns reports that do not meet this standard. In addition to reviewing all TIF reports for completeness, the TIF Division staff reviews the contents of many of the TIF reports each year for reporting accuracy and potential legal compliance issues. During the course of these in-depth reviews, the TIF Division staff may find situations where a TIF authority has received tax increment after the TIF district was required to be decertified or has made unauthorized expenditures of tax increment. From January 1, 1996 to date, the review of reports by the TIF Division staff and subsequent contact with reporting local government units, plus legal compliance audits and investigations performed by TIF Division staff, has resulted in \$24,136,950 being paid or returned to county auditors voluntarily or as the result of settlement agreements as shown on table 8 on pages 21 and 22.

This amount was redistributed to the cities, towns, counties, and school districts in which the relevant TIF districts were located. In addition, the State Auditor's TIF enforcement

⁵ Minn. Stat. § 469.175, subd. 2.

⁶ A county board may prevent creation of a TIF district in those limited situation in which the county is the municipality that must approve the TIF plan.

⁷ Minn. Stat. § 469.1771, subd. 1(b).

activities may have prompted internal examinations that resulted in additional voluntary payments to county auditors.

The TIF Division also has worked actively in the area of tax increment financing education on a statewide level. It conducted 5 workshops on TIF reporting in 2004 and anticipates presenting additional ones in 2005. The 2004 workshops were held in Chatfield, Marshall, Pequot Lakes, Faribault, and Virginia.

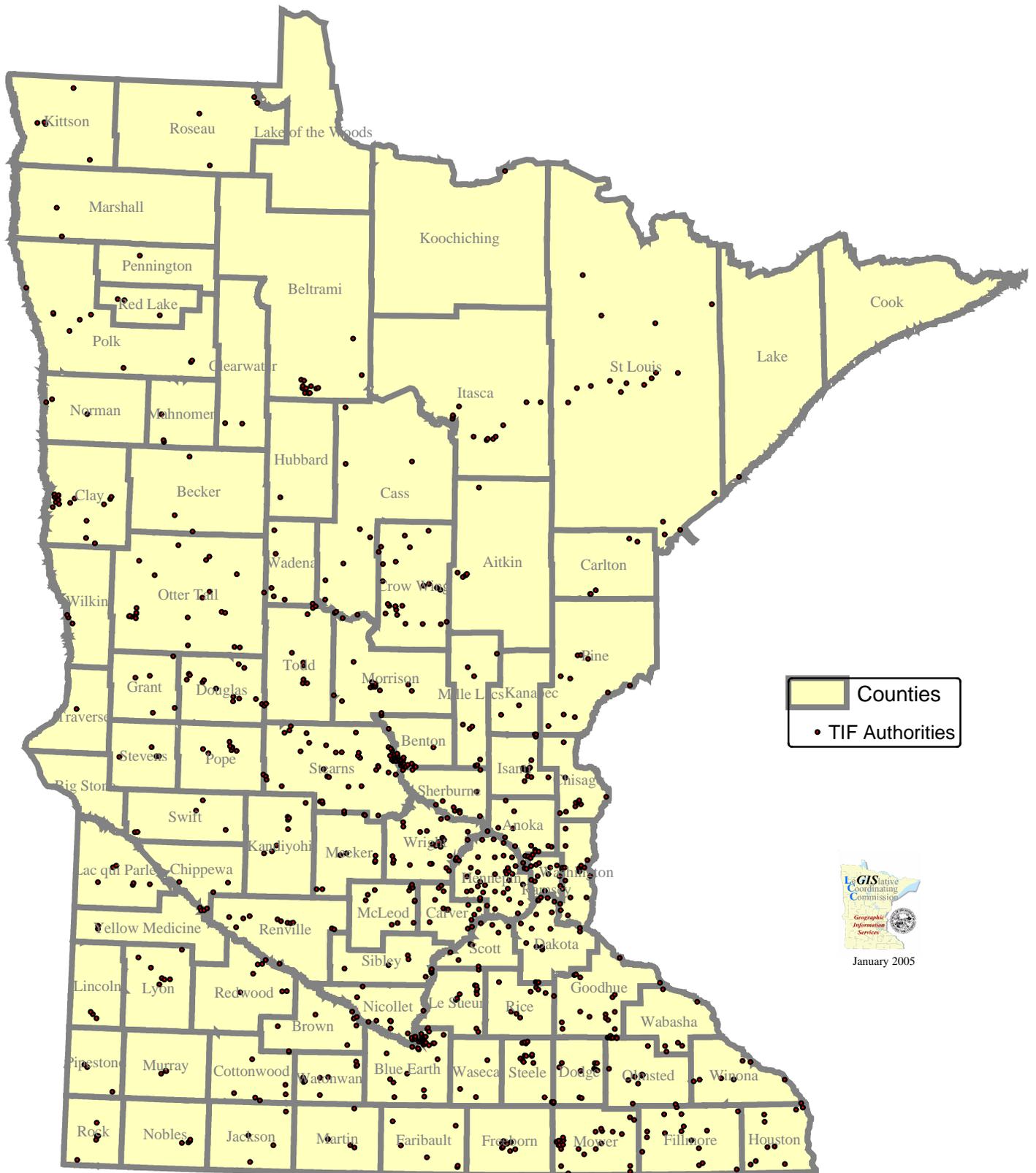
TAX INCREMENT FINANCING STATISTICS

Number and Type of TIF Districts

There were 443 TIF authorities with 2,184 active TIF districts in the state of Minnesota as of December 31, 2003. Of those 443 TIF authorities, 339 were in Greater Minnesota and 104 were in the Seven County Metropolitan Area. The following two maps show the locations of those TIF authorities on a county-by-county basis.

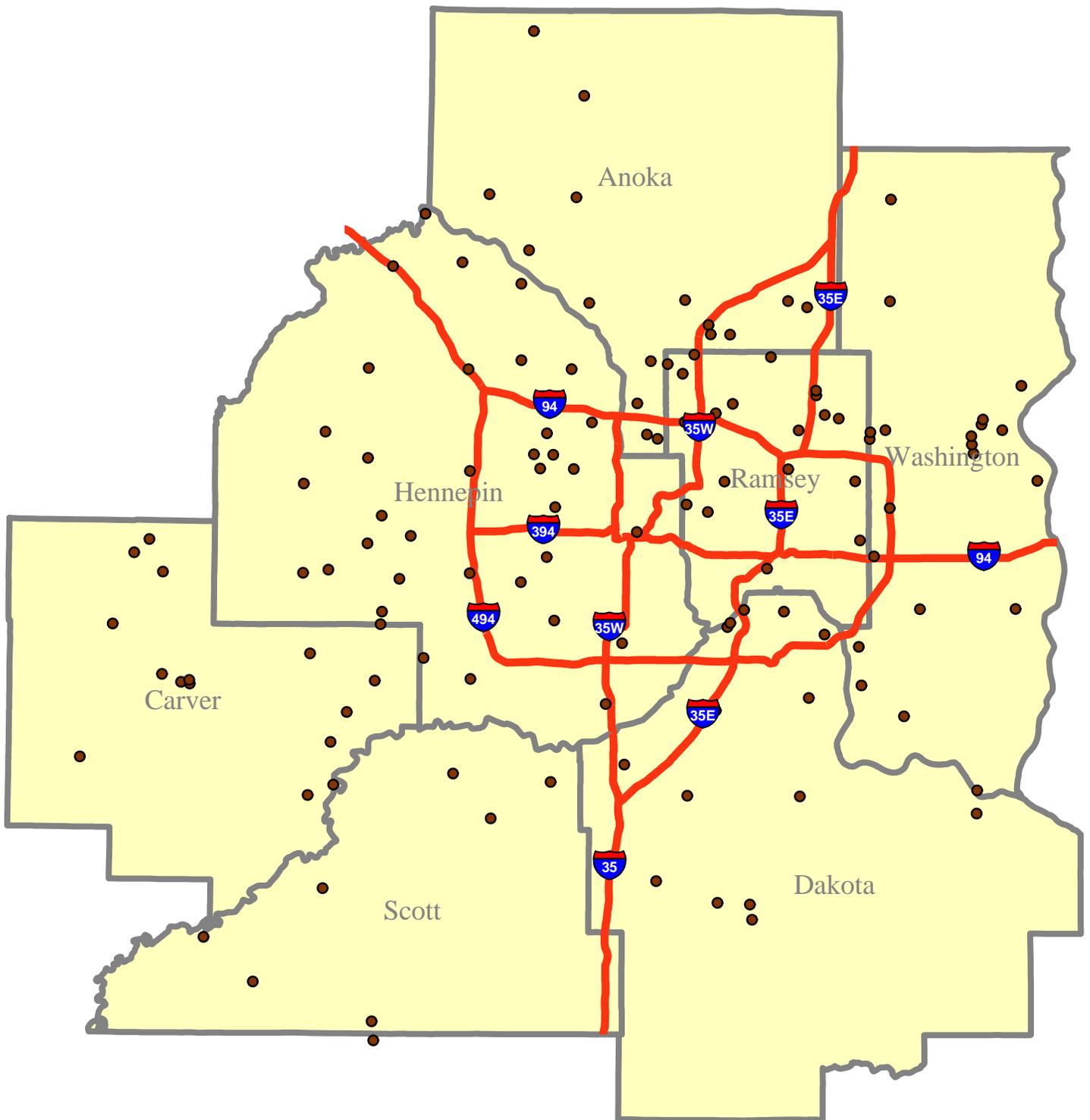
Map 1

2003 TIF Authorities in Minnesota



2003 TIF Authorities in the Minnesota Metro Area

Map 2

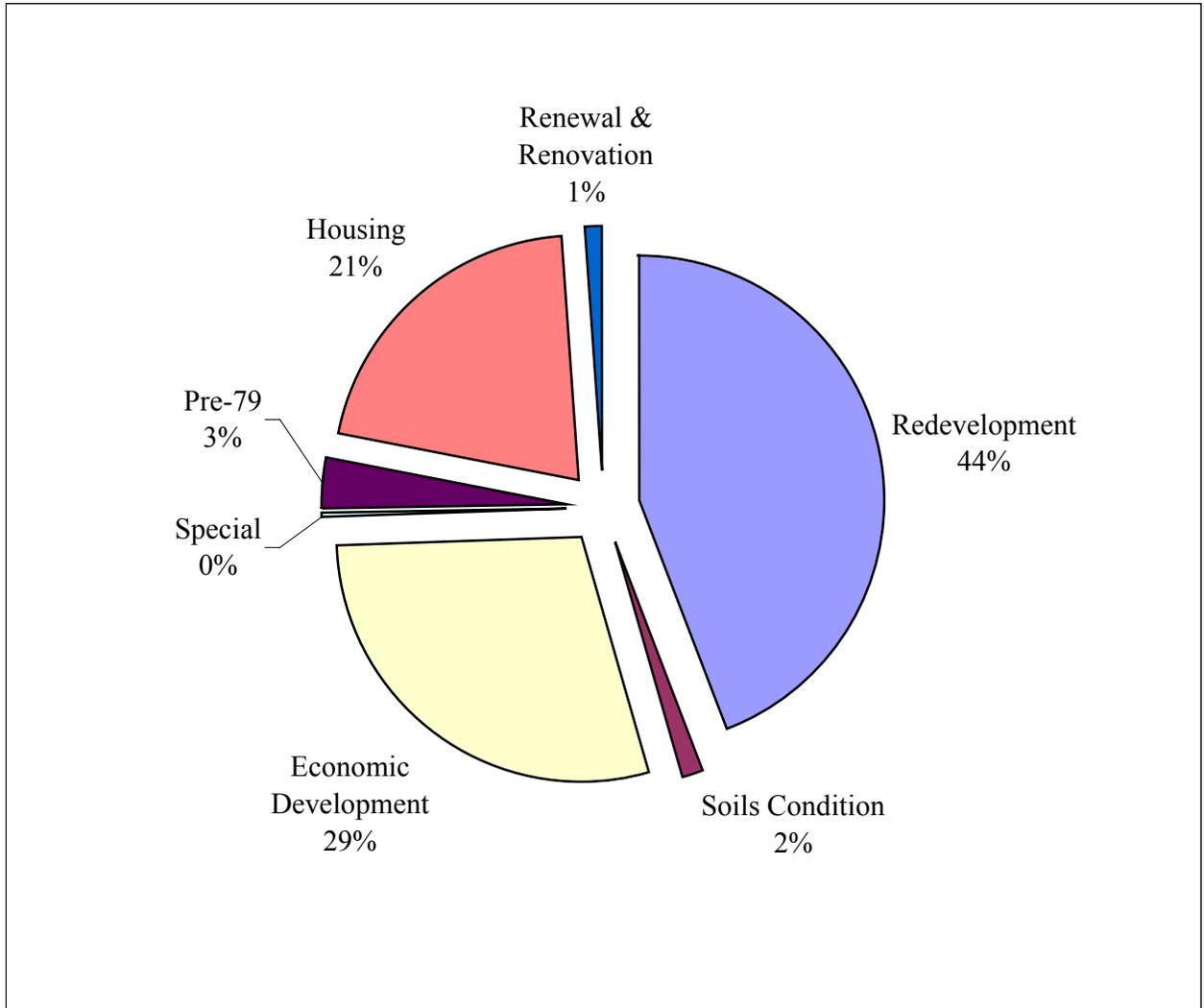


- Counties
- Highways
- TIF Authorities



The 2,184 active TIF districts in the state consisted of the following types of districts:

FIGURE 1



Types of Districts	State of Minnesota	Greater Minnesota	Seven County Metro Area
Special	5	0	5
Renewal & Renovation	22	10	12
Soils Condition	33	14	19
Pre-1979	73	37	36
Housing	456	329	127
Economic Development	632	493	139
Redevelopment	963	616	347
TOTAL	2184	1499	685

Districts Certified and Decertified in 2003

A total of 76 districts were certified and 58 were decertified in Minnesota in 2003. In 2002, 82 districts were certified and 59 were decertified. In 2001, 139 districts were certified and 57 were decertified. The 82 districts certified in 2002 represent a 41% decrease from the 139 districts certified in 2001. The 76 districts certified in 2003 represent a 7% decrease from the 82 districts certified in 2002.

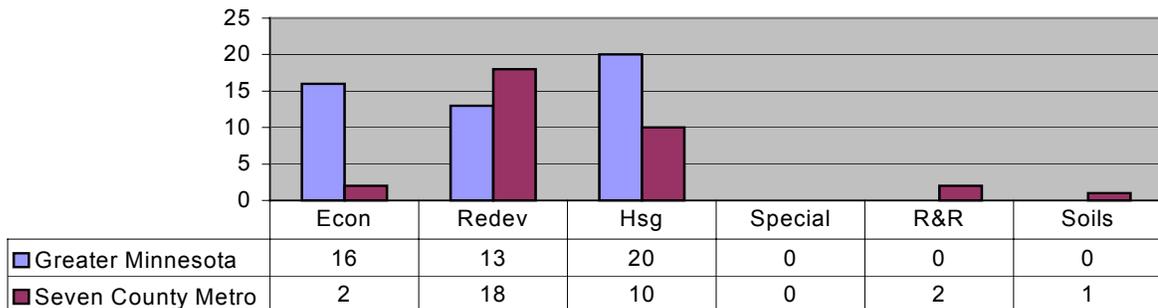
Of the districts created in 2003, 50 were in Greater Minnesota and 26 were in the Seven County Metropolitan Area. The following chart compares the districts certified in Greater Minnesota to those certified in the Seven County Metropolitan Area. Map 3 (page 14) shows the TIF authorities that certified TIF districts in 2003.

FIGURE 2

Comparison of TIF Districts Certified in 2003 Between Greater Minnesota and the Seven County Metro Area



Comparison of TIF Districts Certified in 2002 Between Greater Minnesota and the Seven County Metro Area



**Comparison of TIF Districts Certified in 2001 Between
Greater Minnesota and the Seven County Metro Area**

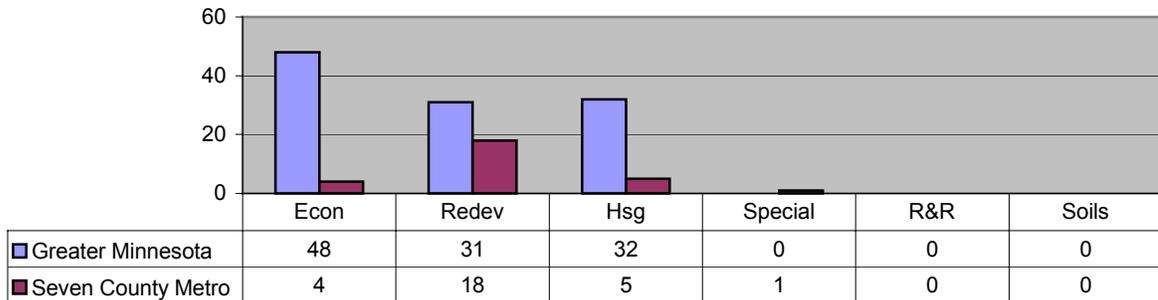


TABLE 1

TIF DISTRICTS CERTIFIED IN 2003 IN THE SEVEN COUNTY METRO AREA

AUTHORITY	DISTRICT	COUNTY	TYPE
BLOOMINGTON HRA	OXBORO REDEV DIST H-1	HENNEPIN	Redevelopment
BROOKLYN PARK EDA	TIF 21 PROTEIN DESIGN LABS	HENNEPIN	Economic
BROOKLYN PARK EDA	TIF 22 RYAN CO	HENNEPIN	Redevelopment
BROOKLYN PARK EDA	TIF 23 GRAND RIOS HOTEL	HENNEPIN	Redevelopment
CHASKA EDA	TIF 12 CLOVER FIELDS	CARVER	Housing
CHASKA EDA	TIF 13 NORTH MEADOWS	CARVER	Housing
COON RAPIDS	TIF 3-1 OPPIDAN / VILLAGE 10	ANOKA	Redevelopment
DAKOTA CTY CDA	TIF 13 CEDAR VILLAS	DAKOTA	Housing
EAGAN	CEDAR GROVE REDEV 1	DAKOTA	Redevelopment
FALCON HEIGHTS	TIF 1-3 LEXINGTON & LARPENTUER	RAMSEY	R & R*
LORETTO	TIF 1	HENNEPIN	Redevelopment
MPLS COMM DEV AGENCY	STONE ARCH APTMTS - 125	HENNEPIN	Housing
MPLS COMM DEV AGENCY	WEST RIVER COMMONS - 126	HENNEPIN	Redevelopment
MPLS COMM DEV AGENCY	LAKE STREET CENTER - 127	HENNEPIN	Redevelopment
MPLS COMM DEV AGENCY	1900 CENTRAL AVE - 128	HENNEPIN	Housing
NEW HOPE	HSG & REDEV 02-01 (1609)	HENNEPIN	Economic
OSSEO	TIF 2-6 MARY PATRICE	HENNEPIN	Redevelopment
RICHFIELD HRA	LYNDALE GATEWAY WEST 1286	HENNEPIN	Redevelopment
AUTHORITY	DISTRICT	COUNTY	TYPE

RICHFIELD HRA	CITY BELLA 1285	HENNEPIN	Redevelopment
ROGERS	TIF 15 WELLSTEAD HSG	HENNEPIN	Housing
ST PAUL HRA	NORTH QUADRANT-EXPANSION NO. 1	RAMSEY	Housing
ST PAUL HRA	OSCEOLA PARK HOUSING DISTRICT	RAMSEY	Housing
ST PAUL HRA	TIF 1 JJ HILL	RAMSEY	Redevelopment
ST PAUL HRA	EMERALD PARK	RAMSEY	Redevelopment
STILLWATER	TIF 10 SCATT'D SITE HSG PROJ	WASHINGTON	Redevelopment
WHITE BEAR TWP EDA	TIF 1-16 OMNI TRACT SURGICAL	RAMSEY	Economic
*Renewal and Renovation District			

TABLE 2

TIF DISTRICTS CERTIFIED IN 2003 IN GREATER MINNESOTA

AUTHORITY	DISTRICT	COUNTY	TYPE
AITKIN EDA	TIF 7 WHITETAIL HSG	AITKIN	Housing
ALEXANDRIA	TIF 27 BIKE & FITNESS CO	DOUGLAS	Redevelopment
ANNANDALE	TIF 13 HOWARD	WRIGHT	Economic
ARLINGTON	DIST 1-3	SIBLEY	Housing
BIG LAKE EDA	TIF 1-4	SHERBURNE	Redevelopment
BRAINERD	TIF 4-14	CROW WING	Housing
BUFFALO HRA	TIF 16 SHINGOBEE/SUBWAY	WRIGHT	Redevelopment
CANNON FALLS EDA	TIF 2-6 BOLTON PAPER	GOODHUE	Economic
CHATFIELD	TIF DIST 3-2 LONE STONE	OLMSTED	Housing
DETROIT LAKES	TIF 8-10 MARINA CONDOS	BECKER	Redevelopment
DETROIT LAKES	TIF 8-11 DYNAMIC HOMES	BECKER	Economic
EDEN VALLEY	TIF 4-2A	MEEKER	Housing
FAIRMONT	TIF 21 CENNEX HARVEST STATES	MARTIN	Economic
FERGUS FALLS	TIF DIST IV-7	OTTER TAIL	Redevelopment
FREEPORT EDA	TIF 1-2	STEARNS	Economic
FREEPORT EDA	TIF 1-3	STEARNS	Economic
HILL CITY	TIF 2	AITKIN	Redevelopment
HOYT LAKES	TIF 2-1	ST LOUIS	Economic
KASSON	TIF 1-14 ADVANTAGE EQUIPMENT	DODGE	Economic

AUTHORITY	DISTRICT	COUNTY	TYPE
LAKE CITY	TIF 12 PEPIN HGTS	WABASHA	Economic
LAKEFIELD	TIF 1-6 EMERALD VALLEY	JACKSON	Housing
LITTLE FALLS	1-26 NORTHERN UNITED	MORRISON	Economic
LITTLE FALLS	1-27 CORNERSTONE ELDERCARE	MORRISON	Housing
LITTLE FALLS	1-28 INTEGRATED MOLDING	MORRISON	Economic
MADELIA	TIF 7 MOTHERWELL	WATONWAN	Economic
MILACA	TIF 2-9	MILLE LACS	Housing
MONTICELLO	TIF 1-31 UMC	WRIGHT	Economic
MOOSE LAKE	TIF 1-4	CARLTON	Housing
NEW LONDON	TIF 1-10 CAR WASH	KANDIYOHI	Economic
NOBLES & JACKSON CTY RDFA	TIF 1-1 MNSP	NOBLES	Economic
NORTH MANKATO PA	IDD 1-16 CREATIVE COMPANIES	NICOLLET	Economic
OSTRANDER	TIF 1-1 ASST LIVING EXP	FILLMORE	Housing
PARK RAPIDS	TIF 7 MCGRANE SECOND ADDTN	HUBBARD	Housing
PARK RAPIDS	TIF 8 TIMBERS ADDTN	HUBBARD	Housing
PERHAM	TIF 2-20	OTTERTAIL	Economic
PERHAM	TIF 2-21	OTTERTAIL	Economic
PINE CITY	REDEV DIST 1-11 NEW HORIZONS	PINE	Redevelopment
SARTELL	MD DIST 5 TIF DIST 5-2 PHEASANT CREST	STEARNS	Housing
SAUK CENTRE	TIF 1-9 EAST RIVER HTS HSG	STEARNS	Housing
SCANLON	TIF 1	CARLTON	Housing
SE MN MULTI CTY HRA	TIF 1-2 CITY OF ELGIN	WABASHA	Housing
SLEEPY EYE EDA	DWTWN REDEV	BROWN	Redevelopment
SPICER	TIF 10 UNITED PRAIRIE BANK	KANDIYOHI	Economic
ST CLOUD HRA	DIST 43 WESTWOOD PHASE II	STEARNS	Housing
ST PETER	TIF 1-13 NORTH INDUSTRIAL PARK	NICOLLET	Economic
STAPLES	TIF 5 STAPLES SQUARE APTS	WADENA	Housing
WANAMINGO	TIF 4-2 FULTON	GOODHUE	Redevelopment
WANAMINGO	TIF 4-3 MASTERS	GOODHUE	Housing
WASECA	TIF 25 COLONY COURT III	WASECA	Housing
WINSTED	TIF 6 DWTWN REDEV	MCLEOD	Redevelopment

TIF Districts Created in 2003

Map 3

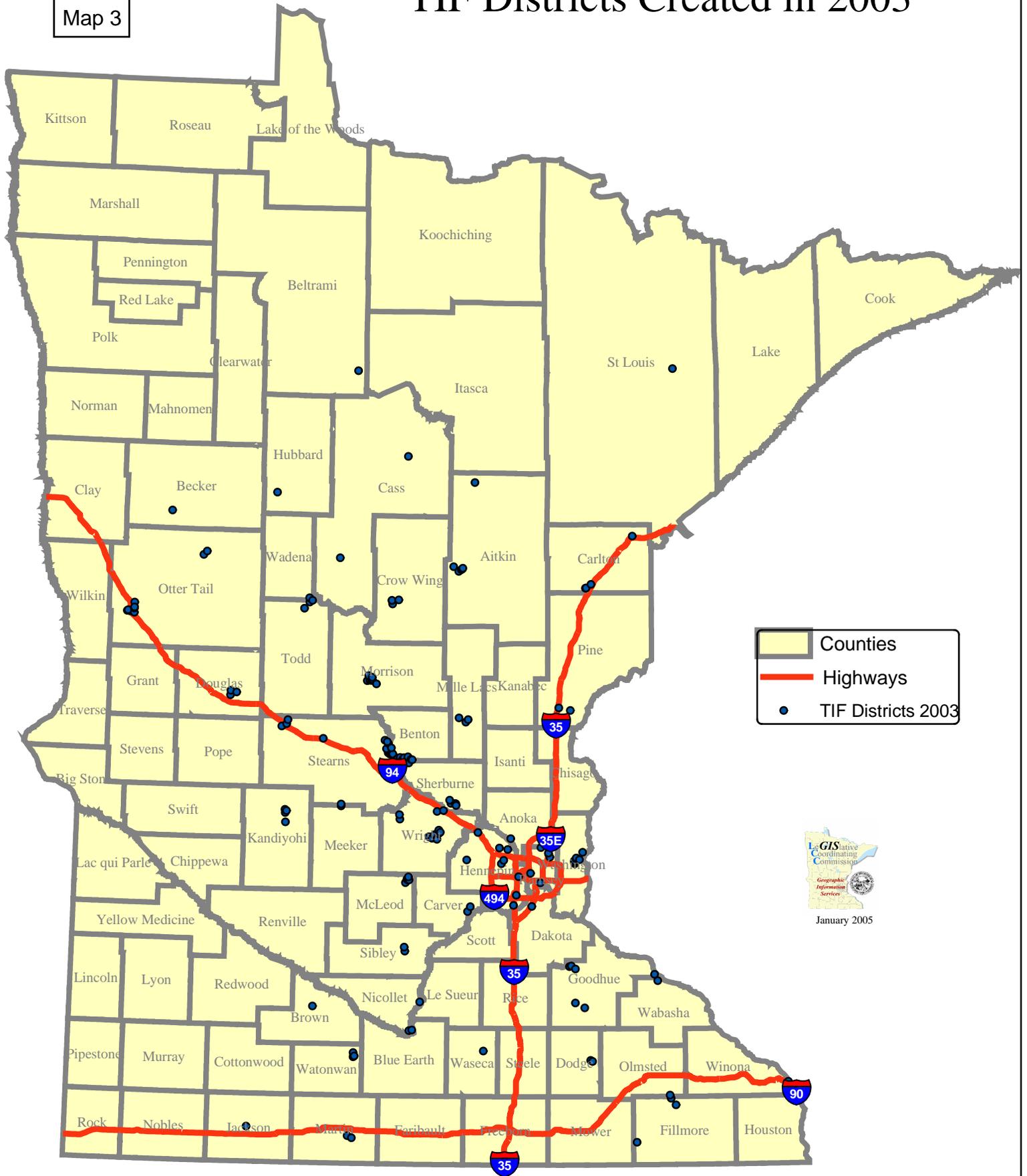


TABLE 3**TIF DISTRICTS DECERTIFIED IN THE SEVEN COUNTY METRO AREA IN 2003**

AUTHORITY	DISTRICT	COUNTY
ANOKA HRA	HRA SCATTERED SITE	ANOKA
JORDAN	TIF 1-6 HENTGES	SCOTT
LINO LAKES EDA	TIF 1-6 UDOR	ANOKA
LINO LAKES EDA	TIF 1-7 LINO LAKES BUSINESS CTR	ANOKA
LINO LAKES EDA	TIF 3-1	ANOKA
MEDINA	TIF 1-8 THORPE/TRANSTECH	HENNEPIN
NORWOOD/YOUNG AMER	TIF 2-2 WELCOME TO OUR HOME	CARVER
OAKDALE	DIST 1-5 OAK TERRACE SENIOR HSG	WASHINGTON
OAKDALE	REDEV TIF 3 MCKINNON	WASHINGTON
OAKDALE	SOILS CORR. TIF 9 FLEET FARM	WASHINGTON
ROBBINSDALE	SCATTERED SITE	HENNEPIN
ST ANTHONY VILLAGE	KENZIE HSG REDEV I	HENNEPIN
STILLWATER	TIF 7 BLUFF CITY	WASHINGTON
VADNAIS HEIGHTS	1-19 EMS	RAMSEY
VADNAIS HEIGHTS	1-20 GEPHART ELECTRIC	RAMSEY
VADNAIS HEIGHTS	1-22 JD PRODUCTS	RAMSEY
VADNAIS HEIGHTS	1-27 S&T OFFICE	RAMSEY
WHITE BEAR LAKE HRA	TIF 12 CPA PKWY	RAMSEY
WHITE BEAR LAKE HRA	TIF 14 BUERKLE BUS PARK	RAMSEY

TABLE 4**TIF DISTRICTS DECERTIFIED IN GREATER MINNESOTA IN 2003**

AUTHORITY	DISTRICT	COUNTY
BECKER	MUN DEV DIST 1-3 LIBERTY PAPER	SHERBURNE
BRAINERD	TIF 1 WEST CAMPUS - THE PINES	CROW WING
BRECKENRIDGE	TIF 1	WILKIN
CHISAGO CTY HRA	DIST 1 CORONADO STONE	CHISAGO
COOK CTY/GRAND EDA	TIF 1-4 LUTSZEN WEST FLANK	COOK

AUTHORITY	DISTRICT	COUNTY
DODGE CENTER	TIF 2 DWNTWN REDEV	DODGE
DODGE CENTER	TIF 5 SO MN MACHINERY	DODGE
DODGE CENTER	TIF 7 MCNEILUS STEEL	DODGE
DODGE CENTER	TIF 9 JOHN'S FOODS	DODGE
DULUTH EDA	TIF 11 WOMEN'S TRANSITIONAL HSG	ST LOUIS
GRAND RAPIDS	TIF 2-1 NORTHPRINT	ITASCA
HERMANTOWN	TIF 1	ST LOUIS
INTERNATIONAL FALLS	DIST 1-3 BOISE CREDIT UNION	KOOCHICHING
KASSON	REDEV TIF 1-3 GALUSKA	DODGE
KASSON	ECON DD TIF 1-6 SWENKE-DIGGERS BAR & GRILL	DODGE
LITTLE FALLS	1-9 CENTRAL MN TOOL, PROJ II	MORRISON
LUVERNE EDA	TIF 15 SIEPS RX, INC/LEWIS FAMILY DRUG	ROCK
LYLE	DIST 1	MOWER
MANKATO	KWIK TRIP / PIER PLEASURE	BLUE EARTH
MANKATO	REM HSG	BLUE EARTH
MANKATO	RIVERSIDE NORTH MILLER / COUGHLAN	BLUE EARTH
MANKATO	WINLAND ELECTRONICS	BLUE EARTH
MELROSE	TIF 3 MAU VET WAREHOUSE	STEARNS
MILLE LACS CTY HRA	TIF 4 FORT MILLE LACS	MILLE LACS
MONTICELLO	TIF 1-15 CUSTOM CANOPY	WRIGHT
MORA	HSG DIST 1	KANABEC
NORTH MANKATO PA	IDD 1-13 MANKATO SCREW PRODUCTS	NICOLLET
PERHAM	TIF 2-16	OTTER TAIL
PILLAGER	TIF 1-1	CASS
REDWOOD FALLS	TIF 6-2 WAL-MART	REDWOOD
RENVILLE	TIF 5 UNITED MILLS	RENVILLE
ROCHESTER	TIF 5-1 QUEST	OLMSTED
SAUK CENTRE	ECON DEV DIST 3	STEARNS
SPICER	TIF 2 MARKETING CONCEPTS	KANDIYOHI
SPICER	TIF 3 NELSON PRECISION	KANDIYOHI
SPICER	TIF 4 VET CLINIC	KANDIYOHI

AUTHORITY	DISTRICT	COUNTY
ST CLOUD HRA	DIST 54 FSI	STEARNS
VERNON CENTER	MAIN ST REDEV PROJ	BLUE EARTH
WALKER	TIF 2-3 SESSING & ROEDER'S	CASS

Special Taxing Districts

In 1998, the legislature authorized the creation of special taxing districts within TIF districts that suffered a deficit due to the changes in the property tax class rates. The legislation allows a TIF authority to increase the taxes on property that is subject to an assessment agreement. As of December 31, 2003, the following 21 special taxing districts existed.

TABLE 5

TIF AUTHORITIES WITH SPECIAL TAXING DISTRICTS

AUTHORITY	DISTRICT	COUNTY	TYPE
BROOKLYN PARK EDA	TIF 15 CTY	HENNEPIN	Economic
COLERAINE	TIF DIST 1	ITASCA	Redevelopment
CRYSTAL	2152	HENNEPIN	Uncodified Law
CRYSTAL	TIF 2153	HENNEPIN	Uncodified Law
EDGERTON	TIF 1	PIPESTONE	Housing
EDGERTON	TIF 2	PIPESTONE	Redevelopment
FROST	TIF 1-1	FARIBAULT	Redevelopment
FROST	TIF 1-2	FARIBAULT	Redevelopment
HOPKINS	TIF 2-6	HENNEPIN	Housing
IRONTON	TIF 5 IRONTON TWNHMS	CROW WING	Housing
LAFAYETTE	TIF 1-1	NICOLLET	Redevelopment
LAFAYETTE	TIF 1-2	NICOLLET	Redevelopment
LAFAYETTE	TIF 1-3	NICOLLET	Housing
LAKE BENTON	TIF 1-1	LINCOLN	Housing
LANDFALL HRA	REDEV DIST 1	WASHINGTON	Redevelopment
LYLE	DIST 1	MOWER	Redevelopment
MORTON	TIF 1-2 COMMERCIAL FACILITY	RENVILLE	Economic
PERHAM	TIF 2-21	OTTERTAIL	Economic
SPRING PARK	TIF 1-1 HSG DEV (2500)	HENNEPIN	Housing

AUTHORITY	DISTRICT	COUNTY	TYPE
WALDORF	TIF WALDORF HSG PROJ	WASECA	Housing
WHITE BEAR LAKE HRA	TIF 23 CSM/TRANE DEV	RAMSEY	Economic

Pre-1979 Districts

TIF districts created prior to the enactment of the TIF Act are called Pre-1979 districts. There were 73 Pre-1979 TIF districts as of December 31, 2003. Fifteen of the 73 Pre-1979 TIF districts are no longer producing tax increment (they are decertified), but have not yet expended all tax increment received. Until the funds from these districts are expended or returned to the county for redistribution to the respective taxing jurisdictions, these districts must submit annual reports to the State Auditor. All Pre-1979 districts must be decertified by 2009.

TABLE 6

Pre-1979 TIF Districts Reporting for 2003

AUTHORITY	DISTRICT	REQUIRED DECERTIFICATION DATE
ANNANDALE	TIF 1 ORIGINAL DIST	08/01/09
APPLETON EDA	DEV DIST 2	08/01/09
AURORA HRA	SEVEN BLK DWNTWN DIST 7	12/31/09
BENSON	DEV DIST 2 TIF 2	12/31/08
BLOOMINGTON HRA	NATIVITY OF MARY REDEV PLAN	08/01/09
BRECKENRIDGE	TIF 1	04/01/09
BRECKENRIDGE	TIF 3	04/01/01
BUFFALO HRA	TIF 2	12/31/09
CHANHASSEN EDA	TIF 1 CHANHASSEN HRA	08/01/09
COLUMBIA HEIGHTS EDA	1977 DWNTN REDEV CBD REV PLAN	08/01/09
CROOKSTON	DWNTWN DIST 1	08/01/09
DULUTH EDA	DD 2 DWNTWN DEV PROG	08/01/09
DULUTH EDA	TIF 1 TWIN PORTS TRUCK CTR	08/01/09
EDINA	50TH & FRANCE COMM AREA	08/01/09
EDINA	SOUTHEAST EDINA REDEV	08/01/09
EVELETH	GRANT AVE DEV DIST	12/12/07
FARMINGTON	DWNTWN REDEV PROJ	08/01/09
FERGUS FALLS	TIF DIST II SERVICE FOODS	08/01/09
FRIDLEY	TIF 1 CENTER CITY	12/31/09
GOLDEN VALLEY	NORTH WIRTH 1	04/01/01
GOLDEN VALLEY	VALLEY SQUARE	12/31/06
GRANITE FALLS	TIF 1 & 2	04/01/01
HASTINGS HRA	DWNTWN REDEV AREA PROJ 1	12/31/06
HOPKINS	TIF 1-1 DWNTWN	08/01/09
HUTCHINSON	DEV DIST 4	04/01/01

AUTHORITY	DISTRICT	REQUIRED DECERTIFICATION DATE
JACKSON	US 71/I-90 REDEVEL PLAN	12/31/02
LUVERNE EDA	TIF 1 CENTENNIAL APTS	08/01/09
LUVERNE EDA	TIF 2 GIBSON/SEARS & FURNITURE HOUSE	08/01/09
LUVERNE EDA	TIF 3 WALGRAVE APTS	08/01/09
MANKATO	DOWNTOWN	08/01/09
MANKATO	VALLEY PARK LOWER CAMPUS	08/01/09
MOORHEAD	TIF 1 ORIG TOWNSITE-URBAN RENEWAL	08/01/09
MPLS COMM DEV AGENCY	EAST BANK I-335	08/01/09
MPLS COMM DEV AGENCY	BROADWAY/35W	08/01/09
MPLS COMM DEV AGENCY	CEDAR-RIVERSIDE	08/01/09
MPLS COMM DEV AGENCY	HENNEPIN-LAKE	Not available
MPLS COMM DEV AGENCY	NICOLLET ISLAND EAST BANK	08/01/09
MPLS COMM DEV AGENCY	GRANT	08/01/09
MPLS COMM DEV AGENCY	SEWARD SOUTH	08/01/09
MPLS COMM DEV AGENCY	HOLMES	08/01/09
MPLS COMM DEV AGENCY	LORING PARK	08/01/09
MPLS COMM DEV AGENCY	NICOLLET-LAKE	08/01/09
MPLS COMM DEV AGENCY	CITY CTR	08/01/09
MPLS COMM DEV AGENCY	NORTH LOOP	08/01/09
MPLS COMM DEV AGENCY	WEST BROADWAY	08/01/09
MPLS COMM DEV AGENCY	NORTH WASHINGTON INDUST PK	08/01/09
MPLS COMM DEV AGENCY	INDUSTRY SQUARE	08/01/09
NEW LONDON	DEV DIST 1 DWNTWN	04/01/01
NORTH ST PAUL	DEV DIST 1 FRANKLIN PARK	08/01/09
PIPESTONE	TIF 1	08/01/09
PIPESTONE	TIF 2	08/01/09
PRINCETON	TIF 1 DWNTWN REDEV	08/01/09
RED LAKE FALLS	TIF 2 PEPPERMINT SQ	08/31/09
RED WING PA	TIF 1 DWNTWN	12/31/09
RED WING PA	TIF 2 DWNTWN	12/31/09
RICHFIELD HRA	L-H-N 1250	12/31/04
ROBBINSDALE	SCATTERED SITE	12/31/05
ROBBINSDALE	PROJ 4, TIF 1102	12/31/09
ROCHESTER	TIF 2 DWNTWN	12/31/05
SAUK RAPIDS	TIF 1 DWNTWN COMM REDEV	08/01/09
SHAKOPEE	TIF 1 K-MART	12/31/02
SOUTH ST PAUL HRA	CONCORD ST REDEV PROJ	08/01/09
ST LOUIS PARK EDA	EXCELSIOR BLVD REDEV DIST	08/01/09
ST LOUIS PARK EDA	OAK PARK VILLAGE REDEV DIST	08/01/09
ST PAUL HRA	DWNTWN & 7TH PLACE	01/01/09
STEWARTVILLE	COMMERCIAL REDEV DIST 1	08/01/09
VIRGINIA	TIF 2A MINERS MEMORIAL/GATEWAY	12/31/08
WAYZATA	TIF 1 CARD	08/01/09
WINDOM HRA	TIF 2 CITIZEN PUBLISHING	04/01/01
WINDOM HRA	TIF 3 MICHAEL FISHER	04/01/01
WINDOM HRA	TIF 4 ROAD HUMMER	04/01/01

AUTHORITY	DISTRICT	REQUIRED DECERTIFICATION DATE
WINDOM HRA	TIF 5 TORO	04/01/01
WINONA HRA	R-51 TI DIST	04/01/01

TIF Reporting

The TIF Act requires TIF authorities to file annual reports with the State Auditor for each of their TIF districts. This reporting requirement applies to all TIF districts regardless of when they were created. TIF authorities must submit these reports to the State Auditor on or before August 1st of each year.¹ In addition to filing TIF reports, a TIF authority must publish certain statutorily required financial information about each of its TIF districts in a newspaper of general circulation on or before August 15th of each year.²

A total of 443 TIF authorities had TIF districts for which they were required to file TIF reports with the State Auditor for the year ended December 31, 2003. These TIF authorities were required to file reports for 2,184 TIF districts. Of the 443 TIF authorities required to file reports, 397 submitted complete reports by the August 1, 2004, deadline. Of the remaining 46 authorities, 45 filed their reports by November 1, 2004. The remaining authority, Le Sueur EDA, had filed no reports as of November 1, 2004. Pursuant to Minn. Stat. §469.1771, subd. 2a, the State Auditor mailed a notice to the Le Sueur County Auditor to withhold tax increment that otherwise would have been distributed to the Le Sueur EDA from the identified TIF districts. As of February 17, 2005, the Le Sueur EDA still had not filed a substantially complete 2003 TIF report for its active TIF districts.

The State Auditor continued to make available to TIF authorities a system for submitting TIF reports on-line. TIF authorities used the on-line TIF reporting system to submit 863 filings, or 40%, of the 2,184 TIF districts reports for the year ended December 31, 2003. This compares to 632, or 29%, of the 2,174 reports for the year ended December 31, 2002. Many TIF authorities also completed and submitted evaluations of the on-line TIF reporting system. An upgraded database system for on-line reporting will be available again for the 2004 reporting cycle. The State Auditor seeks to have all reporting submitted on-line by the end of 2006.

The State Auditor returns TIF reports that are not substantially complete and treats them as not filed. The following table shows the number of TIF authorities that filed by the August 1 deadline: (1) substantially complete reports for all districts the TIF authority was required to submit reports for; (2) incomplete reports; or (3) failed to submit any reports.

¹ Minn. Stat. § 469.175, subd. 6.

² Minn. Stat. § 469.175, subd. 5.

TABLE 7 – Comparison of TIF Authority Reporting by Year

Reports for Year Ended Dec. 31	All Reports Substantially Complete	Some Reports Submitted	No Reports Submitted	Total
1997	176 (42%)	144 (35%)	96 (23%)	416 (100%)
1998	305 (70%)	65 (15%)	63 (15%)	433 (100%)
1999	304 (70%)	40 (9%)	92 (21%)	436 (100%)
2000	269 (61%)	82 (19%)	91 (21%)	442 (100%)
2001	290 (66%)	25 (6%)	126 (28%)	440 (100%)
2002	365 (84%)	16 (4%)	54 (12%)	435 (100%)
2003	397 (90%)	11 (2%)	35 (8%)	443 (100%)

Returned Tax Increment

Since 1996 the TIF Division of the State Auditor, has seen \$24,136,950 of tax increment returned to the counties. These monies are then redistributed to the respective taxing jurisdictions. In 2003, the following TIF authorities returned tax increment to their respective counties totaling \$3,521,848:

TABLE 8- Returned Tax Increment

TIF Authority	TIF District	County	Reason	Amount Returned
Alexandria	TIF 13	Douglas	Excess Increment	\$228.85
Alexandria	TIF 19	Douglas	Excess Increment	\$118.26
Benson	TIF 2	Swift	Excess Increment	\$17,598.34
Breckenridge	TIF 3	Wilkin	Excess Increment	\$19,641.40
Byron	Dev Dist 2 TIF 2	Swift	Excess Increment	\$17,598.34
Chanhassen	TIF 2-1	Carver	Violation Payment	\$171,614.78
Chisago County HRA	TIF 1 Coronado Stone	Chisago	Excess Increment	\$2,037.44
Cloquet	TIF 3	Carlton	Ending Fund Balance Returned	\$74,862.54
Dodge Center	TIF 1	Dodge	Excess Increment	\$237,373.00
Dodge Center	TIF 2	Dodge	Excess Increment	\$163,206.70
Dodge Center	TIF 5	Dodge	Excess Increment	\$6,971.06
Dodge Center	TIF 7	Dodge	Excess Increment	\$10,282.75

TIF Authority	TIF District	County	Reason	Amount Returned
Dodge Center	TIF 9	Dodge	Excess Increment	\$6,065.52
Grand Rapids HRA	TIF 1-3	Itasca	Excess Increment	\$70,747.00
Jordan	All Districts	Scott	Violation Payments	\$12,500.00
Lino Lakes EDA	TIF 1-7	Anoka	Excess Increment	\$113,067.77
Lino Lakes EDA	TIF 3-1	Anoka	Excess Increment	\$608,014.00
Mahnomen	TIF 1	Mahnomen	Excess Increment	\$157,591.74
Mankato	Riverside North Coughlan	Blue Earth	Excess Increment	\$32,498.00
Mankato	REM Housing	Blue Earth	Excess Increment	\$2,212.00
Mankato	TIF 19-2 Winland Electronics	Blue Earth	Excess Increment	\$70,580.00
Mankato	TIF 21-1 Pier Pleasure Kwik Trip	Blue Earth	Excess Increment	\$68,395.00
New Ulm	ED-5 Holm Industries	Brown	Excess Increment	\$6,287.63
New Ulm	ED-6 New Ulm Steel and Recycling	Brown	Excess Increment	\$5,907.09
Newport	TIF 2	Washington	Excess Increment	\$223,612.19
Plato	TIF 2	McLeod	HACA Reimbursement	\$42,088.00
Shakopee	TIF 1 K-Mart	Scott	Excess Increment	\$128,586.00
Vadnais Heights	Various TIF Districts and Bond Funds	Ramsey	Violation Payments	\$18,162.66
Vadnais Heights	TIF 1-19	Ramsey	Excess Increment	\$53,391.00
Vadnais Heights	TIF 1-20	Ramsey	Excess Increment	\$322,913.61
Vadnais Heights	TIF 1-22	Ramsey	Excess Increment	\$61,216.06
Vernon Center	Main Street Redev.	Blue Earth	Excess Increment	\$37.00
Willmar	Various Districts	Kandiyohi	Increment Received After Duration	\$545,870.54
Winona P.A.	TIF 4	Winona	Excess Increment/ Violation	\$319,004.00

Project and TIF Revenues

Development activity often receives revenues from a variety of financing sources. Revenues may include (i) local, state, and federal grants, (ii) special assessments, (iii) loans, (iv) bond proceeds, (v) interest earned on invested funds, (vi) sales and lease

proceeds, (vii) market value homestead credit, and (viii) tax increment revenue, among other funding sources. These funding sources are shown in table 9.

TABLE 9 – Revenues and Other Financing Sources (OFS)

	Prior Years	Calendar 2003	Total	% of Total*
Tax increment revenue	\$3,476,527,892	\$255,817,248	\$3,732,345,140	51%
Market Value Homestead Credit	\$3,550,489	\$3,471,101	\$7,021,590	1%
Investment earnings	\$477,301,855	\$9,770,032	\$487,071,887	2%
Bond proceeds	\$2,977,819,816	\$123,616,398	\$3,101,436,214	25%
Loan proceeds	\$218,698,449	\$1,697,598	\$220,396,047	1%
Special assessments	\$39,765,111	\$2,468,279	\$42,233,390	1%
Sales/lease proceeds	\$268,547,005	\$15,985,903	\$284,532,908	3%
Loan/advance repayments	\$5,781,201	\$1,185,692	\$6,966,893	0%
Grants	\$216,551,087	\$11,496,005	\$228,047,092	2%
Transfers in	\$527,689,891	\$41,601,934	\$569,291,825	8%
All other sources of funds	<u>\$632,446,333</u>	<u>\$29,689,318</u>	<u>\$662,135,651</u>	<u>6%</u>
Total	<u>\$8,844,679,129</u>	<u>\$496,799,508</u>	<u>\$9,341,478,637</u>	<u>100%</u>

*Percentage of Total 2003 Revenues

FIGURE 3

Total Revenues and OFS Through December 31, 2003

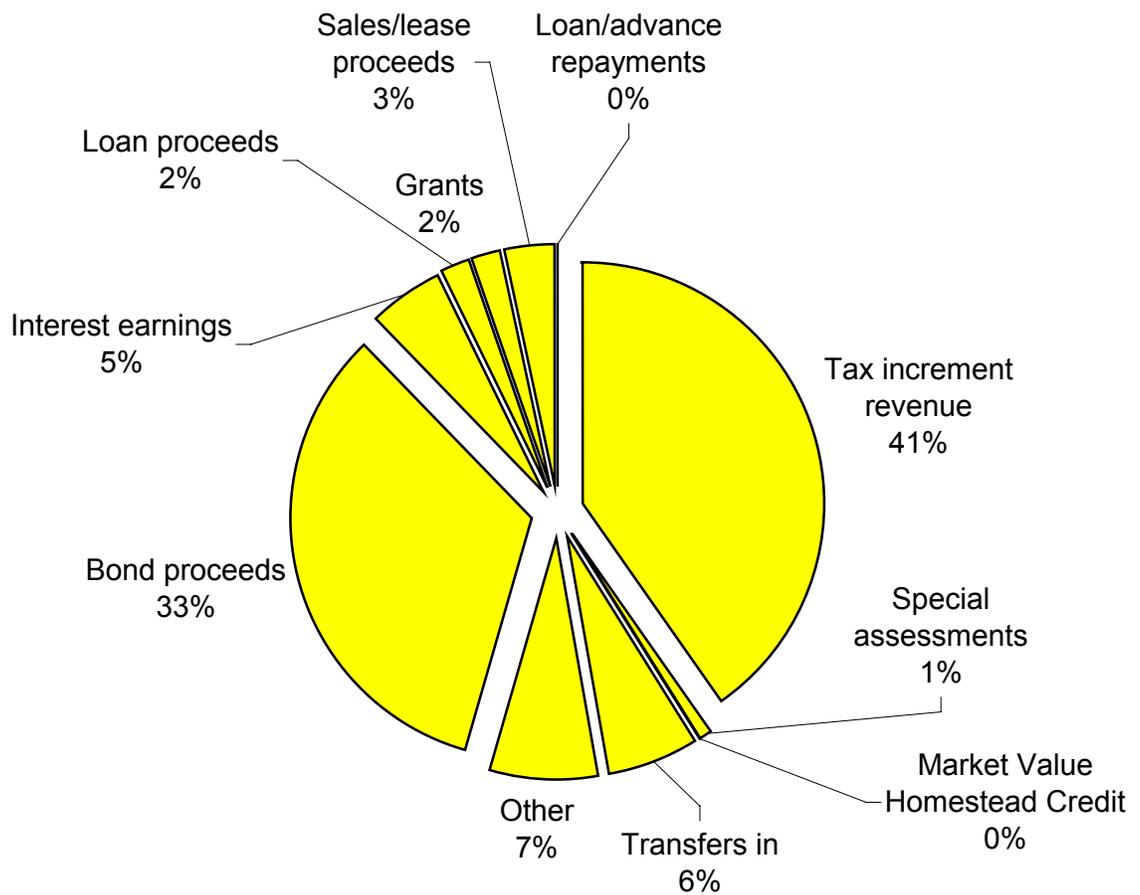
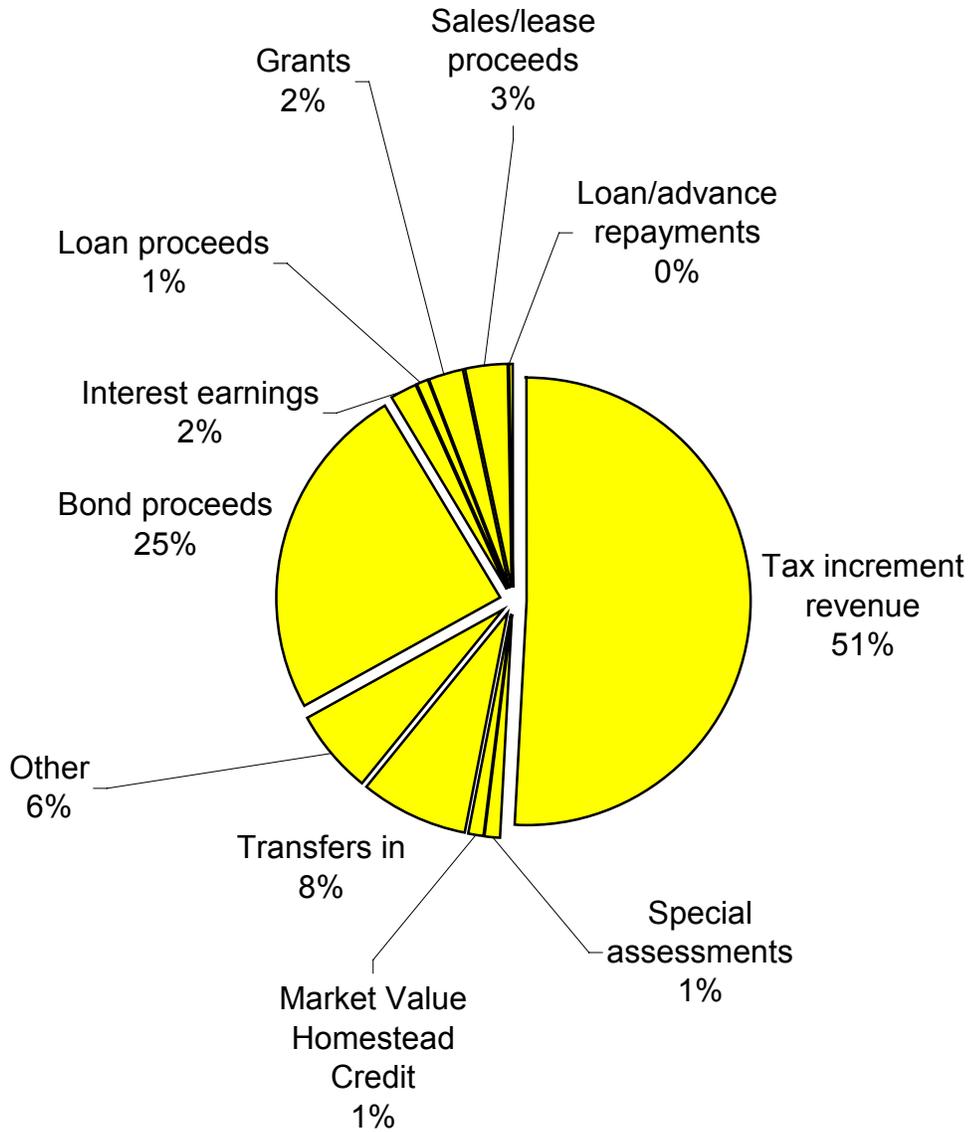


FIGURE 4

Revenues and OFS for 2003 Only



Average Tax Increment Generated Per TIF District

Tax increment revenues per district have fluctuated somewhat over the years. In 2002 notably, these revenues declined sharply. This was likely the result of the 2001 elimination of the local education levy subject to capture by TIF authorities, although other factors, such as the decertification of large, pre-1979 districts, may have also played a role. In 2003, these revenues increased by \$14,905 per district, or grew by almost 15%. Table 10 and Figure 5 illustrate these trends. The averages need to be viewed with some caution. There is a wide range in the amount of revenues generated by different TIF districts. The range in the size of the TIF districts is further illustrated by Figure 7 on the next page.

TABLE 10

Reporting Year	Number of Districts	Tax Increment Revenue	Average Per District
1996	1,830	\$247,189,000	\$135,076
1997	1,924	285,983,000	148,640
1998	2,061	287,972,245	139,725
1999	2,103	275,611,803	131,056
2000	2,136	293,370,294	137,346
2001	2,166	325,448,944	150,253
2002	2,174	222,241,011	102,227
2003	2,184	255,817,248	117,132

FIGURE 5

Comparison of Tax Increment Revenue Per District Between 1996 and 2003

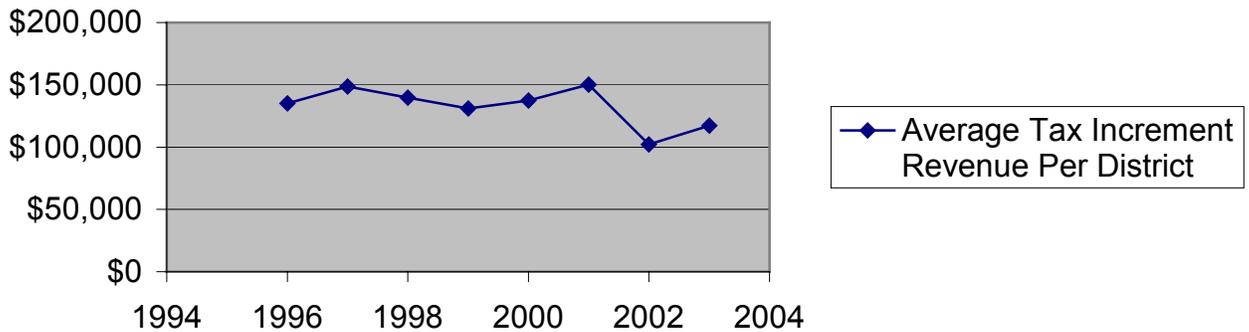
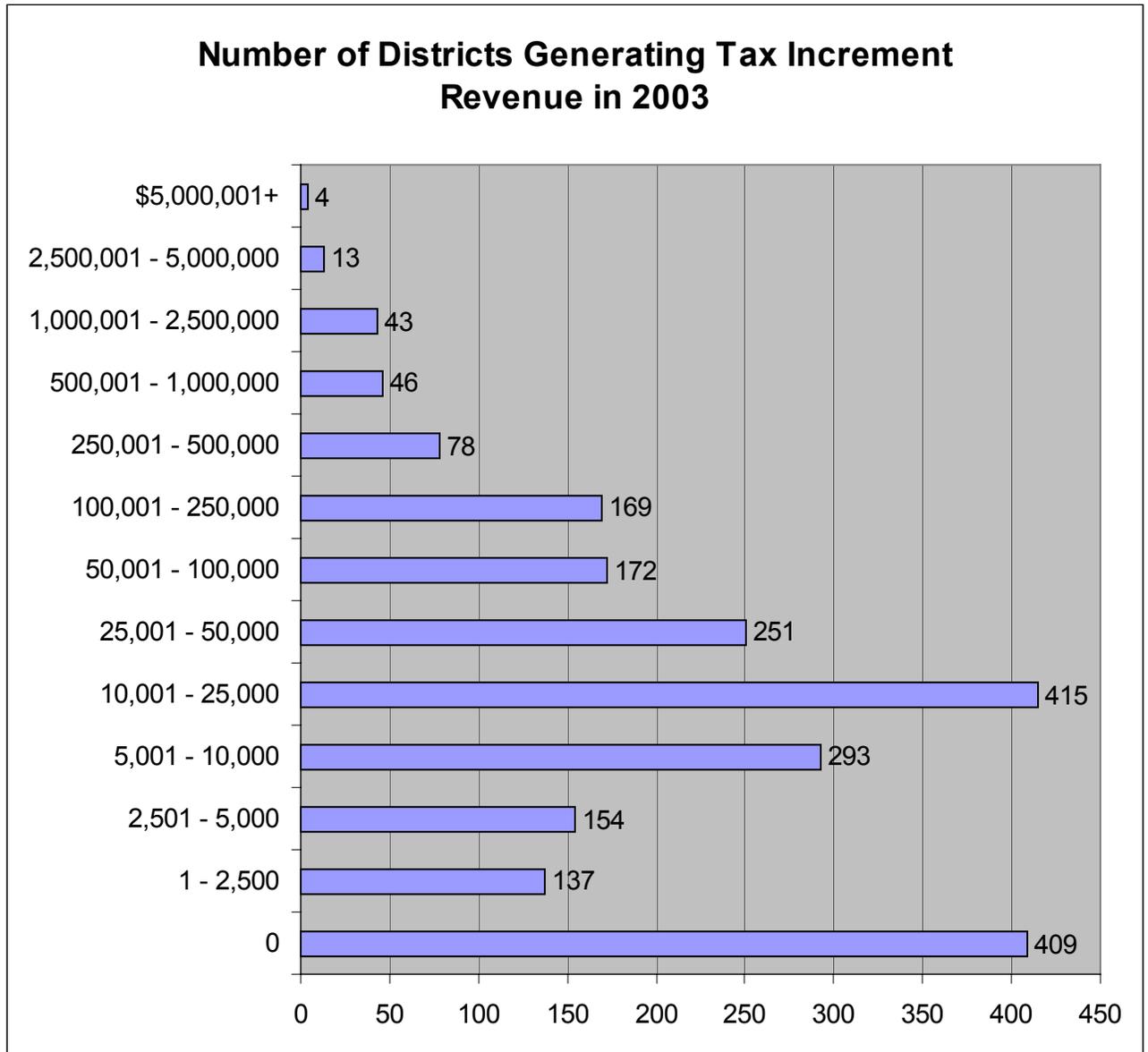


FIGURE 6



Project and TIF Expenses

Expenditures for development activity must be made within statutorily prescribed limitations. State and federal grant programs identify the uses for which grant monies can be used, bidding procedures, public hearing and other legal requirements. Tax increment revenues must be expended as permitted in its underlying development authority and in the TIF Act. Authorities are required to keep invoices for all expenditures made with tax increment revenues. Market value homestead credit, interest

earned on invested TIF funds, sales and lease proceeds generated from tax increment revenues are characterized as tax increment and must be expended accordingly. Table 11 provides a summary listing of expenditures from tax increment revenues and other financing uses for 2003 and for prior years.

TABLE 11 – Expenditures and Other Financing Uses (OFU)

	Prior Years	Calendar 2003	Total	% of Total*
Land/building acquisition	\$1,284,473,068	\$44,173,193	\$1,328,646,261	9%
Site improvements/ Preparation costs	673,953,534	27,612,532	701,566,066	6%
Installation of public utilities	340,795,747	20,293,342	361,089,089	4%
Public parking facilities	181,996,265	6,404,582	188,400,847	1%
Streets and sidewalks	252,289,296	13,641,786	265,931,082	3%
Public park facilities	33,653,206	105,678	33,758,884	0%
Social, recreational, or conference facilities	285,885,689	1,420,529	287,306,218	1%
Interest reduction payments	25,666,600	443,628	26,110,228	0%
Bond principal payments	1,376,598,089	136,944,684	1,513,542,773	29%
Bond interest payments	932,886,188	41,952,550	974,838,738	9%
Loan principal payments	180,585,162	5,291,870	185,877,032	1%
Loan/note interest payments	117,330,932	26,628,619	143,959,551	6%
Administrative expenses	249,324,415	9,542,755	258,867,170	2%
Transfers out	1,624,087,908	106,134,042	1,730,221,950	23%
All other uses	<u>915,376,757</u>	<u>25,770,512</u>	<u>941,147,269</u>	6%
Total	<u>\$8,474,902,856</u>	<u>\$466,360,302</u>	<u>\$8,941,263,158</u>	100%

*Percentage of Total 2003 Expenditures

FIGURE 7

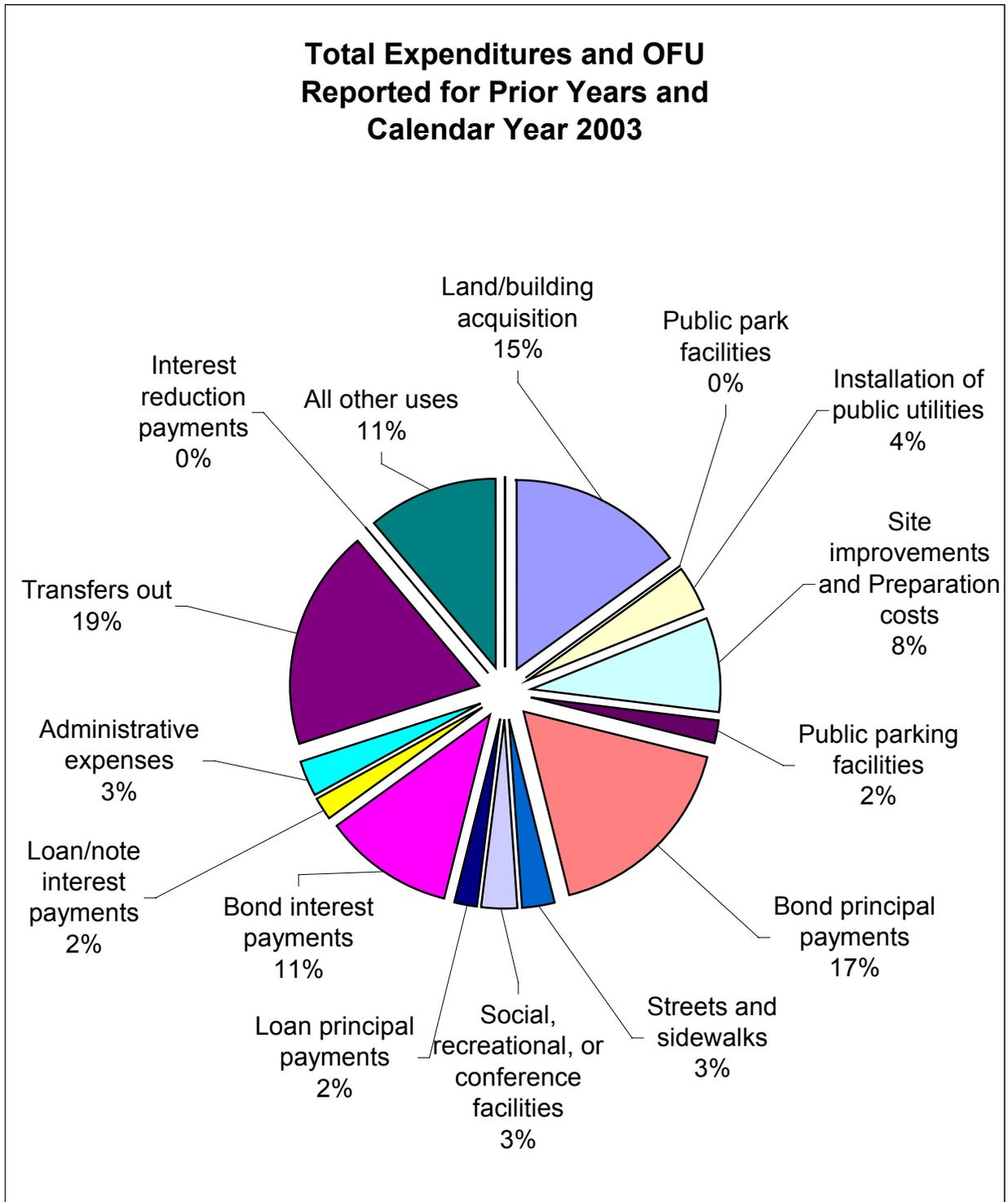
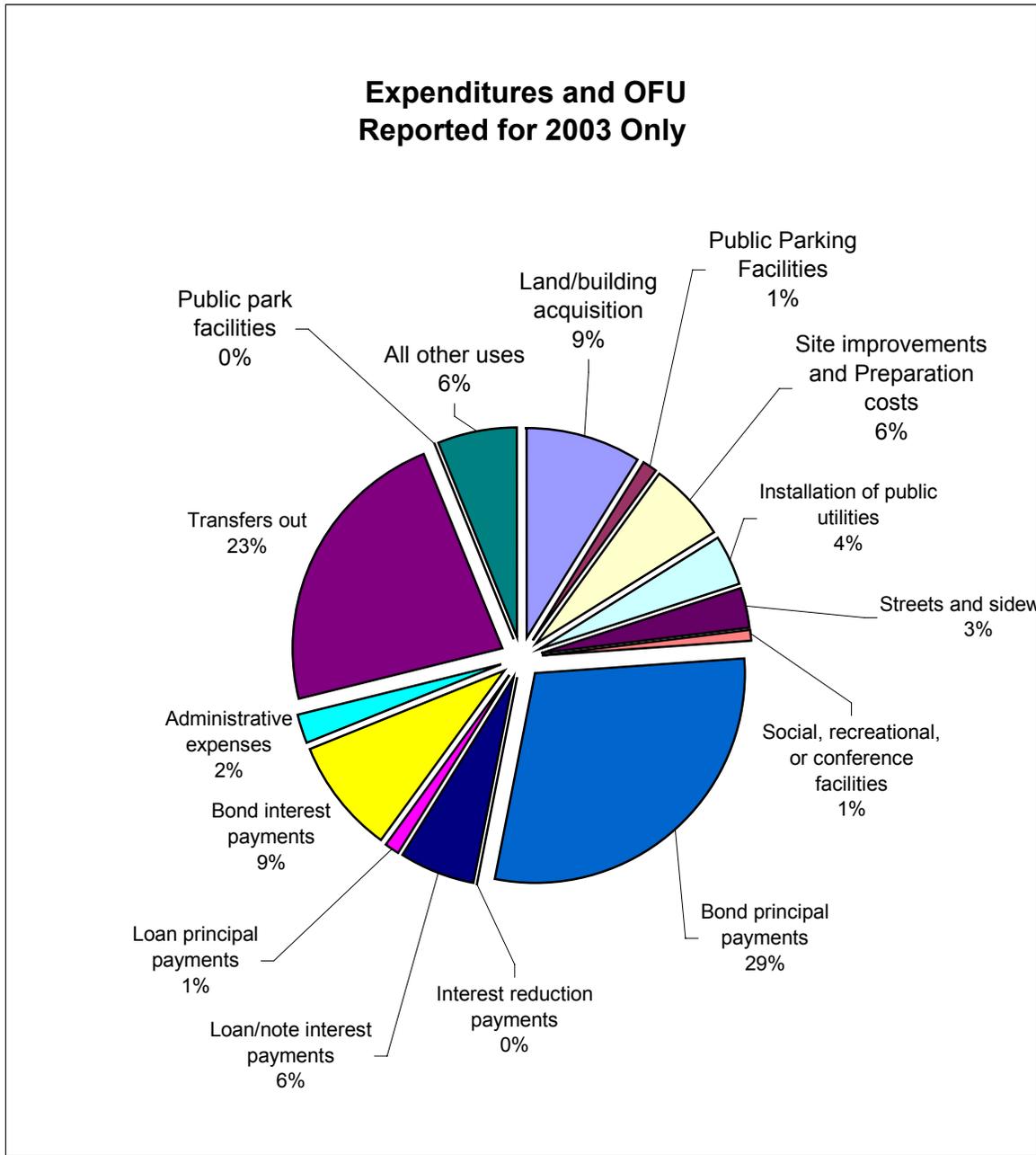


FIGURE 8



TAX INCREMENT FINANCING INITIATIVES

TIF Panel

The rapid growth of TIF and the number of entities involved in its use has created the need for a structured process encouraging open communication among all stakeholders. The State Auditor has therefore created a panel to help address the issues related to TIF. The following is a list of TIF Panel members and includes city, county, and state officials, developers, financial advisors, attorneys, citizens, and others with an interest in TIF. In addition, representatives from the Legislature, the Attorney General's Office, and other state agencies have provided ongoing support.

Eric Anderson, City of Edina	Paul Steinman, Springsted, Inc.
Bonnie Balach, Minnesota Solutions	Andrea Hedtke, Dorsey & Whitney
Cal Barnett, City of Marshall	Jim Holmes, Holmes & Associates
Bill Beard, The Beard Group	Mikaela Huot, Springsted, Inc.
Terry Berg, City of Faribault	Bruce Imholte, City of Detroit Lakes
Jean Bierbaum, Hennepin County	Sid Inman, Ehlers & Associates
David Bjelland, St. Cloud HRA	Mary Ippel, Briggs & Morgan
David Bovee, City of Dawson	Bob Isaacson, Department of Employment & Economic Development
Luci Boztek, Minnesota Association of County Officers	Susan Iverson, City of Norwood Young America
Steve Bubul, Kennedy & Graven Chartered	Greg Johnson, Krass Monroe, PA
James Casserly, Krass Monroe, PA	Cory Kampf, City of Robbinsdale
Mike Couri, Couri & MacArthur Law	George Kuprian, Washington County
Jim Degiovanni, Rinke Noonan Law	Rebecca Kurtz, Ehlers & Associates/EDAM
Bob Deike, Bradley & Deike, PA	Myrt Link, City of Richfield
Bruce DeJong, City of Chanhassen	Linda Loomis, City of Golden Valley
James Dokken, City of Willmar	Dave Maroney, Community Partners, Inc
David Drown, David Drown Associates	Mike Martin, Montgomery EDA
Margaret Egan, City of Vadnais Heights	Pamela Mattila, Dakota County CDA
Shelly Eldridge, Ehlers & Associates	Steve McDonald, Abdo Eick & Meyers
Keith Ford, Minnesota NAHRO	Joel Michael, House Counsel
Pam Frantum, City of Minneapolis	Luayn Murphy, Private Sector
Cindy Geis, Scott County	Laura Offerdahl, League of MN Cities
James Gromberg, EDAM	James Olson, Private Sector
Pat Gustafson, Minnesota NAHRO	Jennifer O'Rourke, League of MN Cities
Regina Harris, City of Bloomington HRA	Samantha Orduno, City of Richfield
Michele Hartman, Municipal Economic Development Network, Inc.	Steve Pierce, Martin County
Terri Heaton, Springsted, Inc.	Barb Portwood, Leonard, Street, & Deinard
Ron Hedberg, City of Cottage Grove	Gene Ranieri, City of Minneapolis
Joe Rigdon, City of Rogers	Lynette Slater, Dorsey & Whitney
	Bob Streetar, City of Columbia Heights

Steve Rosholt, Faegre & Benson
David Salene, David Salene, Inc.
Chris Samuel, Ramsey County
Bob Schreier, City of St. Paul
Jerry Shannon, Ehlers & Associates
Mary Frances Skala, Fryberger, Buchanan,
Smith & Frederick
Nick Skarich, Northland Securities
Shawn Wink, Department of Revenue

David Sturrock, City of Marshall
Sean Sullivan, City of Ramsey
Vicki Syverson, Swift County HRA
Rob Tautges, HLB Tautges Redpath
Bob Toftey, Fryberger, Buchanan, Smith &
Frederick
Gertrude Ulrich, City of Richfield
Tim Velner, Holmes & Associates

Increased Use of Online Reporting

In 2001, the State Auditor's Office developed an online reporting system for the required annual reports. Fifty-six authorities filed some or all of their reports using this system the first year. In 2002, 116 authorities used the online reporting system and in 2003, 169 authorities filed online. TIF authorities that used the online reporting system continue to report that the system is faster and easier to use than preparing paper forms. The State Auditor's Office is in the process of improving and expanding the system, with the goal of implementing paperless reporting by 2006.

Significant Decrease in Authorities Failing to File Reports

The State Auditor's Office was successful again this year in reducing the number of TIF authorities that failed to file substantially complete reports. Le Sueur EDA is the only authority that has not filed its required 2003 TIF reporting forms, and as of February 17, 2005, has \$1,273.99 of tax increment being withheld.

Creation of the Excess Increment Calculation Form

In response to the 2003 Legislature's requirement that TIF authorities annually calculate excess increment, a calculation form was developed by the TIF Division according to the formula for calculating excess increment spelled out in Minn. Stat. § 469.176, subd. 2. The intent of the form was to help authorities complete this calculation as required by statute.

The form was included with the 2003 TIF reporting forms and the following data was reported. Of the 2,184 TIF districts, 231 indicated excess increment existed totaling \$95,957,971. The law identifies three uses for excess increment: 1) prepay outstanding debts, 2) pay the excess into escrow dedicated to the payment of outstanding bonds, and 3) return the excess increment to the County for redistribution to local taxing jurisdictions. The 2003 Excess Increment Calculation form indicated that of the \$95,957,971 in excess increment reported by authorities, \$7,452,126 was used to prepay outstanding debts, \$11,393,959 was paid into escrow accounts dedicated to the payment of outstanding bonds, and \$5,417,899 was returned to the counties. According to the data reported in 2003, a balance of \$71,693,987 remains as excess increment. There is

uncertainty whether these numbers are correct, as this was the first year the form was introduced to calculate excess increment. Many questions and concerns were expressed by the TIF authorities concerning the process and the outcome of determining excess increment. Further review and education should prove beneficial in helping TIF authorities understand how excess increment is calculated and how it should be resolved according to Minn. Stat. § 469.176, subd. 2.

Training and Communication

The State Auditor's Office has made substantial efforts to improve and increase communication with TIF authorities.

In addition to a significant number of informal discussions, staff from the State Auditor's Office have presented at the Ehler's Tax Increment Financing Seminar, the annual Minnesota Development Conference sponsored by the Minnesota Department of Employment and Economic Development (DEED), the Minnesota Institute of Legal Education (MILE) Seminar, League of Minnesota Cities (LMC) Clerks Conference, the EDAM Conference, the annual Minnesota County Attorneys Association Meeting, and the annual Minnesota Association of Townships (MAT) Conference. Additionally, five reporting workshops were held in the summer of 2004 in the cities of Chatfield, Faribault, Pequot Lakes, Marshall, and Virginia.

A major effort was made by the State Auditor's TIF Panel and the TIF Division to review the TIF reporting forms and instructions to look for ways to make the forms easier to use. Several measures were implemented with the 2003 forms. These measures included the implementation of the excess increment calculation form, the creation of an electronic annual disclosure form with prepopulated data from the 2003 reporting forms filed online, and the inclusion of the confirmation of decertification form for any TIF districts decertified in 2003.

Release of the TIF County Guide

In May 2004, the State Auditor released the Tax Increment Financing County Guide to all county offices. The guide was made possible with input from members of the State Auditor's TIF Panel as well as the TIF Division staff. The guide was prepared to help county officials identify and administer the parts of the Tax Increment Financing Act that apply directly to them. The guide is available on the State Auditor's website at www.auditor.state.mn.us.

Development of the Tax Increment Financing Citizen's Guide

The State Auditor, in conjunction with the TIF Panel, identified one of its goals to be the creation of a guide for local officials and citizens to economic development, redevelopment and housing development processes. Jenny Boulton from Briggs & Morgan is spearheading the development of the Citizen's Guide and it should be available in 2005. The guide is intended to assemble information that can help frame the

discussions that occur among governmental officials, private developers and other citizens with respect to economic development, redevelopment, and housing development projects.

Administrative Expense Limit Chart Developed

The TIF Division staff created a chart identifying the administrative expense limit. The chart was created to make it easier to determine administrative expense limits based on the certification request date for the district.

Pooling for Deficits Memo Issued

The State Auditor issued the Pooling for Deficits Memo on October 15, 2004. After consultation with members of the TIF panel and review of state law, it was determined that Minn. Stat. § 469.1763, subd. 6 authorizes the pooling of tax increment to eliminate a deficit notwithstanding the restrictions found in Minn. Stat. §469.176. See Exhibit 1 for the memo on Pooling for Deficits.

TIF Market Value Homestead Credit Memo Issued

The State Auditor issued TIF Memorandum 04-0210-01 on February 10, 2004, concerning the TIF Market Value Homestead Credit. The memo clarified that the TIF Market Value Homestead Credit is tax increment and subject to the restrictions of the TIF Act. As a result, the funds need to be segregated and otherwise treated as tax increment. See Exhibit 2 for the Memo on TIF Market Value Homestead Credit.

ENFORCEMENT

In addition to the less formal reviews that often lead to repayment of funds, the TIF Division of the State Auditor's Office annually conducts a number of field audits of TIF authorities.

After completion of a TIF field audit, if the State Auditor finds that a TIF authority is not in compliance with the TIF Act, the State Auditor must send a notice of noncompliance to the governing body of the municipality that approved the TIF district in which the violation arose. The notice of noncompliance provides the basis upon which the State Auditor relied in making its finding and describes the possible consequences of the noncompliance.

The governing body must respond in writing to the State Auditor within 60 days after receiving the notice of noncompliance. In its response, the municipality must state whether it accepts, in whole or in part, the State Auditor's findings and indicate the basis for any disagreement with the findings. The State Auditor must provide information regarding unresolved findings of noncompliance to the appropriate county attorney, who may bring an action to enforce the TIF Act.

If the county attorney does not commence an action against the TIF authority within one year after receiving a referral of a notice of noncompliance from the State Auditor and the matter is not otherwise resolved to the State Auditor's satisfaction, the State Auditor must refer the notice of noncompliance to the Attorney General. If the Attorney General finds that the TIF authority violated a provision of the TIF Act and the violation was substantial, the Attorney General must commence an action in the tax court to suspend the use of TIF by the TIF authority. Before commencing the action in the tax court, however, the Attorney General must attempt to resolve the dispute using appropriate alternative dispute resolution procedures. If the Attorney General commences an action and the tax court finds that the TIF authority violated the TIF Act and the violation was substantial, the tax court may suspend the use of TIF by the authority for a period of up to five years.¹

In addition, the State Auditor must provide a summary of the responses it received from the municipalities and copies of the responses themselves to the chairs of the legislative committees with jurisdiction over tax increment financing.² This section provides a summary of the State Auditor's initial findings of noncompliance, the TIF Authorities' responses thereto, and the State Auditor's final findings for the most recent audits conducted.

CITY OF AVON

Finding 1. Redevelopment District #1 and Housing District #1—Failure to Provide an Opportunity to Members of the County Board of Commissioners to Meet with the TIF Authority and to Provide an Estimate of the Fiscal and Economic Implications of the TIF Districts to the County Board at Least 30 Days Prior to the Public Hearing—REVISED

The State Auditor initially found the City did not follow all required procedures when creating Housing District #1 and when modifying Redevelopment District #1.

The City provided affidavits stating that the TIF plans, which included the fiscal and economic implications, were sent to the county prior to creation of Housing District #1 and prior to the 1993 modification of Redevelopment District #1. Therefore, this portion of the finding has been withdrawn. The City did not provide any documentation in response to the remainder of the finding.

The State Auditor reiterated the finding that the City did not offer to meet with the county board before creating Housing District #1 or modifying Redevelopment District #1, and did not provide the county board with required information when modifying Redevelopment District #1.

¹ Minn. Stat. § 469.1771, subd. 2b(c).

² Minn. Stat. § 469.1771, subd. 1(c).

Finding 2. Redevelopment District #1 and Housing District #1—Failure to Provide an Opportunity to Members of the School Board to Meet with the TIF Authority and to Provide an Estimate of the Fiscal and Economic Implications of the TIF Districts to the School Board at Least 30 Days Prior to the Public Hearing—REVISED

The State Auditor initially found the City did not follow all required procedures when creating Housing District #1 and when modifying Redevelopment District #1.

The City provided affidavits stating that the TIF plans, which included the fiscal and economic implications, were sent to the school board for Housing District #1 and the 1993 TIF-plan modification of Redevelopment District #1. Therefore, that portion of the finding was withdrawn. The City did not provide any documentation in response to the remainder of the finding.

The State Auditor reiterated the finding that the City did not offer to meet with the school board before creating Housing District #1 or modifying Redevelopment District #1, and did not provide the school board with required information when modifying Redevelopment District #1.

Finding 3. Redevelopment District #1 and Housing District #1—Failure to Publish Notice of Public Hearing

The State Auditor initially found the City did not follow all required procedures when creating Housing District #1 and when modifying Redevelopment District #1. The City’s response did not provide any documentation related to this finding. The State Auditor reiterated the finding that the City failed to publish a notice of the public hearing when creating Housing District #1 and modifying Redevelopment District #1.

Finding 4. Redevelopment District #1 and Housing District #1—Failure to Provide the County Auditor with List of Building Permits Issued During the 18 Months Immediately Preceding Approval of the TIF Plan/Modification—REVISED

The State Auditor initially found the City did not follow all required procedures when creating Housing District #1 and when modifying Redevelopment District #1.

In its response, the City provided a letter to Stearns County dated April 13, 1994, that requested certification of additional parcels within Redevelopment District #1. In its letter, the City indicated that no building permits had been issued within the 18 months immediately preceding approval of the TIF-plan modification. Therefore, this portion of the finding has been withdrawn. The City did not provide any documentation in response to the remainder of the finding.

The State Auditor reiterated the portion of the finding that the City failed to provide the county auditor with a listing of all properties within Housing District #1 for which a building permit had been issued during the 18 months preceding approval of the TIF plan for the district.

Finding 5. Redevelopment District #1 and Housing District #1—Failure to Segregate Tax Increment

The State Auditor initially found the City did not segregate tax increment from Redevelopment District #1 and Housing District #1 in special accounts on the City's official books and records.

In its response, the City stated that its practice was to receive and disburse all funds through the general fund and work with the City auditors at the end of the year to properly account for funds by segregating the funds at that time.

The State Auditor reiterated the finding that the City did not segregate tax increment from Redevelopment District #1 and Housing District #1.

Finding 6. Redevelopment District #1—Failure to Substantiate the Use of \$165,000 General Obligation Taxable Tax Increment Bonds of 1990

The State Auditor initially found the City could not substantiate that \$162,908.38 of TIF bond proceeds were spent in accordance with the TIF Act. In its response, the City provided several invoices but did not substantiate that the TIF bond proceeds were used to pay for the costs identified by the invoices. The State Auditor reiterated this finding.

Finding 7. Redevelopment District #1—Failure to Substantiate the Use of \$75,000 General Obligation Tax Increment Bonds of 1990

The State Auditor initially found the City could not substantiate that the TIF bond proceeds from the \$75,000 General Obligation Tax Increment Bonds of 1990 were spent in accordance with the TIF Act. The City did not respond to this finding. The State Auditor reiterated this finding.

Finding 8. Redevelopment District #1—Failure to Substantiate the Use of \$2,710,000 General Tax Increment Bonds of 1990 or Improper Expenditures of the TIF Bond Proceeds

The State Auditor initially found the City could not substantiate that \$442,619.20 of the TIF bond proceeds from the \$2,710,000 General Tax Increment Bonds of 1990 were spent in accordance with the TIF Act. The City did not respond to this finding. The State Auditor reiterated this finding.

Finding 9. Redevelopment District #1—Failure to Substantiate the Use of \$130,000 General Obligation Taxable Tax Increment Bonds of 1991

The State Auditor initially found the City could not substantiate that \$128,309.72 of TIF bond proceeds were spent in accordance with the TIF Act. In its response, the City provided several invoices, but did not substantiate that the TIF bond proceeds were used for the costs identified in the invoices. The State Auditor reiterated this finding.

Finding 10. Redevelopment District #1—Failure to Substantiate the Use of Redevelopment District 1’s Tax Increment

The State Auditor initially found \$1,277,578.49 of the tax increment could not be located, was deposited into the City’s general fund and used for general government activities, or was transferred to the City’s debt service fund and used to make debt service payments on non-TIF bonds or loans. The City did not respond to this finding. The State Auditor reiterated this finding.

Finding 11. Housing District #1—Failure to Substantiate the Use of Housing District #1’s Tax Increment

The State Auditor initially found \$63,284.05 of tax increment received from Housing District #1 was spent in violation of the TIF Act, because the increment was deposited into the City’s general fund and used for general government activities, or was transferred to the City’s debt service fund or TIF checking account and used for activities not authorized by the TIF plan for the TIF district. The City did not respond to this finding. The State Auditor reiterated this finding.

CITY OF ELY

Finding 1. TIF District No. 1—Failure to Comply with Four-Year Rule

The State Auditor initially found TIF District No. 1 did not meet the requirements of the four-year rule because the City did not provide documentation to substantiate that qualifying activity took place on each parcel in the TIF district within four years.

The City’s response stated the project was commenced but not completed by the original developer, the project lay dormant during legal proceeding, and that the project was completed by a new developer. The City’s response also indicated the City received increment from the district in 1989, and that it was reasonable to conclude that some activity occurred in the district within 4 years from the date of the district’s certification because TIF would not have otherwise been generated. The City did not describe the nature of the activity that took place or provide evidence that the activity was “qualifying” within the meaning of the four-year rule and in accordance with the TIF plan for the TIF district. Therefore, the State Auditor reiterated this finding.

Finding 2. TIF District No. 2—Unauthorized Bond Expenditures

The State Auditor initially found the City received and spent \$220,725 of TIF bond proceeds on costs not authorized by the TIF plan for TIF District No. 2. The City’s response stated the City accepted this finding.

Finding 3. TIF Districts Nos. 1 and 3—Unauthorized Bond Expenditures

The State Auditor initially found the City received and spent \$517,044.34 of TIF bond proceeds on costs not authorized by the TIF plan for TIF District Nos. 1 and 3. The City’s response stated the City accepted this finding.

Finding 4. TIF Districts Nos. 1, 2, and 3—Unauthorized Expenditures

The State Auditor initially found the City spent \$605,161 of tax increment from TIF District No. 1, \$17,738 of tax increment from TIF District No. 2 and \$72,895 of tax increment from TIF District No. 3 on general government activities and debt service payments that were not authorized by the TIF plans for those TIF districts. The City’s response stated the City accepted this finding.

Finding 5. TIF District Nos. 1, 2, and 3—Failure To Segregate Tax Increment

The State Auditor initially found the City did not segregate the tax increment it received from TIF District Nos. 1, 2, and 3 as required by the TIF Act. Accordingly, the City cannot demonstrate that any of its TIF fund expenditures were made in accordance with the TIF Act. The City’s response stated the City accepted this finding.

Finding 6. TIF District No. 3—Pooling Restriction and the Five-Year Limit

The State Auditor initially found that because the City did not segregate TIF bond proceeds or tax increment it received from TIF District No. 3, the City cannot or will not be able to substantiate that TIF District No. 3 has met or will meet the pooling restrictions and five-year limit contained in the TIF Act. The City’s response stated the City accepted this finding.

CITY OF FROST

1. Failure to Publish Notice of Public Hearing

The State Auditor initially found the City did not publish a notice of public hearing or the required maps in connection with the City Council’s approval of the TIF plan for TIF Districts 1-1 and 1-2. In its response, the City did not disagree with the finding. The City’s response stated that for all future TIF districts, the City would comply with state law by publishing a notice of public hearing. Therefore, the State Auditor reiterated this finding.

2. Failure to Provide an Opportunity to Members of the School Board to Meet with the TIF Authority and Provide an Estimate of the Fiscal and Economic Implications of the TIF Districts to the School Board at Least 30 Days before the Public Hearing

The State Auditor initially found that when creating TIF District 1-1, the City provided the School Board with the estimate of the fiscal and economic implications of the proposed TIF district and an opportunity to meet with the City approximately one week before the public hearing, rather than the minimum 30-day notification required by the TIF Act. In its response, the City did not disagree with the finding. Therefore, the State Auditor reiterated this finding.

3. Failure to Identify and Describe Studies and Analysis Used to Make the “But For” Finding

The State Auditor initially found the TIF plans for TIF Districts 1-1 and 1-2 did not contain the required identifications and descriptions of studies and analyses used to make the “but for” finding. In its response, the City did not disagree with the finding. Therefore, the State Auditor reiterated this finding.

4. Failure to Include the Finding Regarding Substandard Buildings

The State Auditor initially found that neither the TIF plans nor the resolutions approving the TIF plans for redevelopment TIF Districts 1-1 and 1-2 contained the necessary finding that the districts met the requirements for redevelopment districts. In its response, the City did not disagree with the finding. Therefore, the State Auditor reiterated this finding.

CITY OF MAPLE PLAIN

1. Failure to Provide an Opportunity to Meet with the TIF Authority

The State Auditor initially found the City did not offer to meet with the County Board and affected School Districts prior to TIF plan approval nor provide an estimate of fiscal and economic implications for TIF Districts 2 through 7 and 9. Also, there was no evidence that the County Board received the appropriate information for the modifications to TIF District 6.

The City’s response included documentation to show that the required notices were sent to the School Board and County Board for TIF Districts 3, 5, 6, 7, and 9 and for modifications to TIF District 6. The letters for TIF District 2, however, were not sent at least 30 days prior to the public hearing. In addition, the City did not provide documentation that a letter was sent to the School Board for TIF District 4. The State Auditor reiterated the finding that the City did not create TIF Districts 2 and 4 in accordance with the TIF Act. The State Auditor withdrew all other parts of this finding.

2. Failure to Publish Notice of Public Hearing

The State Auditor initially found the City did not publish the public hearing notice regarding approval of the TIF plan for TIF Districts 2, 3, 5, 6, 7 and 10. The City's response included copies of the public hearing notices that were published in the local paper and the required maps for TIF Districts 2, 3, 5, 7 and 10. The City did not, however, include the published notice or required map for TIF District 6. The State Auditor reiterated the finding that the City did not publish the public hearing notice regarding approval of the TIF plan or the required maps for TIF District 6. The State Auditor withdrew all other parts of this finding.

**3. Failure to Provide County Auditor with List of Building Permits Issued During the 18 Months Immediately Preceding Approval of the TIF Plan—
WITHDRAWN**

The State Auditor initially found the City did not accompany its request for certification of TIF Districts 2, 4, 5 and 6 with a listing of all building permits issued. The City's response stated that no building permits were issued. Therefore, the State Auditor withdrew this finding.

4. Failure to Make Required Findings and Set Forth in Writing Required Reasons and Supporting Facts

The State Auditor initially found the City did not make the findings that were required or set forth in writing the reasons and supporting facts for the required findings when the City modified TIF District 3. The City's response stated that the TIF plan modification contained the finding that the proposed development would not reasonably be expected to occur without TIF assistance. The response also stated that it was "significant that the modification involved a continuation of the original development, by the same developer. The findings made at the time of approval of the original plan are therefore the same findings that support the modification."

However, the City provided no documentation that it made all of the required findings at the time it approved the TIF-plan modification. The State Auditor reiterated that the City did not make the required findings that were required or set forth in writing the reasons and supporting facts for the required findings when the City modified TIF District 3.

5. Inaccurate Parcel Identification Numbers

The State Auditor initially found the City could not demonstrate that TIF District 10 was modified in accordance with the TIF Act. In its response, the City acknowledged that there was a discrepancy in the parcel identification numbers, but the City did not believe that this indicated that the district was invalidly created. The City stated it would work with the County to take whatever action is necessary to correctly identify the property in the district. The State Auditor reiterated the finding that the City could not demonstrate that TIF District 10 was modified in accordance with the TIF Act.

6. Failure To Segregate Tax Increment

The State Auditor initially found the City did not segregate the tax increment from TIF Districts 2 through 10. In its response, the City stated that it accounted for tax increment expenditures in separate project accounts and the tax increment that was received was kept in a separate revenue account. The State Auditor reiterated the finding that the City did not segregate the tax increment from TIF Districts 2 through 10 as required by the TIF Act.

7. Unauthorized Bond Expenditures

The State Auditor initially found the City improperly spent \$449,859.09 of the 1987 TIF bond proceeds because the bond proceeds were spent on costs that were not authorized by the TIF plan for TIF District 2. The City's response stated it maintained segregated project codes within its general ledger system. The City's general ledger reported clearly that \$411,936.17 of bond proceeds were deposited into the water fund. The City has provided no documentation to demonstrate that the bond proceeds were subsequently transferred to a capital project fund. The State Auditor reiterated the finding that the City improperly spent proceeds of the 1987 TIF bond on costs that were not authorized by the TIF plan for TIF District 2.

8. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$272,021.39 of TIF District 2's tax increment because the tax increment was deposited into the City's general fund and was spent on costs not authorized by the TIF plan for this district. The City's response stated that even though the revenue code had a general fund prefix, "the City's system of compiling year-end financial statements recognized this code as a debt service fund account" and tax increment was reported as deposited into the debt service fund in the CAFRs. The City's general ledger shows that tax increment was in fact deposited into the general fund. The City provided no documentation, such as adjusting journal entries, to demonstrate that the tax increment was subsequently transferred to a debt service fund. The State Auditor reiterated the finding that the City improperly spent \$272,021.39 of tax increment from TIF District 2 on costs not authorized by the TIF plan for this district.

9. Expenditures in Excess of Total Estimated Tax Increment Expenditures

The State Auditor initially found the City improperly spent \$31,949.39 of tax increment from TIF District 2 because the City spent this amount of tax increment in excess of the total estimated tax increment expenditures authorized in the TIF plan for this district. The City's response stated that the total estimated expenditures were the bond principal payments of \$455,000 along with the bond interest owed. The City's response goes on to state that the estimate of revenues is just an estimate and that "nothing in the TIF plan suggests that the tax increment revenue estimate was intended to serve as the maximum

expenditures.” The State Auditor reiterated the finding that the City improperly spent \$31,949.39 of tax increment from TIF District 2 because the City spent this amount of tax increment in excess of the total estimated tax increment expenditures authorized in the TIF plan for this district.

10. Tax Increment Received After Statutory Maximum Duration

The State Auditor initially found the City improperly received or Hennepin County improperly retained \$102,409.93 of tax increment from TIF District 3 after the statutory maximum duration limit for TIF District 3. In response, the City acknowledged that Hennepin County retained tax increment from this district after the statutory maximum duration limit for an economic development district. However, the City disagreed with the finding to the extent that the City violated the TIF Act. The State Auditor reiterated the finding that the City improperly received or Hennepin County improperly retained \$102,409.93 of tax increment from TIF District 3 after the statutory maximum duration limit for TIF District 3.

11. Unbudgeted Costs and Tax Increment Spent Outside the Project Area

The State Auditor initially found the City improperly spent \$162,510.26 of the 1990B Bond proceeds because the expenditures were not authorized in the TIF plan for TIF District 3. Additionally, the tax increment was spent for activities outside of the project area of TIF District 3. The City’s response acknowledged errors in the financial reports, but claimed that through a review, the City was able to reconstruct the financial transactions of TIF District 2-3 through December 31, 2002. The City’s response also stated that fund titles in the annual financial reports were changed causing inconsistency in fund balance carry-forwards from prior years. The State Auditor reiterated the finding that the City improperly spent \$162,510.26 of the 1990B Bond proceeds because the expenditures were not authorized in the TIF plan for TIF District 3. In addition, the tax increment was spent for activities outside of the project area for TIF District 3.

12. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$317,414.34 of tax increment from TIF District 3 that was not authorized by the TIF plan for this TIF district. The City’s response stated that even though the revenue code had a general fund prefix, “the City’s system of compiling year-end financial statements recognized this code as a debt service fund account” and tax increment was reported as deposited into the debt service fund in the CAFRs. The City stated that there were incidents of miscoding of tax increment receipts; however, none were reported in the City general fund.

The City’s general ledger showed that tax increment was in fact deposited into the general fund. The State Auditor reiterated the finding that the City improperly spent \$317,414.34 of tax increment from TIF District 3 that was not authorized by the TIF plan for this TIF district.

13. Tax Increment Received After Statutory Maximum Duration

The State Auditor found the City improperly received, or had applied to the county note, \$18,973.47 of tax increment from TIF District 4 after the statutory maximum duration limit for this district. The City's response to this finding is the same as was discussed in finding 10. The City did not believe that the action taken by the County to retain tax increment for payment on the county note is a violation of the City's use of tax increment. The State Auditor reiterated the finding that the City improperly received, or had applied to the county note, \$18,973.47 of tax increment from TIF District 4 after the statutory maximum duration limit for this district.

14. Unbudgeted Costs and Tax Increment Spent Outside the Project Area

The State Auditor initially found the City improperly spent \$128,954.51 of the 1992B TIF Bond proceeds to make debt service payments. In its response, the City acknowledged that there were errors in assembling the CAFRs. The City stated that it reconstructed the financial transactions for TIF District 4 through December 31, 2002. According to the City, proceeds were temporarily not matched with authorized expenditures, but the City took corrective action in 1993 by transferring bond proceeds to match authorized expenditures. The State Auditor reiterated the finding that the City improperly spent \$128,954.51 of the 1992B TIF Bond proceeds to make debt service payments or to pay for costs outside the project area.

15. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$277,864.76 of tax increment from TIF District 4 on general government activities or debt service payments that were not authorized by the TIF plan for this TIF district. The City's response noted that it disagreed, based on its explanation to finding 10. However, the City's general ledger shows that tax increment was in fact deposited into the general fund. The City provided no documentation, such as adjusting journal entries, to demonstrate that the tax increment was subsequently transferred to a debt service fund. The State Auditor reiterated the finding that the City improperly spent \$277,864.76 of tax increment from TIF District 4 that was not authorized by the TIF plan for this TIF district.

16. Expenditures in Excess of Total Estimated Tax Increment Expenditures

The State Auditor initially found the City improperly spent \$68,576.76 of tax increment from TIF District 4 because the City spent this amount of tax increment in excess of the total estimated tax increment expenditures authorized in the TIF plan for this district. The City's response stated that this finding is similar to finding 9 and the City disagreed for the same reasons. The State Auditor reiterated the finding that the City improperly spent \$68,576.76 of tax increment from TIF District 4 because the City spent this amount of tax increment in excess of the total estimated tax increment expenditures authorized in the TIF plan for this district.

17. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$127,758.54 of tax increment from TIF District 5 that was not authorized in the TIF plan for this district. In its response, the City stated that it maintained a segregated revenue account for pay-as-you-go obligations. The City acknowledged that there had been coding errors in the past and provided a reconstructed summary that tried to match tax increment revenues with eligible expenditures. The State Auditor reiterated the finding that the City improperly spent \$127,758.54 of tax increment from TIF District 5 that was not authorized in the TIF plan for this district.

18. Excess Increment

The State Auditor initially found the \$67,243.47 of tax increment from TIF District 5 was excess increment. In its response, the City agreed that there was excess increment in this TIF district, but did not agree on the amount of the excess increment. No amount of excess increment was returned to the county. The State Auditor reiterated the finding that the \$67,243.47 of tax increment from TIF District 5 that the City received from 1998 through 2001 was excess increment subject to the provisions of Minn. Stat. § 469.176, subd. 2.

19. Expenditures in Excess of Total Estimated Tax Increment Expenditures

The State Auditor initially found the City improperly spent \$65,780.90 of tax increment from TIF District 5 because the City spent this amount of tax increment in excess of the total estimated tax increment expenditures authorized in the TIF plan for this district. In its response, the City disagreed that tax increment revenues were spent in excess of the estimated expenditures in the plan, but acknowledged that it received excess increment from this district. The State Auditor reiterated the finding that the City improperly spent \$65,780.90 of tax increment from TIF District 5 because the City spent this amount of tax increment in excess of the total estimated tax increment expenditures authorized in the TIF plan for this district.

20. Unauthorized Expenditure of Bond Proceeds

The State Auditor initially found the City improperly spent \$272,794 of the 1994 Bond proceeds on costs not authorized in the TIF plan for TIF District 6. In its response, the City claimed that it kept segregated project codes and that the proceeds of the 1994 TIF Bond were used to finance the expenditures maintained in the segregated project code for the industrial park capital project fund. The State Auditor reiterated the finding that the City improperly spent \$272,794 of the 1994 Bond proceeds on costs not authorized in the TIF plan for TIF District 6.

21. Unauthorized Expenditure

The State Auditor initially found the City improperly spent \$1,063,161.12 of tax increment from TIF District 6 on costs not authorized in the TIF plan for this district. The City’s response stated that the City “expended tax increment revenue on qualifying debt service and in a segregated debt service fund for bond payments.” The City’s response also stated that a re-calculated analysis of TIF District 6’s activity corrects any errors in the coding of expenditures. The State Auditor reiterated the finding that the City improperly spent \$1,063,161.12 of tax increment from TIF District 6 on costs not authorized in the TIF plan for this district.

22. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$221,093.48 of tax increment from TIF District 7 that was not authorized by the TIF plan for this TIF district. The City’s response acknowledged that tax increment had been miscoded from 1999 through 2001. However, the City believed that it has reconstructed its records to show that tax increment was properly used. The State Auditor reiterated the finding that the City improperly spent \$221,093.48 of tax increment from TIF District 7 that was not authorized by the TIF plan for this TIF district.

23. Failure to Meet “Three-Year Rule”—WITHDRAWN

The State Auditor initially found that no qualifying activity took place within TIF District 8 within the three-year period ending July 8, 2000. In its response, the City stated it agreed that this TIF district should have been decertified after three years. The response went on to state that the City returned \$22,133 to Hennepin County and did not receive any tax increment from this district after December 31, 2002. The State Auditor confirmed with Hennepin County that the City did in fact return \$22,133 to the County. Based on this information, the State Auditor withdrew this finding.

24. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$32,333.72 of tax increment from TIF District 8 on unauthorized expenditures for this TIF district. In its response, the City disagreed with this finding because it believed that no tax increment from this district has been spent except for administrative expenses. With regard to tax increment being used to make payments on the county note, the City’s response noted that it disagreed based on its explanation to finding 10. The State Auditor reiterated the finding that the City improperly spent \$32,333.72 of tax increment from TIF District 8 on unauthorized expenditures for this TIF district.

25. Unauthorized Expenditure

The State Auditor initially found the City improperly spent \$47,461.56 of tax increment from TIF District 9 on unauthorized expenditures for this TIF district. In its response, the

City acknowledged that there was miscoding of tax increment receipts from 1999 through 2001. However, the City did not provide the State Auditor with sufficient documentation that would support the City's reconstruction. Records made available to the State Auditor showed that tax increment was used for costs not authorized in the TIF plan for this TIF district. The State Auditor reiterated the finding that the City improperly spent \$47,461.56 of tax increment from TIF District 9 on unauthorized expenditures for this TIF district.

26. Unauthorized Expenditures

The State Auditor initially found the City improperly spent \$4,692.15 of tax increment from TIF District 10 on unauthorized expenditures for this TIF district. In its response, the City acknowledged that there was miscoding of tax increment receipts from 1999 through 2001. The City tried to reconstruct its records to correct the miscoding. However, the City did not provide the State Auditor with sufficient documentation that would support the City's reconstruction. Records made available to the State Auditor showed that tax increment was used for costs not authorized in the TIF plan for this TIF district. The State Auditor reiterated the finding that the City improperly spent \$4,692.15 of tax increment from TIF District 10 on unauthorized expenditures for this TIF district.

27. Improper Expenditure of Tax Increment

The State Auditor initially found the City received and spent or Hennepin County retained and spent \$33,839.39 of tax increment from TIF District 5 through 8 to reimburse Hennepin County for an overpayment of tax increment related to TIF District 4. In its response, the City stated that the violation was taken by the County and is not a violation on the part of the City. It was, however, the State Auditor's position that the City, as the TIF authority, must be able to demonstrate that all tax increment generated by a TIF district is used in accordance with the TIF Act. Therefore, the State Auditor reiterated the finding that the City received and spent or Hennepin County retained and spent \$33,839.39 of tax increment from TIF District 5 through 8 to reimburse Hennepin County for an overpayment of tax increment related to TIF District 4.

28. Pooling Restrictions and the Five-Year Limit

The State Auditor initially found the City could not substantiate that TIF Districts 5 through 10 have or would meet the pooling restrictions and five-year limit contained in the TIF Act. The City's response stated that this is simply an expansion of Finding 6. The City felt that its records adequately demonstrated how and when all tax increment was spent and that the detailed reexamination of the City's financial records demonstrated that the City complied with the rules. Based on the documentation provided to the State Auditor, the City was not able to demonstrate that it complied with the provisions of the TIF Act. Therefore, the State Auditor reiterated the finding that the City could not substantiate the pooling restrictions and five-year limit contained in the TIF Act.

29. City's Retention of Interest Earned on Tax Increment

The State Auditor initially found the City improperly received and spent an unknown amount of interest or investments earnings on or from tax increment. The City's response stated that the City's practice was to allocate all of the investment earnings to the general fund. The City also stated that it has since researched accounting standards and intends to allocate the interest and investment earnings to each of the funds that participated in the investment pool. Interest earned on tax increment after July 1, 1997 is tax increment. Therefore, the State Auditor reiterated the finding that the City improperly received and spent an unknown amount of interest or investments earnings on or from tax increment.

CITY OF NEW YORK MILLS

The State Auditor initially found that \$21,751.83 of tax increment the City received from TIF District 1-2 was excess increment. The City accepted the State Auditor's finding and returned the excess increment to the Otter Tail County Treasurer.

CITY OF NORTH ST. PAUL

1. Failure to Comply with the "Three-Year Rule"

The State Auditor initially found that TIF District 2-1 did not meet the requirements of Minn. Stat. § 469.176, subd. 1a, (the "three-year rule") because no qualifying activity took place within the three year period after the district was certified. The City's response stated that the intent of Minn. Stat. § 469.176, subd. 1a was to set an outside date of three years after certification in which time qualifying activity must take place. The State Auditor acknowledged the City did perform qualifying activity before certification and that the date on which the County certified the district was beyond the control of the City. However, the City did not perform any qualifying activity within the three-year period beginning with certification. Therefore, the State Auditor reiterated this finding.

2. Failure to Make Required Finding and Set Forth the Reasons and Supporting Facts For the Finding

The State Auditor initially found that TIF District 4-1 was not properly created because the City did not make the required "but for" finding, and set forth in writing the reasons and supporting facts for it. In its response, the City did not disagree with the finding, but stated that the City had followed all other requirements when creating the district. Therefore, the State Auditor reiterated this finding.

WASHINGTON COUNTY HRA

1. Failure to Provide Estimate of Fiscal and Economic Implications

The State Auditor initially found that the HRA did not present its estimate of fiscal and economic implications of the proposed TIF district or the TIF-plan modifications to the School Board and County Board for the formation and modifications of the Carnelian-Marine TIF District. In its response, the HRA stated that the County Board was acting in the role of the municipality, as such, was fully informed of the impacts of the district, and that the school board was informed. Based on this information, the State Auditor withdrew this finding.

2. Failure to Offer to Meet with the County Board and School Board

The State Auditor initially found that the HRA did not offer to meet with the county and school boards when creating the Carnelian-Marine TIF District. The HRA's response was the same as its response to Finding 1. Based on information provided, the State Auditor withdrew this finding.

3. Failure to Provide County Auditor with List of Building Permits

The State Auditor initially found that the HRA did not provide the county with a list of building permits issued prior to creating the Carnelian-Marine TIF District. In response, the HRA contended that no building permits were issued and that the TIF plan indicated this. Based on information provided, the State Auditor withdrew this finding.

4. Inadequately Documented Expenditures

The State Auditor initially found that the HRA improperly spent \$18,258 of tax increment on unauthorized costs. In its response, the HRA stated that this amount was spent on bond debt service. Based on the information provided, the State Auditor withdrew this finding.

5. Inadequately Documented Expenditures of Transferred Tax Increment

The State Auditor initially found that \$61,410 of tax increment was spent on costs not authorized. In its response, the HRA stated that this amount was spent on administrative expenses and that it was classified in the financial statements as "other." Based on information provided, the State Auditor withdrew this finding.

6. Inadequately Documented Expenditures of Transferred Increment

The State Auditor initially found that the HRA spent \$1,758,218 of tax increment on costs not authorized. The HRA's response stated that all funds transferred were either spent on TIF costs or were not tax increment. The HRA submitted documentation related to this finding. Based upon the information provided, the State Auditor withdrew this finding.

CONTACT INFORMATION

The TIF Division may be contacted at the following addresses and telephone/fax numbers:

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Lisa McGuire, Auditor	(651) 296-9255
Kurt Mueller, Auditor	(651) 297-3680
Suk Shah, Auditor	(651) 296-7001
Alexander Shleifman, Management Analyst	(651) 297-8342

This report can also be viewed at www.auditor.state.mn.us

EXHIBITS

Exhibit 1— Pooling For Deficits Memo

Exhibit 2— TIF Market Value Homestead Credit Memo



Exhibit 1

MEMORANDUM

TO: Interested Parties

FROM: Tom Carlson, Tax Increment Finance Division

DATE: October 15, 2004

SUBJECT: Pooling For Deficits: Minn. Stat. § 469.1763, subd. 6.

Property tax law changes beginning in 1997 have led to reduced revenue from many tax increment financing (TIF) districts throughout the state of Minnesota. This reduction has caused deficits in some TIF districts. In 1999, the Legislature authorized additional pooling (spending tax increment outside the TIF district generating the increment) to help eliminate TIF deficits. *See* Laws 1999 ch. 243, art. 10, sec. 3. The law governing this additional pooling authority is now codified at Minn. Stat. § 469.1763, subd. 6.

Recently, the OSA has participated in discussions with a number of financial analysts and attorneys with an interest in TIF laws. We have also reviewed various documents including the Minnesota Department of Revenue's instructions for calculating the maximum amount of pooling for deficits allowed by the law. Finally, we have consulted with people knowledgeable about the intent of the pooling for deficit law.

The OSA concurs with the Department of Revenue's interpretation that Minn. Stat. § 469.1763, subd. 6 authorizes the pooling of tax increment to eliminate a deficit notwithstanding the district specific restrictions and restrictions on excess increments found in Minn. Stat. § 469.176. This means, for example, that excess increment from a soils condition district may be pooled to eliminate a deficit in a redevelopment district so long as all of the conditions in Minn. Stat. § 469.1763, subd. 6 are satisfied.

**STATE OF MINNESOTA
OFFICE OF THE STATE AUDITOR**

Exhibit 2

TIF MEMORANDUM 04-0210-01

TO: TIF Authorities

FROM: TIF, Investment and Finance Division

DATE: February 10, 2004

RE: TIF Market Value Homestead Credit

In 2001, the legislature instituted the market value homestead credit within the property tax system. This is a state paid credit of 0.4% of a home's market value and is limited to \$304 for a home with a market value of \$76,000. The credit is reduced by \$9 for every \$10,000 of value in excess of \$76,000.

The amount of the general Market Value Homestead Credit is not paid entirely to the cities. It is proportionately distributed among the different taxing jurisdictions in two different installments on October 31st and December 26th. However, the reimbursements related to tax increments are paid entirely to the city in one installment on December 26th.¹

The definition of tax increment includes taxes paid by the captured net tax capacity as computed under section 469.177.² After the amount of taxes owed is determined, the credit is applied and the property owner pays the remaining amount. The state then reimburses the applicable taxing jurisdictions for the amount of the credit. Therefore, the total amount of taxes owed on a parcel is fully paid.

The TIF Market Value Homestead Credit is tax increment and subject to the restrictions of the TIF Act. As a result, the funds need to be segregated and otherwise treated as tax increment. Authorities may have questions about whether these funds fall within the definition of "tax increment" used in their developer contracts and bond resolutions. This will vary from case to case and authorities should consult with their attorney or financial advisor for more information.

¹ Minn. Stat. § 273.1384, subd. 4(a)

² Minn. Stat. §469.174, subd. 25