State of Minnesota

HOUSE OF REPRESENTATIVES

NINETY-FOURTH SESSION

H. F. No. 2574

03/20/2025 Authored by Hollins
The bill was read for the first time and referred to the Committee on Taxes

A bill for an act

relating to taxation; tax increment financing; authorizing use of certain increment to convert vacant or underused commercial or industrial buildings to residential purposes; modifying calculation of certain increment and findings required for a district converting vacant or underused property; amending Minnesota Statutes 2024, sections 469.174, subdivision 10; 469.175, subdivision 3; 469.177, subdivision 1.

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

Section 1. Minnesota Statutes 2024, section 469.174, subdivision 10, is amended to read:

Subd. 10. **Redevelopment district.** (a) "Redevelopment district" means a type of tax increment financing district consisting of a project, or portions of a project, within which the authority finds by resolution that one or more of the following conditions, reasonably distributed throughout the district, exists:

(1) parcels consisting of 70 percent of the area of the district are occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures and more than 50 percent of the buildings, not including outbuildings, are structurally substandard to a degree requiring substantial renovation or clearance;

(2) the property consists of vacant, unused, underused, inappropriately used, or infrequently used rail yards, rail storage facilities, or excessive or vacated railroad rights-of-way;

(3) tank facilities, or property whose immediately previous use was for tank facilities, as defined in section 115C.02, subdivision 15, if the tank facilities:

(i) have or had a capacity of more than 1,000,000 gallons;

(ii) are located adjacent to rail facilities; and

(iii) have been removed or are unused, underused, inappropriately used, or infrequently used; ~~or~~

(4) a qualifying disaster area, as defined in subdivision 10b~~.~~; or

(5) the property consists of vacant, unused, underused, inappropriately used, or infrequently used property intended or recently occupied for commercial or industrial purposes, and the property is located within the city of Minneapolis or St. Paul.

(b) For purposes of this subdivision, "structurally substandard" shall mean containing defects in structural elements or a combination of deficiencies in essential utilities and facilities, light and ventilation, fire protection including adequate egress, layout and condition of interior partitions, or similar factors, which defects or deficiencies are of sufficient total significance to justify substantial renovation or clearance.

(c) A building is not structurally substandard if it is in compliance with the building code applicable to new buildings or could be modified to satisfy the building code at a cost of less than 15 percent of the cost of constructing a new structure of the same square footage and type on the site. The municipality may find that a building is not disqualified as structurally substandard under the preceding sentence on the basis of reasonably available evidence, such as the size, type, and age of the building, the average cost of plumbing, electrical, or structural repairs, or other similar reliable evidence. The municipality may not make such a determination without an interior inspection of the property, but need not have an independent, expert appraisal prepared of the cost of repair and rehabilitation of the building. An interior inspection of the property is not required, if the municipality finds that (1) the municipality or authority is unable to gain access to the property after using its best efforts to obtain permission from the party that owns or controls the property; and (2) the evidence otherwise supports a reasonable conclusion that the building is structurally substandard. Items of evidence that support such a conclusion include recent fire or police inspections, on-site property tax appraisals or housing inspections, exterior evidence of deterioration, or other similar reliable evidence. Written documentation of the findings and reasons why an interior inspection was not conducted must be made and retained under section 469.175, subdivision 3, clause (1). Failure of a building to be disqualified under the provisions of this paragraph is a necessary, but not a sufficient, condition to determining that the building is substandard.

(d) A parcel is deemed to be occupied by a structurally substandard building for purposes of the finding under paragraph (a) or by the improvements described in paragraph (e) if all of the following conditions are met:

(1) the parcel was occupied by a substandard building or met the requirements of paragraph (e), as the case may be, within three years of the filing of the request for certification of the parcel as part of the district with the county auditor;

(2) the substandard building or the improvements described in paragraph (e) were demolished or removed by the authority or the demolition or removal was financed by the authority or was done by a developer under a development agreement with the authority;

(3) the authority found by resolution before the demolition or removal that the parcel was occupied by a structurally substandard building or met the requirements of paragraph (e) and that after demolition and clearance the authority intended to include the parcel within a district; and

(4) upon filing the request for certification of the tax capacity of the parcel as part of a district, the authority notifies the county auditor that the original tax capacity of the parcel must be adjusted as provided by section 469.177, subdivision 1, paragraph (f).

(e) For purposes of this subdivision, a parcel is not occupied by buildings, streets, utilities, paved or gravel parking lots, or other similar structures unless 15 percent of the area of the parcel contains buildings, streets, utilities, paved or gravel parking lots, or other similar structures.

(f) For districts consisting of two or more noncontiguous areas, each area must qualify as a redevelopment district under paragraph (a) to be included in the district, and the entire area of the district must satisfy paragraph (a).

EFFECTIVE DATE. This section is effective for districts for which the request for certification was made after June 30, 2025.

Sec. 2. Minnesota Statutes 2024, section 469.175, subdivision 3, is amended to read:

Subd. 3. **Municipality approval.** (a) A county auditor shall not certify the original net tax capacity of a tax increment financing district until the tax increment financing plan proposed for that district has been approved by the municipality in which the district is located. If an authority that proposes to establish a tax increment financing district and the municipality are not the same, the authority shall apply to the municipality in which the district is proposed to be located and shall obtain the approval of its tax increment financing plan by the municipality before the authority may use tax increment financing. The

municipality shall approve the tax increment financing plan only after a public hearing thereon after published notice in a newspaper of general circulation in the municipality at least once not less than ten days nor more than 30 days prior to the date of the hearing. The published notice must include a map of the area of the district from which increments may be collected and, if the project area includes additional area, a map of the project area in which the increments may be expended. The hearing may be held before or after the approval or creation of the project or it may be held in conjunction with a hearing to approve the project.

(b) Before or at the time of approval of the tax increment financing plan, the municipality shall make the following findings, and shall set forth in writing the reasons and supporting facts for each determination:

(1) that the proposed tax increment financing district is a redevelopment district, a renewal or renovation district, a housing district, a soils condition district, or an economic development district; if the proposed district is a redevelopment district or a renewal or renovation district, the reasons and supporting facts for the determination that the district meets the criteria of section 469.174, subdivision 10, paragraph (a), clauses (1) and (2), or subdivision 10a, must be documented in writing and retained and made available to the public by the authority until the district has been terminated;

(2) that, in the opinion of the municipality:

(i) the proposed development or redevelopment would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future; and

(ii) the increased market value of the site that could reasonably be expected to occur without the use of tax increment financing would be less than the increase in the market value estimated to result from the proposed development after subtracting the present value of the projected tax increments for the maximum duration of the district permitted by the plan. The requirements of this item do not apply if the district is a housing district or if the district is a redevelopment district determined to meet the criteria of section 469.174, subdivision 10, paragraph (a), clause (5);

(3) that the tax increment financing plan conforms to the general plan for the development or redevelopment of the municipality as a whole;

(4) that the tax increment financing plan will afford maximum opportunity, consistent with the sound needs of the municipality as a whole, for the development or redevelopment of the project by private enterprise;

(5) that the municipality elects the method of tax increment computation set forth in section 469.177, subdivision 3, paragraph (b), if applicable.

(c) When the municipality and the authority are not the same, the municipality shall approve or disapprove the tax increment financing plan within 60 days of submission by the authority. When the municipality and the authority are not the same, the municipality may not amend or modify a tax increment financing plan except as proposed by the authority pursuant to subdivision 4. Once approved, the determination of the authority to undertake the project through the use of tax increment financing and the resolution of the governing body shall be conclusive of the findings therein and of the public need for the financing.

(d) For a district that is subject to the requirements of paragraph (b), clause (2), item (ii), the municipality's statement of reasons and supporting facts must include all of the following:

(1) an estimate of the amount by which the market value of the site will increase without the use of tax increment financing;

(2) an estimate of the increase in the market value that will result from the development or redevelopment to be assisted with tax increment financing; and

(3) the present value of the projected tax increments for the maximum duration of the district permitted by the tax increment financing plan.

(e) For purposes of this subdivision, "site" means the parcels on which the development or redevelopment to be assisted with tax increment financing will be located.

(f) Before or at the time of approval of the tax increment financing plan for a district to be used to fund a workforce housing project under section 469.176, subdivision 4c, paragraph (d), the municipality shall make the following findings and set forth in writing the reasons and supporting facts for each determination:

(1) the city is located outside of the metropolitan area, as defined in section 473.121, subdivision 2;

(2) the average vacancy rate for rental housing located in the municipality and in any statutory or home rule charter city located within 15 miles or less of the boundaries of the municipality has been three percent or less for at least the immediately preceding two-year period;

(3) at least one business located in the municipality or within 15 miles of the municipality that employs a minimum of 20 full-time equivalent employees in aggregate has provided a

written statement to the municipality indicating that the lack of available rental housing has impeded the ability of the business to recruit and hire employees; and

(4) the municipality and the development authority intend to use increments from the district for the development of rental housing to serve employees of businesses located in the municipality or surrounding area.

(g) The county auditor may not certify the original tax capacity of an economic development tax increment financing district for a workforce housing project if the request for certification is made after June 30, 2027.

EFFECTIVE DATE. This section is effective for districts for which the request for certification was made after June 30, 2025.

Sec. 3. Minnesota Statutes 2024, section 469.177, subdivision 1, is amended to read:

Subdivision 1. **Original net tax capacity.** (a) Upon or after adoption of a tax increment financing plan, the auditor of any county in which the district is situated shall, upon request of the authority, certify the original net tax capacity of the tax increment financing district and that portion of the district overlying any subdistrict as described in the tax increment financing plan and shall certify in each year thereafter the amount by which the original net tax capacity has increased or decreased as a result of a change in tax exempt status of property within the district and any subdistrict, reduction or enlargement of the district or changes pursuant to subdivision 4. The auditor shall certify the amount within 30 days after receipt of the request and sufficient information to identify the parcels included in the district. The certification relates to the taxes payable year as provided in subdivision 6.

(b) If the classification under section 273.13 of property located in a district changes to a classification that has a different assessment ratio, the original net tax capacity of that property must be redetermined at the time when its use is changed as if the property had originally been classified in the same class in which it is classified after its use is changed.

(c) The amount to be added to the original net tax capacity of the district as a result of previously tax exempt real property within the district becoming taxable equals the net tax capacity of the real property as most recently assessed pursuant to information reported to the commissioner under section 270C.85, subdivision 2, clause (4), or, if that assessment was made more than one year prior to the date of title transfer rendering the property taxable, the net tax capacity assessed by the assessor at the time of the transfer. If improvements are made to tax exempt property after the municipality approves the district and before the parcel becomes taxable, the assessor shall, at the request of the authority, separately assess

the estimated market value of the improvements. If the property becomes taxable, the county auditor shall add to original net tax capacity, the net tax capacity of the parcel, excluding the separately assessed improvements. If substantial taxable improvements were made to a parcel after certification of the district and if the property later becomes tax exempt, in whole or part, as a result of the authority acquiring the property through foreclosure or exercise of remedies under a lease or other revenue agreement or as a result of tax forfeiture, the amount to be added to the original net tax capacity of the district as a result of the property again becoming taxable is the amount of the parcel's value that was included in original net tax capacity when the parcel was first certified. The amount to be added to the original net tax capacity of the district as a result of enlargements equals the net tax capacity of the added real property as most recently certified by the commissioner of revenue as of the date of modification of the tax increment financing plan pursuant to section 469.175, subdivision 4.

(d) If the net tax capacity of a property increases because the property no longer qualifies under the Minnesota Agricultural Property Tax Law, section 273.111; the Minnesota Open Space Property Tax Law, section 273.112; or the Metropolitan Agricultural Preserves Act, chapter 473H, the Rural Preserve Property Tax Program under section 273.114, or because platted, unimproved property is improved or market value is increased after approval of the plat under section 273.11, subdivision 14a or 14b, the increase in net tax capacity must be added to the original net tax capacity. If the net tax capacity of a property increases because the property no longer qualifies for the homestead market value exclusion under section 273.13, subdivision 35, the increase in net tax capacity must be added to original net tax capacity if the original construction of the affected home was completed before the date the assessor certified the original net tax capacity of the district.

(e) The amount to be subtracted from the original net tax capacity of the district as a result of previously taxable real property within the district becoming tax exempt or qualifying in whole or part for an exclusion from taxable market value, or a reduction in the geographic area of the district, shall be the amount of original net tax capacity initially attributed to the property becoming tax exempt, being excluded from taxable market value, or being removed from the district. If the net tax capacity of property located within the tax increment financing district is reduced by reason of a court-ordered abatement, stipulation agreement, voluntary abatement made by the assessor or auditor or by order of the commissioner of revenue, the reduction shall be applied to the original net tax capacity of the district when the property upon which the abatement is made has not been improved since the date of certification of the district and to the captured net tax capacity of the district

in each year thereafter when the abatement relates to improvements made after the date of certification. The county auditor may specify reasonable form and content of the request for certification of the authority and any modification thereof pursuant to section 469.175, subdivision 4.

(f) If a parcel of property contained a substandard building or improvements described in section 469.174, subdivision 10, paragraph (e), that were demolished or removed and if the authority elects to treat the parcel as occupied by a substandard building under section 469.174, subdivision 10, paragraph (b), or by improvements under section 469.174, subdivision 10, paragraph (e), the auditor shall certify the original net tax capacity of the parcel using the greater of (1) the current net tax capacity of the parcel, or (2) the estimated market value of the parcel for the year in which the building or other improvements were demolished or removed, but applying the classification rates for the current year.

(g) For a redevelopment district qualifying under section 469.174, subdivision 10, paragraph (a), clause (4), as a qualified disaster area, the auditor shall certify the value of the land as the original tax capacity for any parcel in the district that contains a building that suffered substantial damage as a result of the disaster or emergency.

(h) For a redevelopment district qualifying under section 469.174, subdivision 10, paragraph (a), clause (5), as a property with vacant or underused commercial or industrial buildings, the auditor shall certify the value of the land as the original tax capacity for any parcel in the district that contains a commercial or industrial building determined to be vacant or underused.

EFFECTIVE DATE. This section is effective for districts for which the request for certification was made after June 30, 2025.