

## An Introduction To Tax Increment Financing (TIF)

Minnesota Office of the State Auditor  
Jason Nord, TIF Division Director

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### WHAT IS TIF?

- Tax Increment Financing (TIF) is a...
  - **Public financing tool** (businesses, economic development pros)
  - **Revenue type/fund** (finance officers, accountants)
  - **Property tax feature** (county auditors, taxing entities)
  - **Statutory program** (lawyers, administrators)



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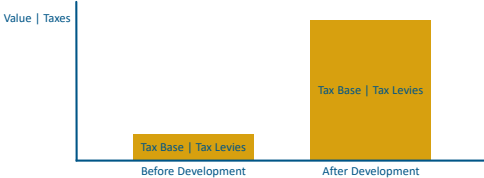
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### BACKGROUND




Value | Taxes

Tax Base | Tax Levies

Before Development

After Development



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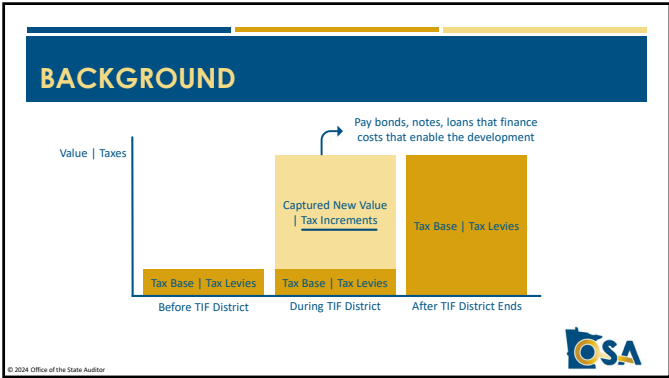
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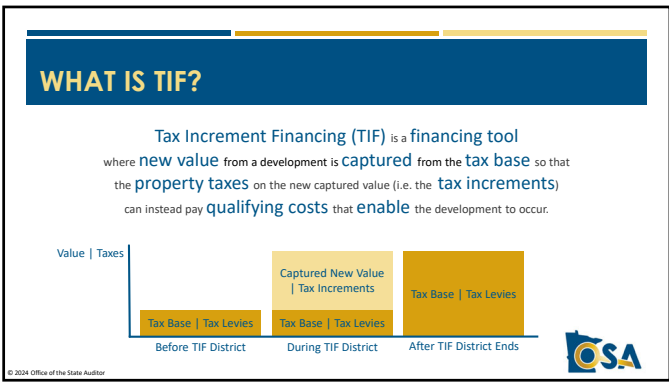
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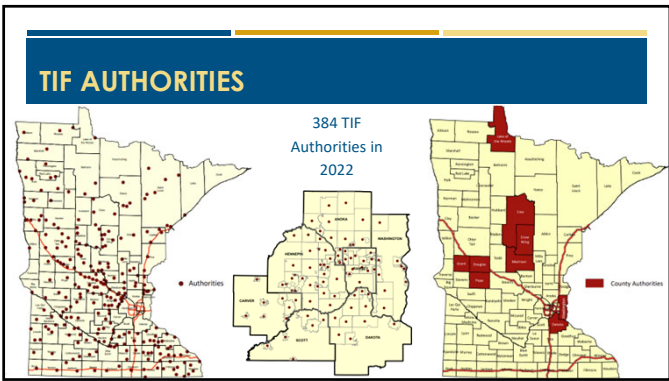
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## TIF AUTHORITIES & STATUTES

- **Cities** | Minn. Stat. §§ 469.124-.133, 469.152-.165
- **City Port Authorities** | Minn. Stat. §§ 469.048-.089
- **City Economic Development Authorities (EDAs)** | Minn. Stat. §§ 469.090-.1082
- **City Housing and Redevelopment Authorities (HRAs)** | Minn. Stat. §§ 469.001-.047
- **County/Multi-County HRAs** | Minn. Stat. §§ 469.004-.008, 469.152-.165
- **County Rural Development Finance Authorities** | Minn. Stat. §§ 469.142-.151
- **Certain/Metro Town(s)** | Minn. Stat. §§ 469.152-.165
- **TIF Act** | Minn. Stat. §§ 469.174-.1794



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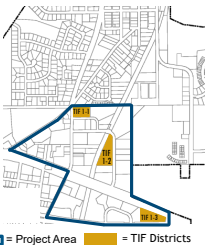
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## PROJECT AREAS & TIF DISTRICTS

Development Acts govern **project areas**


Broader activities than TIF-supported developments



■ = Project Area ■ = TIF Districts

TIF is used within **TIF districts** consisting of development parcels

There can be many TIF districts in the same project area



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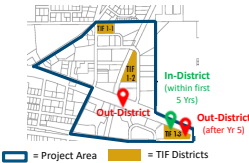
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## POOLING




■ = Project Area ■ = TIF Districts

**“Pooling”** is the expenditure of increment outside the district but within the project area

**Overall Pooling Limit** = 25% (Redev Dists), 20% (Others) but can be increased by 10% for housing purposes

**Five-Year Rule** defines costs obligated after the first five as being “out-district” (must fit within pooling limit)

**Six-Year Rule** requires annual use of in-district share for in-district obligations, and requires decertification when in-district costs and obligations are paid



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TYPES OF TIF DISTRICTS					
District Type	Maximum Duration	Districts (2021)		Revenue (2021)	
		Count*	%**	\$ Millions	%
Redevelopment	26 years	729	44%	\$156.8	68%
Housing	26 years	599	36%	\$47.2	20%
Economic Development	9 years	290	17%	\$19.1	8%
Renewal & Renovation	16 years	27	2%	\$5.7	2%
Soils Condition	21 years	12	1%	\$0.6	<1%
Uncodified	--	11	1%	\$2.1	1%
Totals		1,669		\$231.5	
Hazardous Substance Subdistricts		22			

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\*Total includes one Pre-1979 district still reporting.

\*\*Due to rounding, the sum of percentages does not equal 100 percent.



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### Redevelopment Districts


- 70% occupied by bldgs/structures and >50% of bldgs are structurally substandard, or
- Contains certain rail property, tank facilities, or a qualified disaster area
- 90% of tax increment revenue must be used to finance costs of correcting the blight conditions



### Renewal & Renovation Districts

- 70% occupied by bldgs/structures, 20% of bldgs are structurally substandard, and 30% of other buildings require renovation or clearance to address undesirable land use conditions

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### Economic Development Districts

- Public purpose:
  - Discourage commerce, industry, or manufacturing from moving (business retention)
  - Increase employment in the state
  - Preserve and enhance the tax base of the state, or
  - Satisfy the requirements for a workforce housing project
- No commercial/retail except small cities (≤5,000 that are 5/10+ miles from city of 10,000+) may assist a facility (up to 15,000 sq. ft). (No pooling.)

- Uses:
  - Manufacturing
  - Warehousing, storage and distribution
  - Research and development
  - Telemarketing (as exclusive use)
  - Tourism facilities
  - Space necessary and related to the above
  - Workforce housing projects



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## TYPES OF TIF DISTRICTS


### Housing Districts

- For low- and moderate-income projects defined in federal, state, or municipal law
- Tax increment may solely finance the cost of housing projects (related admin and public improvement costs)
- Pooling limits not applicable
- No more than 20% of sq. ft. of buildings may be nonresidential uses

- Income Limits\*:
  - Owner-Occupied:
    - Initial purchaser/occupant meets req's for a qualified mortgage bond project (IRC §143(f))
    - ≤ 115% of > of area or state median income
  - Rental:
    - Property meets req's for a qualified residential rental project (IRC §142(d))
    - 20% of units ≤50% area median income
    - 40% of units ≤60% area median income



\*Minnesota Housing Finance Agency (MHFA) Challenge Program limits may substitute



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## TYPES OF TIF DISTRICTS


### Soils Condition Districts

- Authority must find:
  - Hazardous substances, pollution, or contaminants requiring removal and remedial action, and
  - Estimated cost to correct > \$2 per sq. ft.
- Development action response plan required
- Tax increment may only pay for:
  - Acquisition
  - Removal/remediation
  - Administrative costs



### Hazardous Substance Subdistricts

- Designated haz. sub. sites and contiguous parcels
- Authority must find:
  - (Re)development would not occur thru private investment and other increment,
  - Non-designated parcels developed w/ design. sites, and
  - Not larger/longer than necessary to cover additional costs
- Development action response plan required
- Additional tax increment may only pay:
  - Removal/remediation
  - Pollution testing, demo, soil correction
  - Insurance/liability
  - Administrative & legal costs (incl. PCA/AG)



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## TIF FINANCING

TIF is a **financing tool** where new value is captured so that the **property taxes** on this captured value are segregated as **tax increments** that are used to pay **qualifying costs** that enable one development to occur.

- TIF is **NOT** a tax ...
- Taxpayer pays full tax but incremental taxes finance costs



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### TIF FINANCING

- Pay-As-You-Go (PAYG)**  
reimburse developer/owner/noteholder who bears the risk  
**70% of TIF Debt\***
- General Obligation (GO) Bonds**  
municipality pledges taxing powers / bears the risk  
**14% of TIF Debt\***
- Revenue Bonds**  
revenues are pledged / bondholders bear the risk  
**4% of TIF Debt\***
- Interfund Loans**  
authority borrows internally from other districts/funds  
**11% of TIF Debt\***

\*Based on reporting for 2022.

**DEBT BY TYPE 2013-2022**

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### CAPTURING VALUE

TIF is a financing tool where **new value** is **captured** so that the **property taxes** on this captured value are segregated as **tax increments** that are used to pay **qualifying costs** that enable the development to occur.

Before Development

After Development

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### CAPTURING VALUE

- Original value is certified by county auditor
- New value (current minus original) = “captured value”

Original Market Value (MV) = \$200,000 | Original Net Tax Capacity (NTC) = \$3,250  
Current MV (after development) = \$3,400,000 | Current NTC = \$67,250  
Captured MV = \$3,200,000 | Captured NTC = \$64,000

- Captured value is **NOT** part of tax base (i.e. NOT used to calculate rates or generate local tax levies)
- Tax rate is applied to captured value yielding tax increments

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### TIF SPECIFICS AND MECHANICS

TIF is a financing tool where **new value** is **captured** so that the **property taxes** on this captured value are segregated as **tax increments** that are used to pay **qualifying costs** that enable the development to occur.

**Property Tax = Value x Rate**

Estimated Market Value (EMV)

Taxable Market Value (TMV)


Net Tax Capacity (NTC)  
(TMV x Class Rates)

Referendum Market Value (RMV)  
(TMV of select classes, some ratios)

Local NTC  
(Local jurisdictions)  
TIF only captures local NTC

State NTC  
(State Tax)

TIF does NOT impact the state tax or RMV levies



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### TAX INCREMENTS


TIF is a financing tool where **new value** is **captured** so that the **property taxes** on this captured value are segregated as **tax increments** that are used to pay **qualifying costs** that enable the development to occur.

**Tax Base**




Original NTC:	\$ 3,250
City	\$ 1,520
County	\$ 1,665
School District	\$ 995
Others	\$ 268
Total	\$ 4,448

**Captured Value**



Captured NTC:	\$ 64,000
Tax Increment:	\$ 87,594

(Does not support local levies for the duration of the district)



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### TAX BASE, RATES, & LEVIES

- Tax base capture directly affects tax rates


$$\text{Rate} = \text{Levy} / \text{Value} \quad (\text{Value excludes value captured by TIF})$$

City rate with TIF	= 46.770%	(= \$467,700 / \$1,000,000)
City rate without TIF	= 43.957%	(= \$467,700 / \$1,064,000)
- Tax increments are additional taxes

$$46.770\% \times \$1,000,000 = \$467,700 \text{ city levy}$$
$$46.770\% \times \$64,000 = \$29,933 \text{ of tax increment}$$
- Tax base capture indirectly affects levy decisions

If decertified, city could levy more while maintaining the same tax rate

Total NTC of City	\$1,064,000
Captured NTC	\$ 64,000
Tax Base	\$1,000,000
City Levy	\$ 467,700



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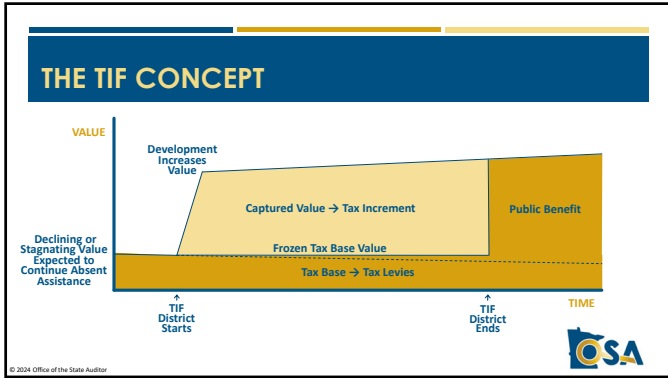
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### THE BUT-FOR TEST

- In the opinion of the municipality:
  - The proposed (re)development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future
  - Increase in market value reasonably expected without TIF < Increase in market value after subtracting the present value of projected tax increments

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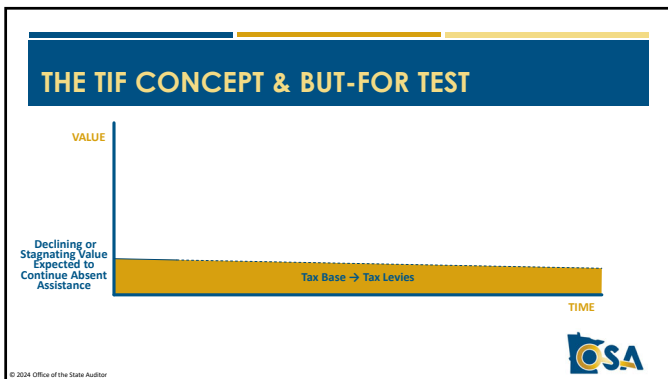
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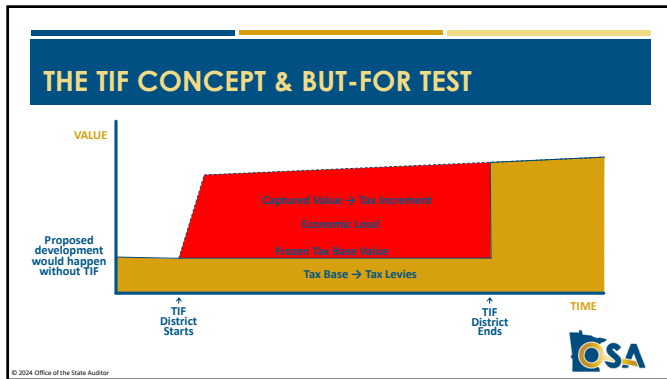
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### THE BUT-FOR TEST

- But-For Test may not be so black-and-white

PASS - Definitely no development without TIF

Pass? - Modest/undesirable development would occur much later

Pass/Fail? - Modest development would occur later

Fail/Pass? - Decent development would happen fairly soon

Fail? - Nearly comparable development would happen soon

FAIL - Proposed development surely would occur without TIF

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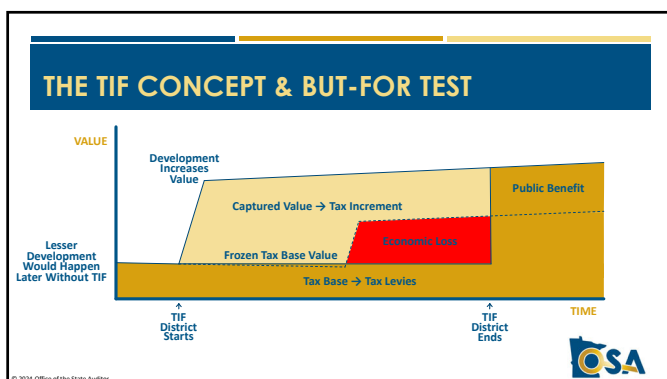
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## IMPACT ON OTHER JURISDICTIONS

- TIF decisions impact ALL local taxing jurisdictions
  - County
  - City
  - School District
  - Special Districts
- County and school districts must be afforded notice and opportunity to comment



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## TAX INCREMENTS

TIF is a financing tool where new value is captured so that the property taxes on this captured value are segregated as tax increments that are used to pay qualifying costs that enable the development to occur.

**Property Tax = Value x Rate - Credits**

- Credits reduce gross taxes
- Reduce tax increments and regular taxes proportionately
- DOR pays the TIF share of credits



DEPARTMENT OF REVENUE  
Tax Increment Financing District Market Value Credits  
To be paid on December 31st

County Name	District Code	District Name	Estimated District Credits	Local Option District Credits	State Taxing District Credits	Property Taxing District Credits	Age-Related District Credits	Prior Year District Credits	Prior Year Other District Credits	Negative Adj. for Prior Year District Credits	Negative Adj. for Prior Year Other District Credits
Big Stone	00-000	00-000 CITY OF HARTLAND, SD, S.D. SOUTHERN BRIDGE DOWNTOWN DISTRICT				6,676.14					
Day	14-000	00-000 District 14				120,000.75					
Day	14-000	00-000 District 14				120,000.75					

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## TIF SPECIFICS AND MECHANICS

TIF is a financing tool where new value is captured so that the property taxes on this captured value are segregated as tax increments that are used to pay qualifying costs that enable the development to occur.

Current Land Use



Proposed Development



Qualifying Costs: acquisition, demolition, utilities, streets, etc.

Market failures:

- High costs to correct blight
- Market-rate vs. affordable construction
- Economic development?



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RIGHT-SIZING THE USE OF TIF

Tax increment generated:

136.866% (Total rate)

x

\$64,000

=

\$87,594 of total tax increment

\$87,594

x

26 years

=

\$2,277,450

Costs needed to enable development:

Acquisition costs

\$

200,000

Site improvements

\$

325,000

Utilities

\$

175,000

Administrative costs

\$

50,000

Interest


\$

250,000

Total

\$1,000,000

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RIGHT-SIZING THE USE OF TIF

TIF Plan estimates:

Debt, Original NTC, Captured NTC, Duration

Costs of the Project (including administrative costs)

Interest as a Financing Cost

Tax Increment Generated

Project and Interest Costs cannot exceed Estimated Increment

Estimated Project Cost

+

Estimated Financing Cost

≤

Estimated Tax Increment Revenues

Estimated Project Costs

Land/building acquisition

Site improvements/preparation costs

Utilities

Other public improvements

Construction of affordable housing

Administrative costs

Estimated Financing Cost

Interest expense

Estimated Tax Increment Revenues


Tax increment distributed from county

Interest/investment earnings

Sales/lease proceeds

TIF credits

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RIGHT-SIZING THE USE OF TIF

Set appropriate authorized costs

Maximize expenditures of increments as a revenue stream?

Minimize expenditures to maximize tax base benefits?

Set an earlier duration limit?

Share captured value with the tax base or decertify early?

Estimated Project Costs

Land/building acquisition

Site improvements/preparation costs

Utilities

Other public improvements

Construction of affordable housing

Administrative costs

Estimated Financing Cost

Interest expense

Estimated Project + Financing Costs

TOTAL

Estimated Tax Increment Revenues

TOTAL

\$

200,000

\$

325,000

\$

175,000

\$

0

\$

0

\$

50,000


\$

250,000

\$1,000,000

\$2,277,450

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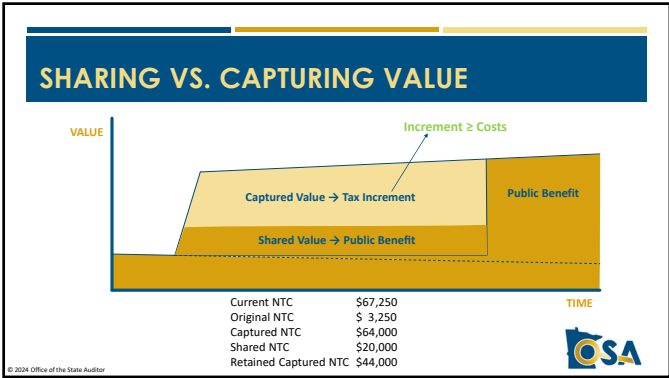
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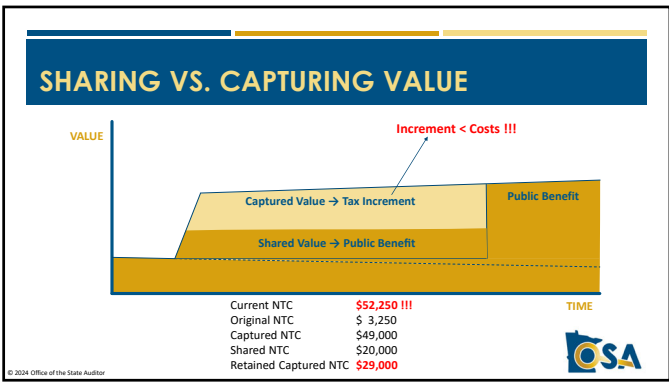
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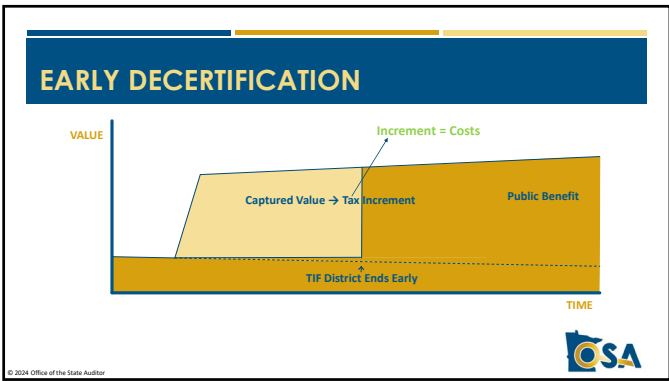
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## EARLY DECERTIFICATION

Decertifications 2018-2022

District Type (Max Duration)	Decertified Districts	Lasted Full Duration	Decertified Early	
			%	Avg. Yrs.
Redevelopment (26 years)	169	21%	79%	10
Housing (26 years)	115	23%	77%	9
Economic Development (9 years)	146	61%	39%	3
Renewal & Renovation (16 years)	8	75%	25%	0
Soils Condition (21 years)	2	0%	100%	3

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## MAXIMIZING BENEFITS?

- Inclination may exist to:
  - Delay decertification
  - Hold surplus funds
  - Maximize pooling and administrative expenditures
- But consider...
  - Tax base benefits are maximized by early decertification
  - Returned increment redistributed back to the municipality is free of TIF restrictions
  - TIF impacts county, school, and other taxing district's

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## HISTORY

- Originated nationally after World War II to address urban blight
- Meant to make redevelopment competitive with sprawling development (expanded to housing and economic development)
- Incorporated into development acts (1969-1974)
- TIF Act established in 1979

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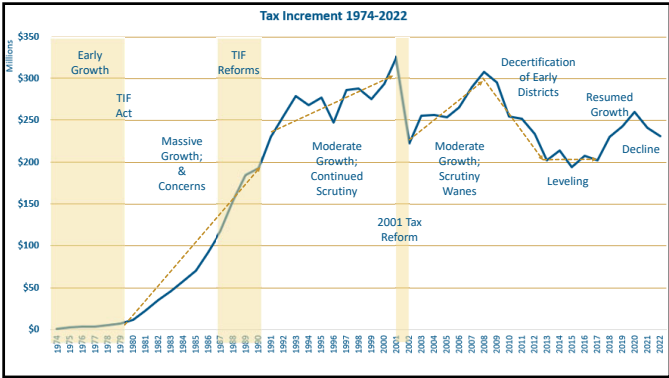
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**HISTORY**

TIF Act Provisions	1988-1990 TIF Reforms	Other Changes
<ul style="list-style-type: none"><li>But-For test</li><li>Excess increment</li><li>No enlargement after 5 years</li><li>Duration limits</li><li>TIF plan details</li><li>Limit on admin costs</li><li>Inactivity knock-down</li><li>Bonding provisions</li><li>Fiscal disparities methods</li><li>Acquisition restrictions</li></ul>	<ul style="list-style-type: none"><li>Pooling limits! (overall, 5-/6-yr rules)</li><li>Aid reductions</li><li>But-For test improved</li><li>Oversight by Dept. of Revenue</li><li>County to enforce knock-down</li><li>County costs paid from increment</li><li>No capture of school referenda levies</li><li>Econ Dev restrictions (no retail)</li><li>Redevelopment restrictions increased</li><li>Housing restrictions increased</li><li>Created Renewal &amp; Renovation type</li><li>Created Soils Condition districts (and more)</li></ul>	<ul style="list-style-type: none"><li>Oversight to OSA (1995)</li><li>Aid cuts eliminated (2001)</li><li>Interfund loans (2001, 2017)</li><li>Excess increment calc (2003)</li><li>Increment definition (2005)</li><li>Error corrections (2008)</li><li>Reporting req's (2009)</li><li>Temp rule extensions (2009)</li><li>Jobs Bill spending plans (2010)</li><li>Workforce Housing (2017)</li></ul>

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**HISTORY**

2023 TIF Clarifications
<ul style="list-style-type: none"><li>Overall Pooling Limit</li><li>Five-Year Rule</li><li>Six-Year Rule</li><li>Pooling for deficits</li><li>Definition of administrative expenses</li><li>Administrative expense limit</li><li>Violation statutes</li><li>PAYG Note definition</li><li>Reporting requirements</li><li>Small cities definition</li></ul>

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### THE TIF COMMITMENT

- Legal/professional advice is a good idea when using TIF
- Administrative commitment to:
  - Segregate and track funds
  - Monitor legal compliance
  - Maintain (and retain) documentation
  - Complete annual reporting
- Assess administrative capacities, establish clear duties and processes



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### RESOURCES

OSA Resources	
OSA Website	<a href="https://www.osa.state.mn.us">https://www.osa.state.mn.us</a>
SAFES	<a href="https://safes.osa.state.mn.us/">https://safes.osa.state.mn.us/</a>
E-Update Sign up/Archives	<a href="https://www.osa.state.mn.us/news/updates/e-updates/">https://www.osa.state.mn.us/news/updates/e-updates/</a>
Statements of Position	<a href="https://www.osa.state.mn.us/training-guidance/guidance/statements-of-position/">https://www.osa.state.mn.us/training-guidance/guidance/statements-of-position/</a>
Training Videos	<a href="https://www.osa.state.mn.us/training-guidance/training/training-opportunities/">https://www.osa.state.mn.us/training-guidance/training/training-opportunities/</a>
TIF Articles	<a href="https://www.osa.state.mn.us/training-guidance/guidance/tif-topics/">https://www.osa.state.mn.us/training-guidance/guidance/tif-topics/</a>
Certification Supplement	<a href="https://www.osa.state.mn.us/forms-deadlines/forms/tif-forms/">https://www.osa.state.mn.us/forms-deadlines/forms/tif-forms/</a>
Decertification form	<a href="https://www.osa.state.mn.us/forms-deadlines/forms/tif-forms/">https://www.osa.state.mn.us/forms-deadlines/forms/tif-forms/</a>
Form Instructions	<a href="https://www.osa.state.mn.us/forms-deadlines/forms/tif-forms/">https://www.osa.state.mn.us/forms-deadlines/forms/tif-forms/</a>
TIF County Guide	<a href="https://www.osa.state.mn.us/training-guidance/guidance/tif-county-guides/">https://www.osa.state.mn.us/training-guidance/guidance/tif-county-guides/</a> (See TIF Checklist for County Officials on Page 55)
External Links	
Auditor/Treasurer Manual	<a href="https://www.revenue.state.mn.us/eoflto/treasurer-manual">https://www.revenue.state.mn.us/eoflto/treasurer-manual</a>
Fiscal Disparity Information	<a href="https://www.revenue.state.mn.us/tax-increment-financing-tif-fiscal-disparity-collator-calculation">https://www.revenue.state.mn.us/tax-increment-financing-tif-fiscal-disparity-collator-calculation</a>



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### Questions?

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[www.osa.state.mn.us](http://www.osa.state.mn.us)

TIF Division  
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