



An Introduction To Tax Increment Financing (TIF)


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

July 15, 2025

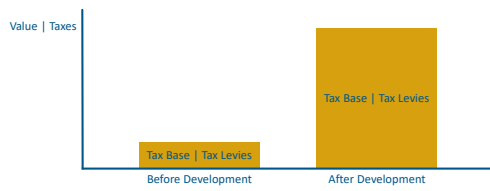
© 2025 Office of the State Auditor
This educational resource is not legal advice and should not be relied upon in lieu of legal advice. Applicability of content is subject to change at any time.


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)

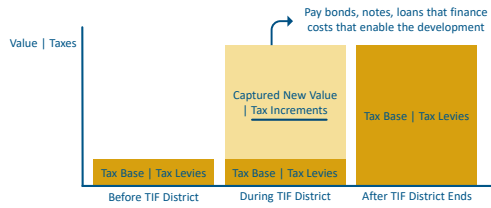
© 2025 Office of the State Auditor


WHAT IS TIF?



© 2025 Office of the State Auditor


WHAT IS TIF?

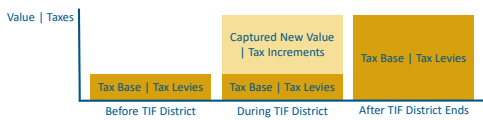


© 2025 Office of the State Auditor



WHAT IS TIF?

Tax Increment Financing (TIF) is a financing tool where **new value** from a development is **captured** from the **tax base** so that the **property taxes** on the new captured value (i.e. the **tax increments**) can instead pay **qualifying costs** that **enable** the development to occur.



© 2025 Office of the State Auditor

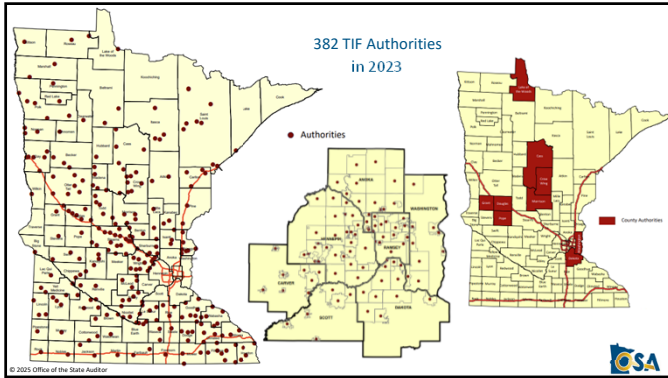


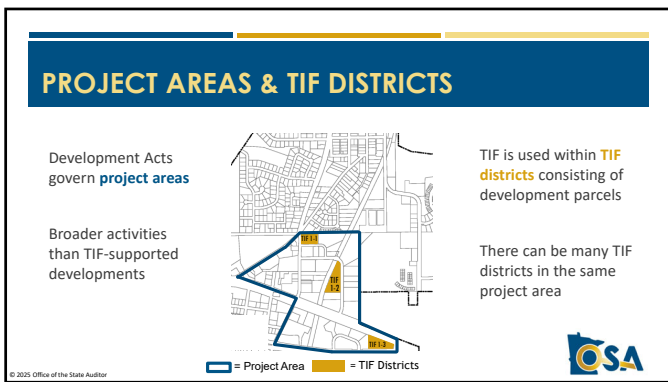
TIF AUTHORITIES & STATUTES

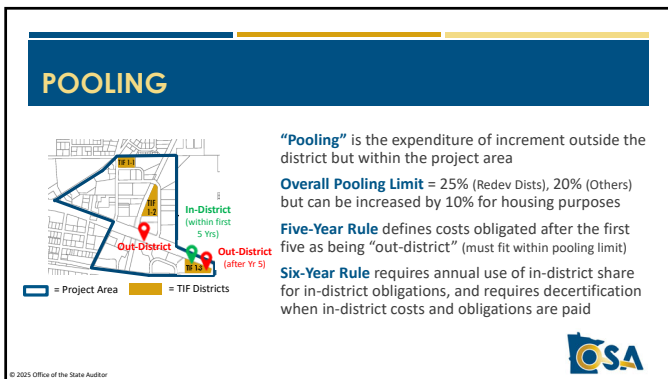
- **Cities** | Minn. Stat. §§ 469.124-.133, 469.152-.165
- **City Port Authorities** | Minn. Stat. §§ 469.048-.089
- **City Economic Development Authorities (EDAs)** | Minn. Stat. §§ 469.090-.1082
- **City Housing and Redevelopment Authorities (HRAs)** | Minn. Stat. §§ 469.001-.047
- **County/Multi-County 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

© 2025 Office of the State Auditor









TYPES OF TIF DISTRICTS

District Type	Maximum Duration	Districts (2023)		Revenue (2023)	
		Count*	%**	\$ Millions	%
Redevelopment	26 years	727	43%	\$163.2	68%
Housing	26 years	608	36%	\$47.4	20%
Economic Development	9 years	294	18%	\$18.9	8%
Renewal & Renovation	16 years	26	2%	\$5.5	2%
Soils Condition	21 years	11	1%	\$0.9	<1%
Uncodified	--	11	1%	\$2.4	1%
Totals		1,678		\$238.4	
Hazardous Substance Subdistricts		20			



*Total includes one Pre-1979 district still reporting.
**Due to rounding, the sum of percentages does not equal 100 percent.

© 2025 Office of the State Auditor

TYPES OF TIF DISTRICTS



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



© 2025 Office of the State Auditor

TYPES OF TIF DISTRICTS

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
- 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
- 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.)



© 2025 Office of the State Auditor

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



© 2025 Office of the State Auditor

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)

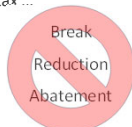


© 2025 Office of the State Auditor

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 the development to occur.

TIF is NOT a tax ...



- Taxpayer pays full tax but incremental taxes finance costs



© 2025 Office of the State Auditor

TIF FINANCING

- **Pay-As-You-Go (PAYG)**
reimburse developer/owner/noteholder who bears the risk

71%
of TIF Debt*

- **General Obligation (GO) Bonds**
municipality pledges taxing powers / bears the risk

14%
of TIF Debt*

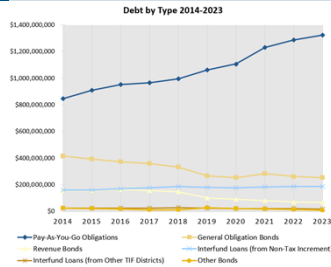
- **Revenue Bonds**
revenues are pledged / bondholders bear the risk

4%
of TIF Debt*

- **Interfund Loans**
authority borrows internally from other districts/funds

11%
of TIF Debt*

*Based on reporting for 2023.



© 2025 Office of the State Auditor

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



© 2025 Office of the State Auditor

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



© 2025 Office of the State Auditor

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.

$$\text{Property Tax} = \text{Value} \times \text{Rate}$$

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



© 2025 Office of the State Auditor

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)



© 2025 Office of the State Auditor

TAX BASE, RATES, & LEVIES

- Tax base capture directly affects tax rates

Rate = Levy / Value (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)

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

- Tax increments are additional taxes

46.770% x \$1,000,000 = \$467,700 city levy

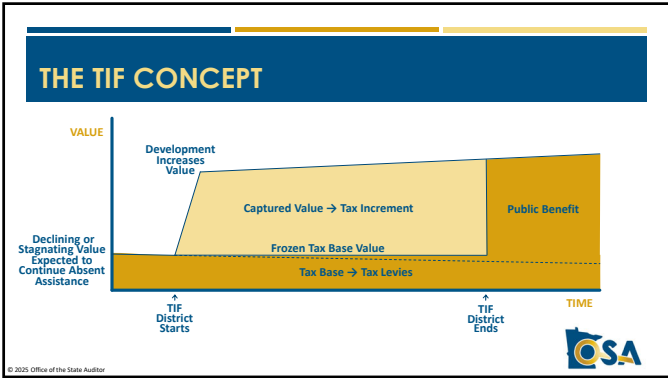
46.770% x \$64,000 = \$29,933 of tax increment

- Tax base capture indirectly affects levy decisions

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



© 2025 Office of the State Auditor



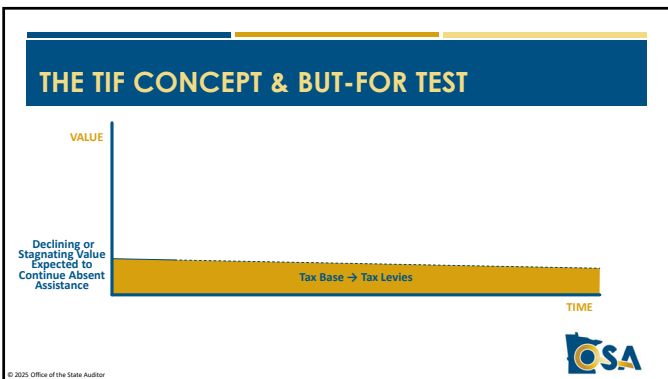
THE BUT-FOR TEST

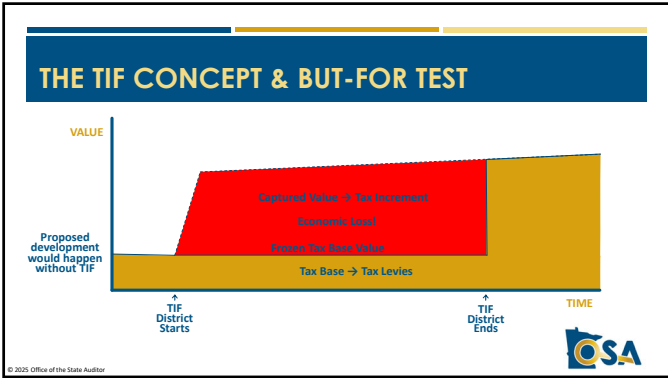
- In the opinion of the municipality:
 - The proposed (re)development would not reasonably be expected to occur solely through private investment within the reasonably foreseeable future
 - Increase in market value reasonably expected without TIF

$<$

Increase in market value after subtracting the present value of projected tax increments

© 2025 Office of the State Auditor





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

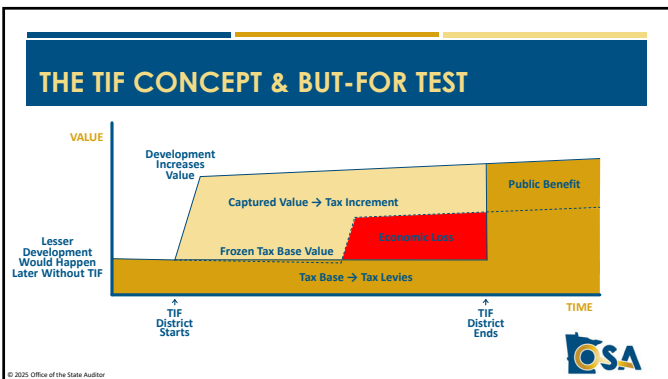
Fail/Pass? - Decent development would happen fairly soon

Fail? - Nearly comparable development would happen soon

FAIL - Proposed development surely would occur without TIF

OSA

© 2025 Office of the State Auditor



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



© 2025 Office of the State Auditor

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.

$$\text{Property Tax} = \text{Value} \times \text{Rate} - \text{Credits}$$

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

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

County Name	District Code	District Name	Incremental Change Credits	Local Option Change Credits	State Taxable Incremental Credits	Property Taxable Credits	Age-Related Credits	Other Year-Related Credits	Other Year-Related Credits	Negative Adj. for Prior Year	Negative Adj. for Prior Year
Big Stone	00-0000	00-0000 CITY OF SIOUX FALLS (CITY OF SIOUX FALLS)				6,162.17					
City	14-1000	14-1000 14-1000 14-1000				163,902.31					
State	00-0000	00-0000 DEVELOPMENT COST				797.98					

© 2025 Office of the State Auditor

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?



© 2025 Office of the State Auditor

RIGHT-SIZING THE USE OF TIF

Tax increment generated:

$$136.866\% \text{ (Total rate)} \times \$64,000 = \$87,594 \text{ of total tax increment}$$

$$\$87,594 \times 26 \text{ years} = \mathbf{\$2,277,450}$$

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



© 2025 Office of the State Auditor

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

$$\begin{matrix} \text{Estimated} \\ \text{Project} \\ \text{Cost} \end{matrix} + \begin{matrix} \text{Estimated} \\ \text{Financing} \\ \text{Cost} \end{matrix} \leq \begin{matrix} \text{Estimated Tax} \\ \text{Increment} \\ \text{Revenues} \end{matrix}$$

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



© 2025 Office of the State Auditor

RIGHT-SIZING THE USE OF TIF

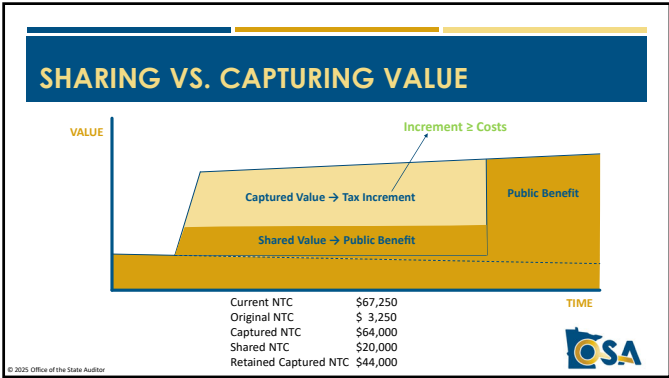
Set appropriate authorized costs

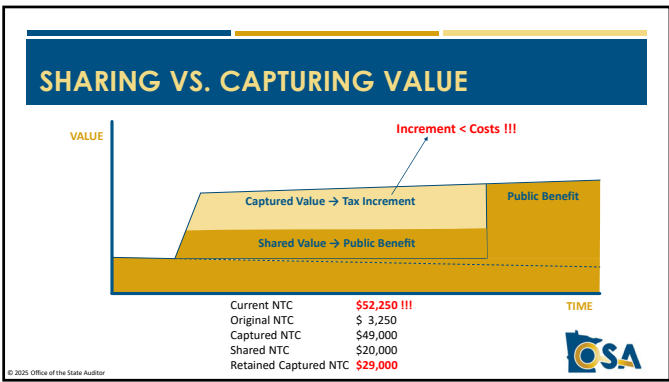
- Maximize expenditures of increments as a revenue stream?
- Minimize expenditures to maximize tax base benefits?
- Set an earlier duration limit?
- Share captured value with the tax base or decertify early?

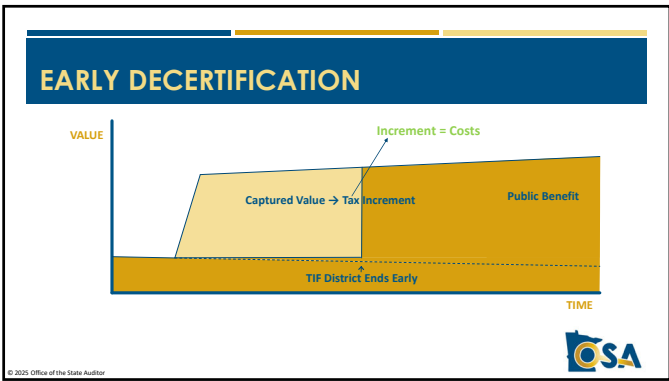
Estimated Project Costs	
Land/building acquisition	\$ 200,000
Site improvements/preparation costs	\$ 325,000
Utilities	\$ 175,000
Other public improvements	\$ 0
Construction of affordable housing	\$ 0
Administrative costs	\$ 50,000
Estimated Financing Cost	
Interest expense	\$ 250,000
Estimated Project + Financing Costs	
TOTAL	\$1,000,000
Estimated Tax Increment Revenues	
TOTAL	\$2,277,450



© 2025 Office of the State Auditor







EARLY DECERTIFICATION

Decertifications 2019-2023

District Type (Max Duration)	Decertified Districts	Lasted Full Duration	Decertified Early	
			%	Avg. Yrs.
Redevelopment (26 years)	165	24%	76%	10
Housing (26 years)	124	25%	75%	10
Economic Development (9 years)	152	60%	40%	3
Renewal & Renovation (16 years)	8	63%	38%	0
Soils Condition (21 years)	2	0%	100%	3

© 2025 Office of the State Auditor



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



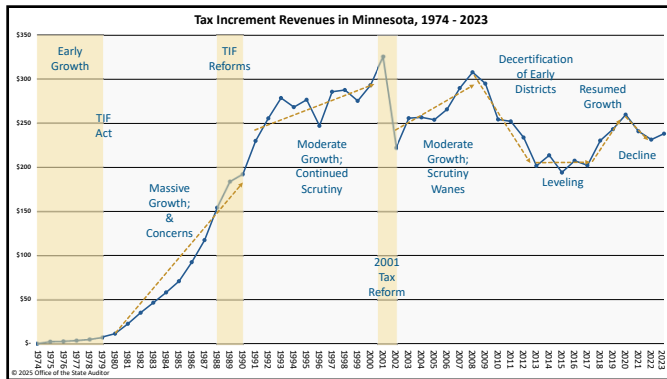
© 2025 Office of the State Auditor

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



© 2025 Office of the State Auditor



HISTORY

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

© 2025 Office of the State Auditor

HISTORY

2023 TIF Clarifications

- Overall Pooling Limit
- Five-Year Rule
- Six-Year Rule
- Pooling for deficits
- Definition of administrative expenses
- Administrative expense limit
- Violation statutes
- PAYG Note definition
- Reporting requirements
- Small cities definition

© 2025 Office of the State Auditor

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



© 2025 Office of the State Auditor

RESOURCES

OSA Resources

OSA Website	https://www.osa.state.mn.us
SAFES	https://safes.osa.state.mn.us/
OSA Weekly Update	https://www.osa.state.mn.us/news/updates/osa-weekly-update/
Statements of Position	https://www.osa.state.mn.us/training-guidance/guidance/statements-of-position/
Training Videos	https://www.osa.state.mn.us/training-guidance/training/training-opportunities/
TIF Articles	https://www.osa.state.mn.us/training-guidance/guidance/tif-topics/
Certification Supplement	https://www.osa.state.mn.us/terms-deadlines/forms/tif-forms/
Decertification form	https://www.osa.state.mn.us/terms-deadlines/forms/tif-forms/
Form Instructions	https://www.osa.state.mn.us/terms-deadlines/forms/tif-forms/
TIF County Guide	https://www.osa.state.mn.us/training-guidance/guidance/tif-county-guides/ (See TIF Checklist for County Officials on Page 55)

External Links

Auditor/Treasurer Manual	https://www.revenue.state.mn.us/auditor/treasurer-manual
Fiscal Disparity Information	https://www.revenue.state.mn.us/tax-increment-financing-tif-fiscal-disparity-action-calculation



© 2025 Office of the State Auditor

Questions?

© 2025 Office of the State Auditor



Office of the State Auditor

www.osa.state.mn.us

TIF Division
TIF@osa.state.mn.us
651-296-4716

© 2025 Office of the State Auditor
