



## What Is TIF And How Does It Work In Minnesota?

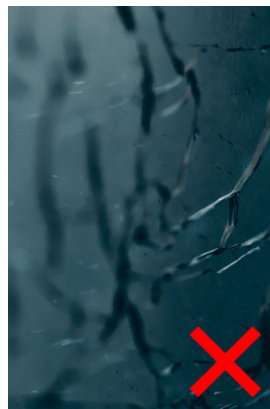
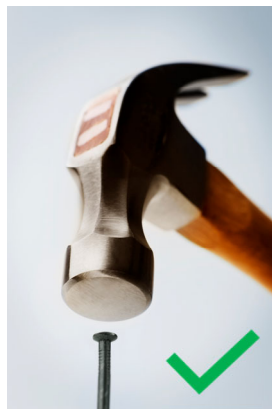
Minnesota Office of the State Auditor  
Jason Nord, TIF Division Director

League of Women Voters of Edina  
October 10, 2024

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### WHAT IS TIF?



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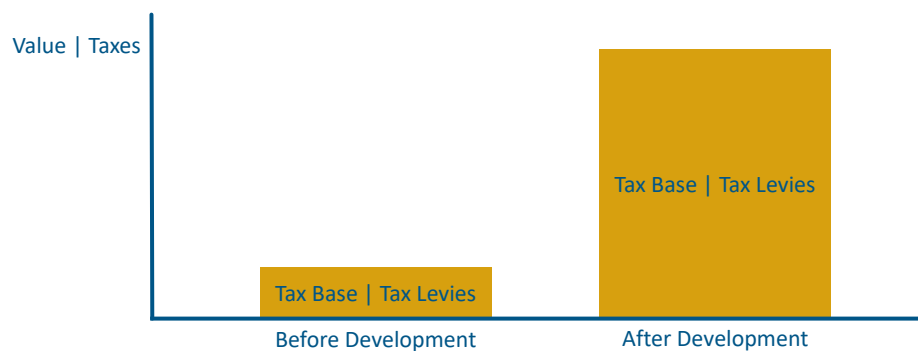
## WHAT IS TIF?

- 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)



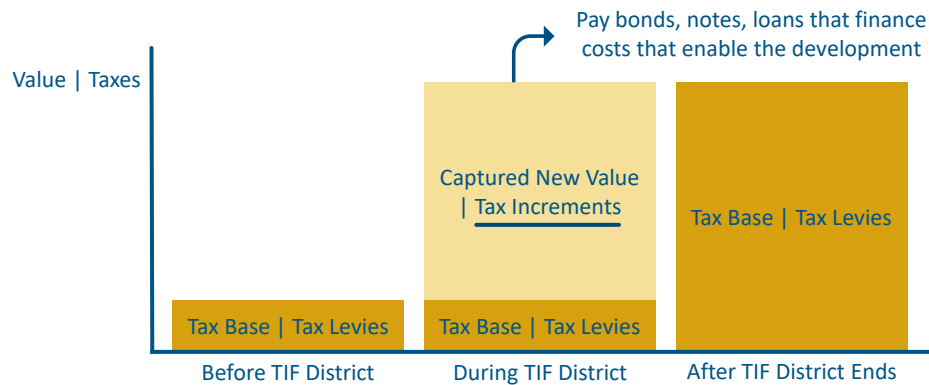
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## WHAT IS TIF?



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## WHAT IS TIF?

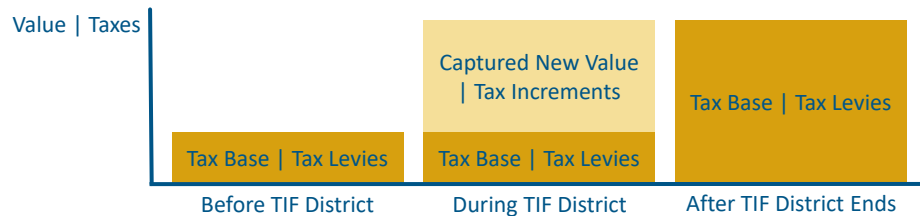


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## WHAT IS TIF?

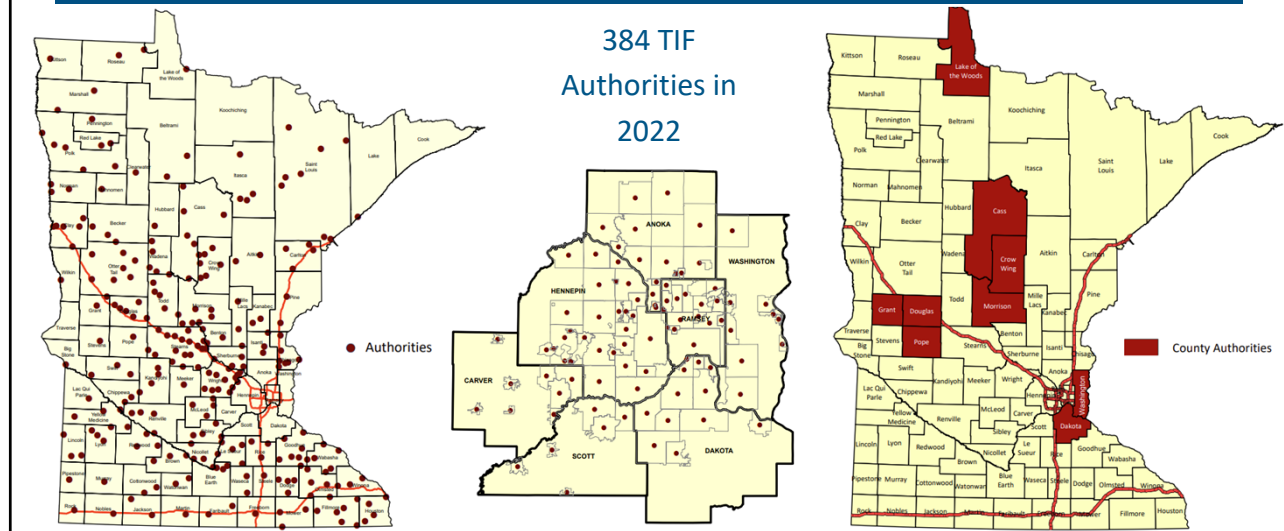
Tax Increment Financing (TIF) is a financing tool where **new value** from a development is **captured** from the **tax base** so that the **property taxes** on the new captured value (i.e. the **tax increments**) can instead pay **qualifying costs** that **enable** the development to occur.



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## TIF AUTHORITIES



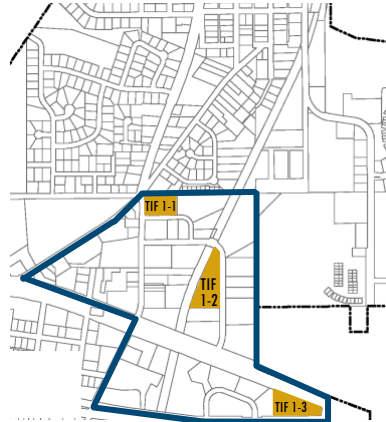
## TIF AUTHORITIES & STATUTES

- **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\*  
 \*Has changed over time and special laws are not uncommon

## PROJECT AREAS & TIF DISTRICTS

Development Acts govern **project areas**

Broader activities than TIF-supported developments



— = Project Area    — = TIF Districts

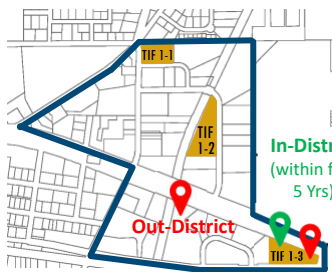
TIF is used within **TIF districts** consisting of development parcels

There can be many TIF districts in the same project area



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## 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 yrs as being “out-district” (must fit within pooling limit)

**Six-Year Rule** 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%
<b>Totals</b>		<b>1,669</b>		<b>\$231.5</b>	
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.



## 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

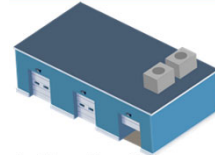
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## TYPES OF TIF DISTRICTS

### 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
- No commercial/retail except small cities ( $\leq 5,000$  that are 5/10+ miles from city of 10,000+)
- 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))
    - $\leq 115\%$  of  $>$  of area or state median income
  - Rental:
    - Property meets req's for a qualified residential rental project (IRC §142(d))
    - 20% of units  $\leq 50\%$  area median income
    - 40% of units  $\leq 60\%$  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



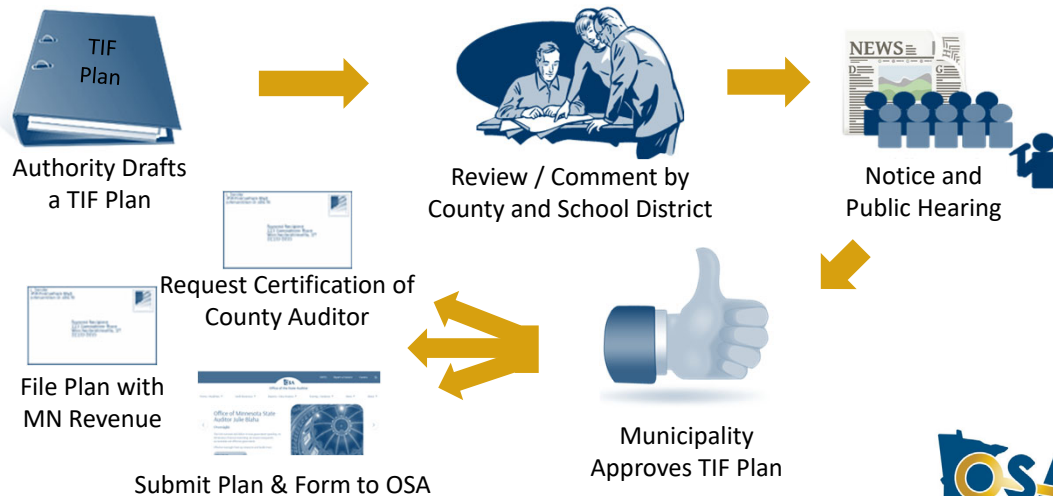
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### Hazardous Substance Subdistricts

- 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)



## CREATION PROCESS



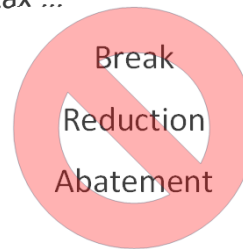
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## TIF FINANCING

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 the 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
- **General Obligation (GO) Bonds**  
municipality pledges taxing powers / bears the risk
- **Revenue Bonds**  
revenues are pledged / bondholders bear the risk
- **Interfund Loans**  
authority borrows internally from other districts/funds

**70%**  
of TIF Debt\*

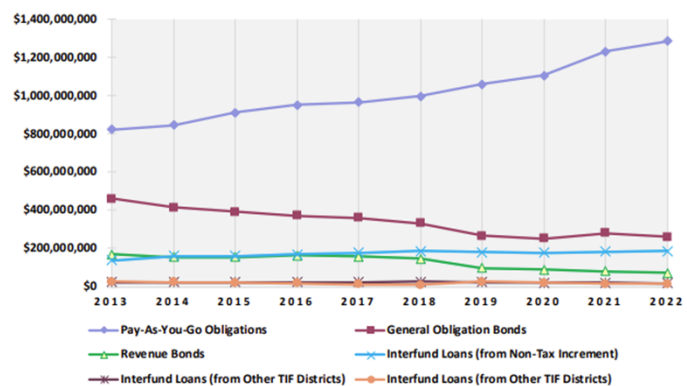
**14%**  
of TIF Debt\*

**4%**  
of TIF Debt\*

**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



MV: \$ 200,000

After Development



MV: \$3,400,000



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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

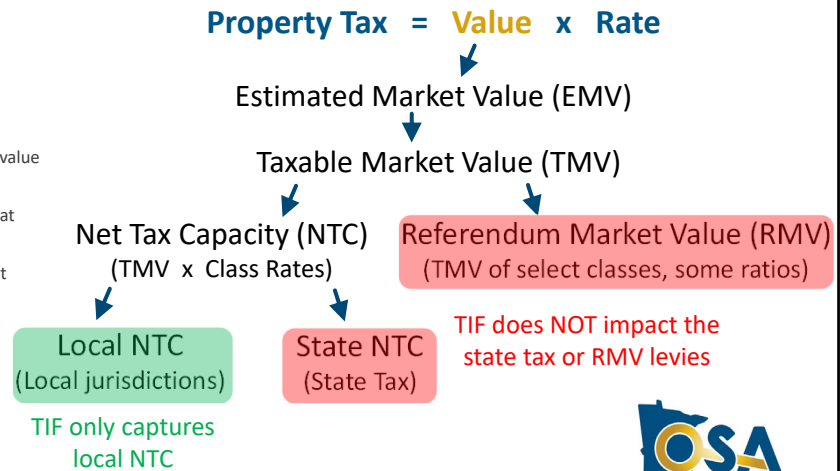
**new value** is **captured** so that

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.



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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		Captured Value	
			
Original NTC:	\$ 3,250	Captured NTC:	\$ 64,000
City	\$ 1,520	Tax Increment:	\$ 87,594
County	\$ 1,665	(Does not support local levies for the duration of the district)	
School District	\$ 995		
Others	\$ 268		
Total	\$ 4,448		



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## 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

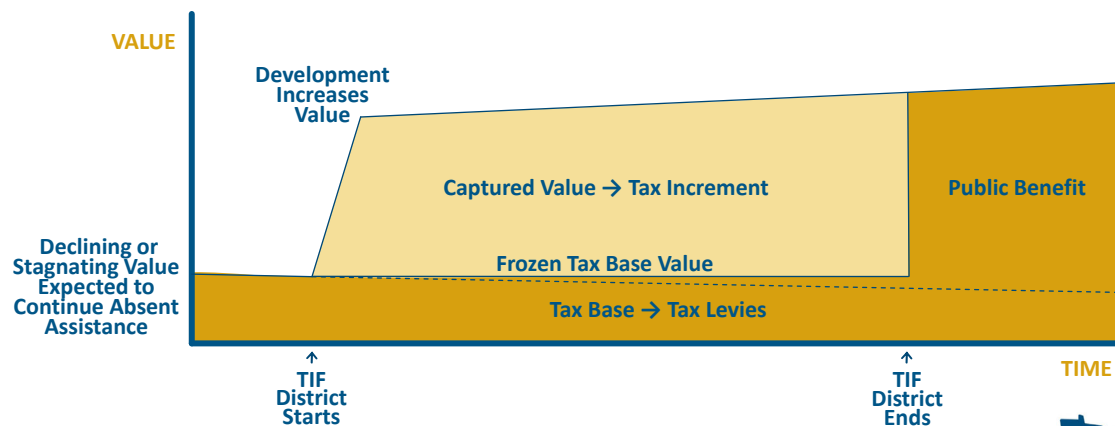
46.770% x \$64,000 = \$29,933 of tax increment

- Tax base capture indirectly affects levy decisions



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## THE TIF CONCEPT



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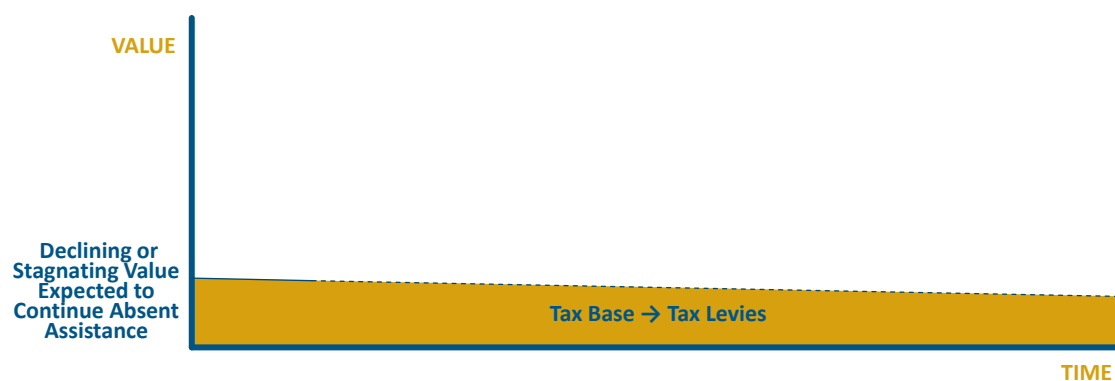
## THE BUT-FOR TEST

- 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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## THE TIF CONCEPT & BUT-FOR TEST



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## THE TIF CONCEPT & BUT-FOR TEST



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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

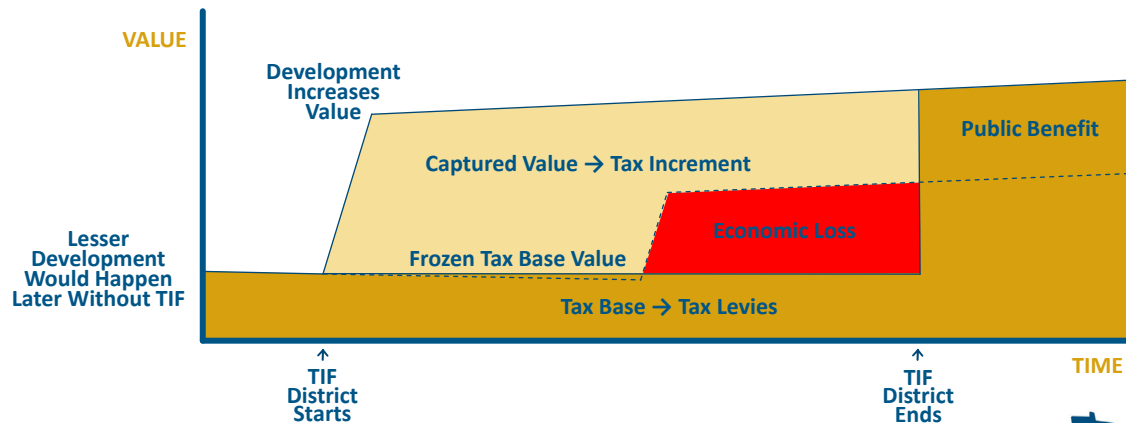
Fail? - Nearly comparable development would happen soon

FAIL - Proposed development surely would occur without TIF



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## THE TIF CONCEPT & BUT-FOR TEST



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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.

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

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



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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:

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

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

### ■ Costs needed to enable development:

Acquisition costs	\$ 200,000
Site improvements	\$ 325,000
Utilities	\$ 175,000
Administrative costs	\$ 50,000
Interest	<u>\$ 250,000</u>
Total	<b><u>\$1,000,000</u></b>



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## RIGHT-SIZING THE USE OF TIF

### ■ TIF Plan estimates:

Costs of the Project (including administrative costs)  
Interest as a Financing Cost  
Tax Increment Generated

### ■ Project and Interest Costs cannot exceed Estimated Increment

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

#### 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	\$ 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
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### Estimated Project + Financing Costs

TOTAL	\$1,000,000
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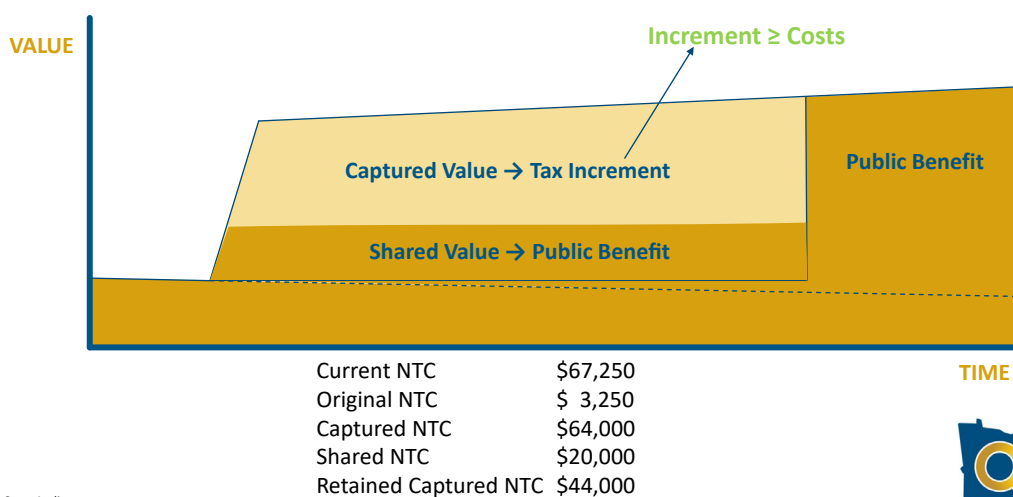
### Estimated Tax Increment Revenues

TOTAL	\$2,277,450
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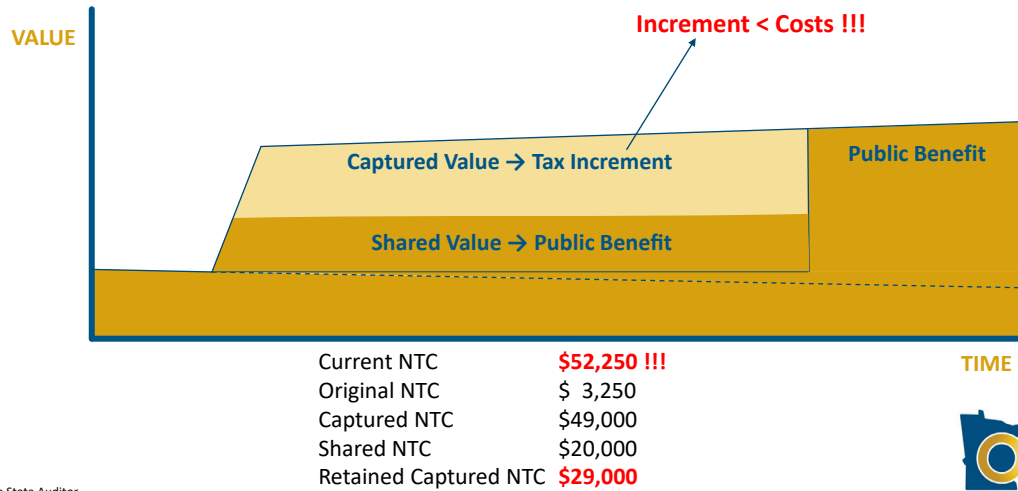
## SHARING VS. CAPTURING VALUE



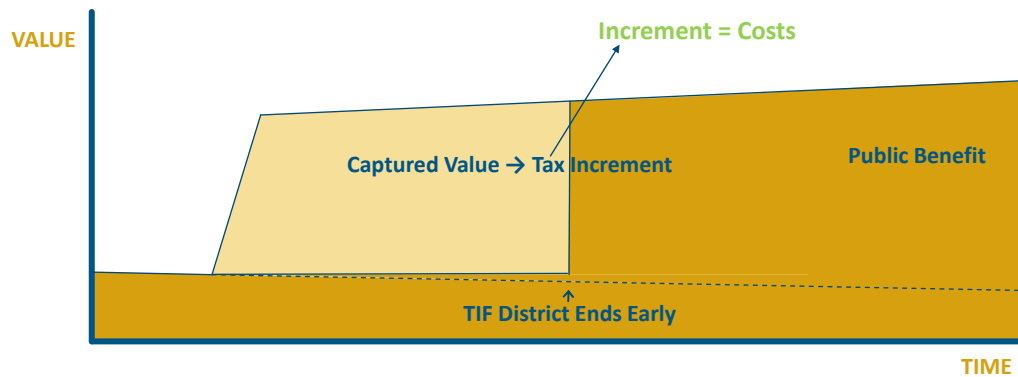
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## SHARING VS. CAPTURING VALUE



## EARLY DECERTIFICATION



## 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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## KEY CONSIDERATIONS

- Is the but-for finding appropriate?
  - Public hearing is key opportunity for engagement
  - Determination is generally considered conclusive
- Can early decertification be achieved?
  - Expenditures may have some level of discretion
  - Early decertification makes the benefits available sooner



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# Questions?

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