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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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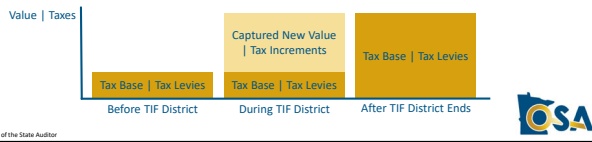
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### WHAT IS TIF?

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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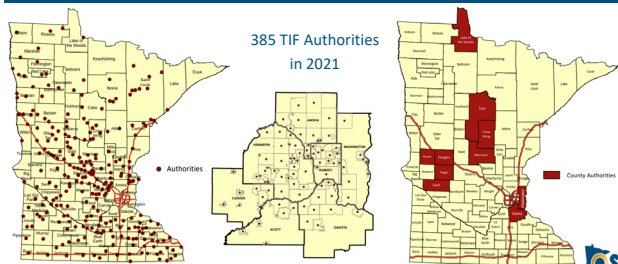
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### TIF AUTHORITIES



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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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## PROJECT AREAS & TIF DISTRICTS

Development Acts govern **project areas**

Broader activities than TIF-supported developments

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

**“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


### 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 the development to occur.

- TIF is **NOT** a tax ...
 

Break  
Reduction  
Abatement
- Taxpayer pays full tax but incremental taxes finance costs



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## TIF FINANCING

- **Pay-As-You-Go (PAYG)**  
 reimburse developer/owner/note-holder who bears the risk 68% of TIF Debt\*
- **General Obligation (GO) Bonds**  
 municipality pledges taxing powers / bears the risk 16% of TIF Debt\*
- **Revenue Bonds**  
 revenues are pledged / bondholders bear the risk 5% of TIF Debt\*
- **Interfund Loans**  
 authority borrows internally from other districts/funds 11% of TIF Debt\*

\*Based on reporting for 2021.

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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)

↓

**Local NTC**  
(Local jurisdictions)


TIF only captures local NTC

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

↓

**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	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)	Total NTC of City	\$1,064,000
City rate with TIF = 46.770% (= \$467,700 / \$1,000,000)	Captured NTC	\$ 64,000
City rate without TIF = 43.957% (= \$467,700 / \$1,064,000)	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



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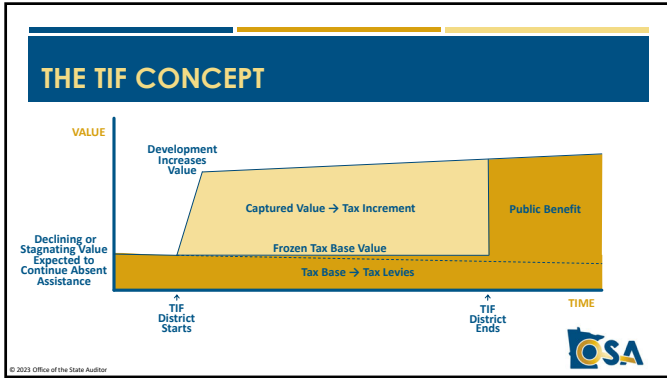
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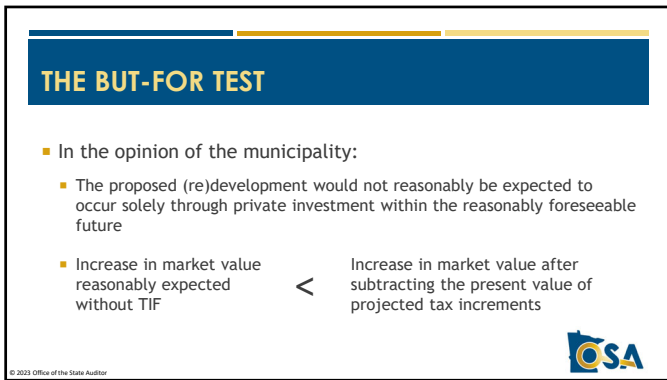
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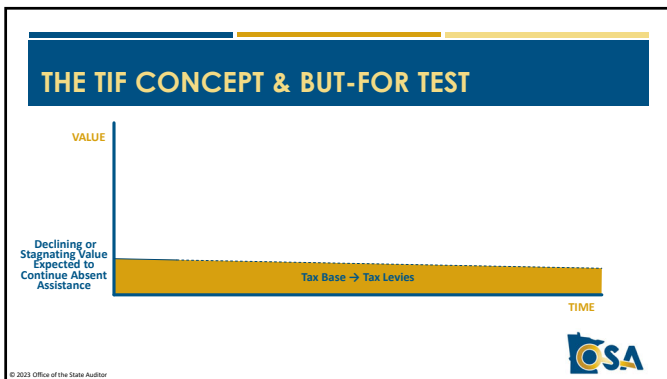
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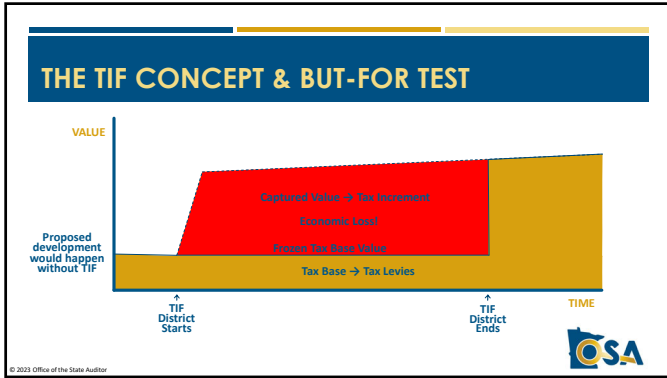
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### THE BUT-FOR TEST

- 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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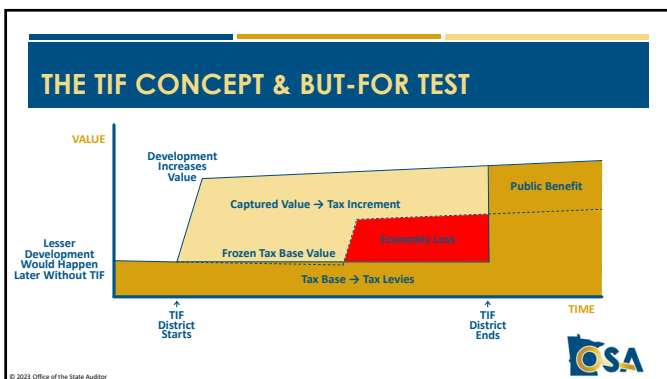
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## IMPACT ON OTHER JURISDICTIONS

- 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 Special District Credits	State Taxing District Credits	Disparity District Credits	Agg. Disparity Credits	Prior Year Homestead Credits	Prior Year Other Homestead Credits	Negative Adj. for Prior Year Homestead Credits	Negative Adj. for Prior Year Other Credits
Big Stone	00-000	00-000, CITY OF WINFORD, ILL. 2.1.1. NORTHFIELD LITE DOWNTOWN DISTRICT	-	-	-	6,675.14	-	-	-	-	-
Day	14-000	14-000, District 14	-	-	-	103,903.70	-	-	-	-	-
HA-000	19-000	19-000, Center Campus	-	-	-	29,000.00	-	-	-	-	-

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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
<b>Total</b>	<b>\$1,000,000</b>



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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
 

<b>Estimated Project Cost</b>	+	<b>Estimated Financing Cost</b>	≤	<b>Estimated Tax Increment Revenues</b>
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**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?

<b>Estimated Project Costs</b>	
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
<b>Estimated Financing Cost</b>	
Interest expense	\$ 250,000
<b>Estimated Project + Financing Costs</b>	
TOTAL	\$1,000,000
<b>Estimated Tax Increment Revenues</b>	
TOTAL	\$2,277,450



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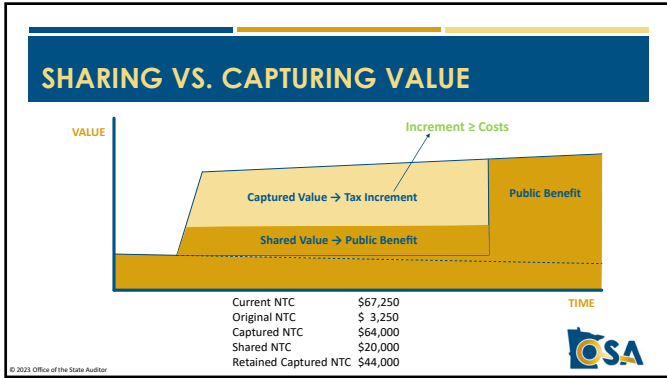
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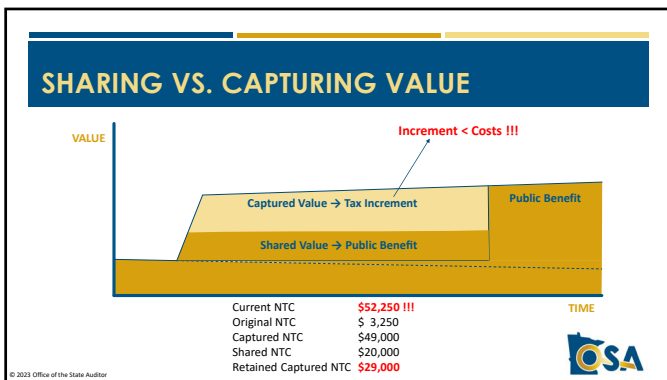
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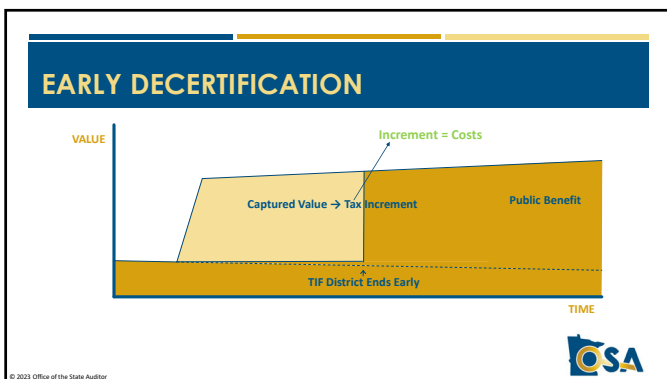
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## EARLY DECERTIFICATION

**Decertifications 2017-2021**

District Type (Max Duration)	Decertified Districts	Lasted Full Duration	Decertified Early	
			%	Avg. Yrs.
Redevelopment (26 years)	174	22%	78%	10
Housing (26 years)	98	22%	78%	9
Economic Development (9 years)	138	62%	38%	4
Renewal & Renovation (16 years)	6	100%	0%	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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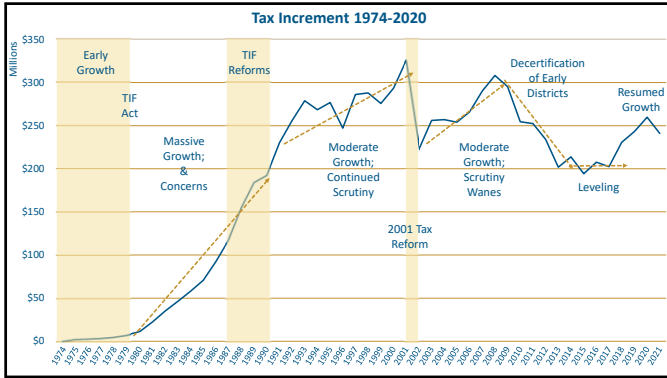
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### HISTORY

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

- 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

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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

**An Introduction to TIF Training 2022**

**Webinar Resources**

Audio Troubleshooting <https://support.pano.com/webinar/help/why-cant-i-hear-anyone-62x00056>

Other Technical Issues Ask questions in Question/Chat pane or e-mail [tif@osa.state.mo.us](mailto:tif@osa.state.mo.us)

**OSA Resources**

OSA Website <https://www.osa.state.mo.us>

SAFES <https://safes.osa.state.mo.us/>

E-Update Sign up/Archives <https://www.osa.state.mo.us/news/updates/e-updates/>

Statements of Position <https://www.osa.state.mo.us/training-guidance/guidance/statements-of-position/>

Training Videos <https://www.osa.state.mo.us/training-guidance/training/training-opportunities/>

TIF Articles <https://www.osa.state.mo.us/training-guidance/guidance/tif-articles/>

Certification Supplement <https://www.osa.state.mo.us/forms-deadlines/forms/tif-forms/>

Decertification form <https://www.osa.state.mo.us/forms-deadlines/forms/tif-forms/>


Form Instructions <https://www.osa.state.mo.us/forms-deadlines/forms/tif-forms/>

TIF County Guide <https://www.osa.state.mo.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.mo.us/auditor/treasurer-manual>

Fiscal Disparity Information <https://www.revenue.state.mo.us/tax-increment-financing-tif-fiscal-disparity-information-collections>



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# Questions?

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[www.osa.state.mn.us](http://www.osa.state.mn.us)  
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[TIF@osa.state.mn.us](mailto:TIF@osa.state.mn.us)  
651-296-4716

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