

TIF Overview

The Tax Increment Financing (TIF) Law (Minnesota Statutes, Sections 469.174 to 469.179) is complex and has changed over the years and continues to change. The TIF Law gives the power to establish TIF districts to an “authority.” An Authority (as defined in Minnesota Statutes, Section 469.174, Subd.2) has the power to act for the purposes of creating and administering TIF districts and plans. Authorities include cities, economic development authorities (EDA), housing and redevelopment authorities (HRA), and port authorities. Depending on whether an Authority is acting under HRA powers or Municipal powers, these powers are required to be exercised within a Redevelopment Project or a Municipal Development District. An Authority cannot act on adopting a TIF plan without prior approval by the Municipality.

Types of TIF Districts

There are different types of TIF districts authorized by the TIF Law. Which type of district is applicable to a specific project depends on the details of the project. To create a TIF district a specific process must be followed and ongoing reporting is required. The types of districts are listed below:

▶ Economic Development District

- Duration limit is 8 years after receipt of first increment
- No restrictions on the geographic areas that qualify
- More than 75% of the buildings and facilities in the district (determined on the basis of square footage) must be used for manufacturing, warehousing, research and development facilities, telemarketing, tourism facilities (in qualifying counties), qualified border retail facilities, or space necessary for and related to these purposes
- Special provisions for commercial development (up to 15,000 square feet of any separately owned commercial facility) located within a “small city”
- Revenue derived from tax increment may be used to provide improvements, loans, subsidies, grants, interest rate subsidies, or assistance in any form

▶ Housing District

- Duration limit is 25 years after receipt of first increment
- No restrictions on the geographic areas that qualify
- Portion of housing must be occupied by persons or families of “low or moderate income”
- Income requirements are different for owned and rental housing, vary by location, and change over time
- Revenue derived from tax increment must be used solely to finance the cost of “housing projects”

▶ Redevelopment District

- Duration limit is 25 years after receipt of first increment
- Parcels consisting of 70% of the area of the district must be “occupied” and more than 50% of the buildings are found to be “structurally substandard”

Please contact a Northland public finance professional with any questions about how Northland can serve your community.

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Continued on next page

- Districts with noncontiguous areas must qualify each area and the entire area of the district
- Specific requirements for determination of structurally substandard
- Certain rail facilities, tank facilities, and disaster areas may qualify as redevelopment districts
- Qualifying conditions must be reasonably distributed throughout the district
- Possible to make and preserve findings prior to establishing district
- At least 90% of the revenues derived from tax increments must be used to finance costs of correcting conditions that allowed district designation

► Renewal and Renovation District

- Duration limit is 15 years after receipt of first increment
- Parcels consisting of 70% of the area of the district must be “occupied,” 20% of the buildings are found to be “structurally substandard,” and 30% of the other buildings require substantial renovation or clearance to remove “existing conditions”
- At least 90% of the revenues derived from tax increments must be used to finance costs of correcting conditions that allowed district designation

► Soils Condition District

- Duration limit is 20 years after receipt of first increment
- Geographic areas that qualify must be for sites that contain pollution and cost of cleanup exceeds lesser of \$2.00 per square foot or the fair market value of the land
- Permitted uses of increment are for site acquisition and cleanup

► Hazardous Substance Sub-Districts

- Duration limit is 25 years after receipt of first increment
- Created within TIF district
- Geographic area made up of any parcels that are “designated hazardous substance sites” and may include additional parcels in the district that are contiguous to the hazardous substance sites.
- Designated hazardous substance sites must be subject to removal or remedial actions specified in a “development response action plan”

- Permitted uses include removal or remedial actions, pollution testing, demolition, and soil compaction correction necessitated by the development response action plan; purchase of environmental insurance or deposits to a guaranty fund; and related administrative and legal costs

■ Tax Increment

In simple terms, tax increment is the local property tax revenues derived from the property value captured by the TIF District. Like many aspects of the TIF Law, the actual definition of tax increment is more complicated. Here are some important factors in understanding tax increment:

- The value of property at the time the TIF District is established is the Original Tax Capacity Value (sometimes called the “base” value). Revenues from this value are not captured and are paid to the local taxing jurisdictions. Tax increment only occurs when the current value exceed the Original Value.
- The original Estimated Market Value of the parcels is frozen. The Tax Capacity Value changes with the use of the property.
- In the 7-county Twin Cities metropolitan area, the Authority must decide whether to make the Fiscal Disparities contribution from the TIF District (reducing the captured value) or from outside of the District (reducing the tax base for general taxation).
- The tax rate used to calculate the annual tax increment cannot exceed the Original Tax Rate set when the TIF district is established. If the current tax rate is higher, the amount above the Original Tax Rate is excess increment and returned to the local taxing jurisdictions.
- The State property tax and market value property taxes are not captured by a TIF district.
- In the TIF Law, tax increment may mean something other than the property tax revenues derived from captured value. In some cases, other revenues derived from tax increment (i.e. - land sales or loan repayment) may be treated as tax increment. It is important to understand the context of any given use of taxincrement.