

TAX INCREMENT FINANCING (TIF)

HOUSE PROPERTY TAX COMMITTEE - FEBRUARY 17, 2020



© 2021 Office of the State Auditor

OUR TIF ROLE

Collect annual reports (400+ TIF authorities, 1,600+ TIF districts, 200+ other annual filings)

Examine TIF authorities' use of TIF

Work with TIF authorities to address compliance issues, issuing notices of non-compliance when necessary

Provide training and materials to help authorities understand TIF laws and use TIF appropriately

Provide an annual Legislative Report; be available to share our expertise as Legislators have questions



© 2021 Office of the State Auditor

WHAT IS TIF?

TIF is a **financing tool** established by the Legislature to support local **economic development, redevelopment, and housing development**

TIF is **not** a tax reduction

Incremental property taxes, or "tax increments," finance activities



© 2021 Office of the State Auditor

WHAT IS TIF?

New net tax capacity (NTC) is captured and **does NOT** support county, city, school & other local NTC levies (But does support state NTC levy and RMV levies)

Taxes on captured NTC ("tax increments") **finance qualifying development costs**

Before Development



Original NTC: \$ 3,250

Remains the tax base value

After Development



Development NTC: \$ 67,250
New/Captured NTC: \$ 64,000

NOT part of the tax base

for the duration of the district



© 2021 Office of the State Auditor

WHAT IS TIF?

TIF impacts all local jurisdictions, not just the municipality that approves its use

Captured NTC is excluded when calculating tax rates (so rates will raise the full amount of local levies)

Tax increments are additional taxes above levy amounts



© 2021 Office of the State Auditor

WHAT IS TIF?

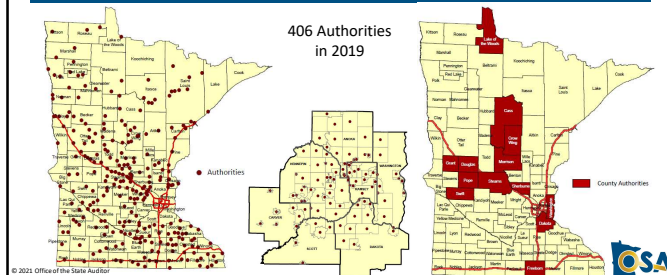
Merits generally hinge on the **but-for test** – the authority must find the development would not happen but for the assistance of TIF

Meant to tackle market failures like the high costs of redevelopment and under-supply of affordable housing



© 2021 Office of the State Auditor

TIF AUTHORITIES



CREATION PROCESS



POOLING

TIF districts (developed parcels creating increment) are often smaller than **project areas** (where broader development activities take place)

Expending increment outside the district but in the project area is called **“pooling”** and is limited

- Overall pooling limited to 20% or 25%
- Five-Year Rule defines new obligations after five years to be “out-district”
- Six-Year Rule provides annual pooling limits starting in year six and requires early decertification when there is sufficient increment to pay in-district obligations



© 2021 Office of the State Auditor

DECERTIFICATION

- Decertification is the termination of a TIF district
- County auditor removes all remaining parcels
- Ends collection of increment
- Reporting must continue until revenue is spent or returned



© 2021 Office of the State Auditor

LEGISLATIVE CHANGE

1979 TIF Act established limits and procedures

80s / 90s frequent changes and reforms

2001 Tax Reform diminished school aid interactions (and frequency of significant changes)

OSA would like to see some **clarifications**



© 2021 Office of the State Auditor

FREQUENT SPECIAL LAW ISSUES

Five-Year Rule extensions for entering contracts that will count as in-district obligations

Duration extensions to complete payment of obligations

Qualification exceptions such as deeming “blight” qualifications to be met for redevelopment districts

Various other **limitation exceptions**



© 2021 Office of the State Auditor

TYPES OF DISTRICTS, 2019 COUNTS

District Type (Max Duration)	Statewide	Greater MN	Metro
Redevelopment (26 years)	752	408	344
Housing (26 years)	542	373	169
Economic Development (9 years)	304	249	55
Renewal & Renovation (16 years)	27	9	18
Soils Condition (21 years)	11	3	8
Pre-1979	1	1	0
Uncodified	11	0	11
TOTALS	1,648	1,043	605
Hazardous Substance Subdistricts	22	2	20

© 2021 Office of the State Auditor

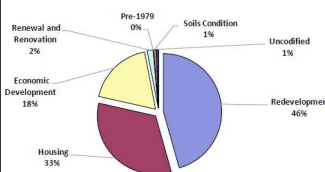
TYPES OF DISTRICTS, 2019 REVENUES

District Type (Max Duration)	Statewide	Greater MN	Metro
Redevelopment (26 years)	\$180.6 M	\$16.2 M	\$164.4 M
Housing (26 years)	\$34.2 M	\$11.1 M	\$23.1 M
Economic Development (9 years)	\$20.6 M	\$8.6 M	\$12.0 M
Renewal & Renovation (16 years)	\$6.3 M	\$0.5 M	\$5.8 M
Soils Condition (21 years)	\$0.3 M	\$0.1 M	\$0.2 M
Pre-1979	\$0	\$0	\$0
Uncodified	\$1.3 M	\$0	\$1.3 M
TOTALS	\$243.2 M	\$36.4 M	\$206.8 M

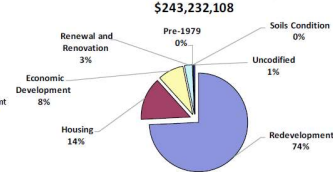
© 2021 Office of the State Auditor

COUNTS VS REVENUES BY TYPE

TIF Districts by Type Statewide, 2019



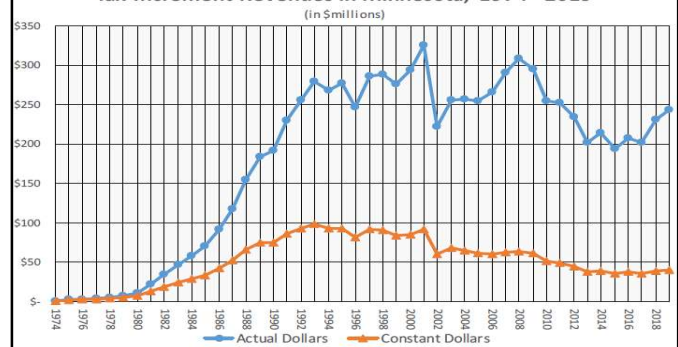
Tax Increment Revenue Statewide, 2019



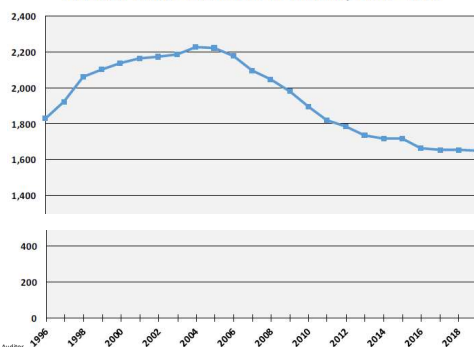
© 2021 Office of the State Auditor



Tax Increment Revenues in Minnesota, 1974 - 2019

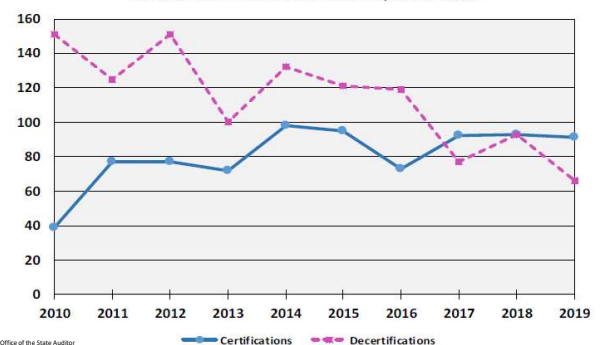


Historical Trend: Number of TIF Districts, 1996 - 2019



© 2021 Office of the State Auditor

Certifications vs. Decertifications, 2010 - 2019



© 2021 Office of the State Auditor

EARLY DECERTIFICATION

Decertifications 2015-2019

District Type (Max Duration)	Decertified Districts	Lasted Full Duration	Decertified Early	
			%	Average Years
Redevelopment (26 years)	225	37%	63%	10
Housing (26 years)	130	21%	79%	11
Economic Development (9 years)	115	70%	30%	4
Renewal & Renovation (16 years)	5	80%	20%	15
Soils Condition (21 years)	1	0%	100%	6



© 2021 Office of the State Auditor

TIF DEBT 2019

■ Pay-As-You-Go (PAYG)

reimburse developer/owner/note-holder who bears the risk

■ General Obligation (GO) Bonds

municipality pledges taxing powers / bears the risk

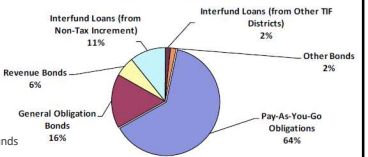
■ Revenue Bonds

revenues are pledged / bondholders bear the risk

■ Interfund Loans

authority borrows internally from other districts/funds

Reported Debt by Type, 2019
\$1,668,629,482



© 2021 Office of the State Auditor

RETURNED TAX INCREMENT

\$8,613,151 of tax increment was returned by TIF authorities in 2019 for redistribution as property taxes to cities, counties, and school districts



© 2021 Office of the State Auditor



Office of the State Auditor

Jason Nord
Jason.Nord@osa.state.mn.us
651-296-7979

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

© 2021 Office of the State Auditor