

## **What is TIF? Who can use it?**

Minnesota law allows local governments to finance real estate development by using tax increment financing, or TIF, to capture increases in local property taxes caused by development. TIF can be used by a variety of local government units but is most commonly used by cities and by development authorities created by a city or a county. A local government unit overseeing a TIF project is called an “authority.”

## **How does TIF generate revenue for a TIF authority?**

When a local government decides to use TIF, it must create a TIF plan that (among other things) lists the parcels that make up the new TIF district. After a plan is adopted, the county auditor certifies (1) the district’s original net tax capacity (the product of the property’s taxable market value and the relevant class rate) and (2) the local property tax rates. Over time, TIF development usually increases the taxable market value of property in a district. TIF does not impact how property owners in a district pay their taxes; however, when property taxes are distributed, the revenue generated by applying the original local property tax rates to any increase in net tax capacity is captured and delivered to the authority as the “increment.” While a TIF district is active, the local taxing jurisdictions cannot collect taxes on the full value of property within the district, except when one of the local taxing jurisdictions is acting as the authority. TIF does not capture state-imposed property taxes.

## **How are up-front development costs paid with TIF?**

Because a TIF district will not generate increment until after development starts, tax increment cannot pay for up-front development costs, and a TIF authority must borrow money or incur debt to pay these costs. Usually, an authority will use pay-as-you-go financing, in which the authority agrees to reimburse a developer who bears the up-front development costs. An authority may also pay for up-front costs by issuing bonds or by borrowing money either from other funds or from other TIF districts. Once a district begins generating increment, the authority can begin using increment to pay off its debt.

## **When can TIF be used? What is the “but-for test”?**

TIF can only be used when the proposed TIF district passes the “but-for test.” Before creating a TIF district, the but-for test requires that the appropriate municipality (usually the city containing the district) find that: (1) the proposed development would not occur without TIF; and (2) the market value of the site will be higher (after subtracting the projected value of tax increments) than what would occur on the site without TIF. Additional findings and criteria may be required depending on the type of district.

## **How and where may tax increment be spent?**

There are many restrictions on the use of increment. Generally, an authority must spend increment on addressing the conditions that warranted creation of a district and on administrative costs. A percentage of increment must be spent in the TIF district, but the in-district percentage varies depending both on the type of district and on decisions made in the TIF plan. Usually, an authority must complete development in the district within five years after the county auditor certifies the original net tax capacity. In the sixth year after the original net tax capacity is certified, the authority must begin spending the applicable in-district percentage of increment on paying off development debts. When those debts are paid, the district must be decertified.

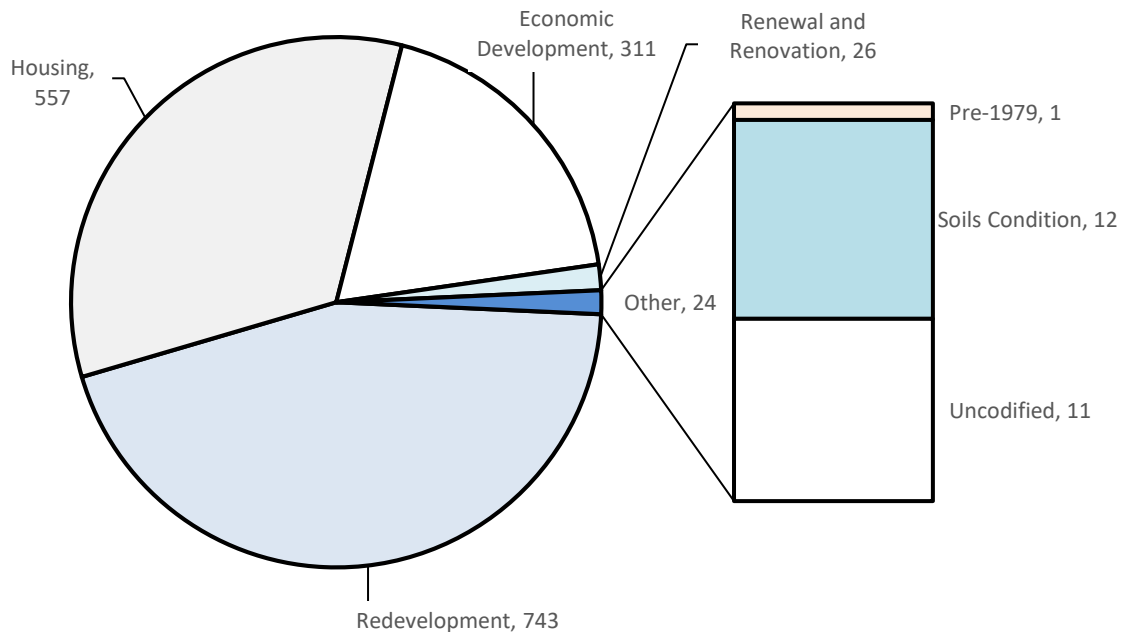
### What types of TIF districts may be created?

Minnesota allows several different types of TIF districts. The legal restrictions on how long increments may be collected, the sites that qualify, and the purposes for which increments may be used vary with the type of district.

District type	Use of increment	Maximum years of increment collection
Redevelopment	Redevelop blighted areas	26 years
Renewal and renovation	Redevelop areas with substandard buildings and obsolete land uses	16 years
Economic development	Encourage manufacturing and other footloose industries	9 years
Housing	Assist low- and moderate-income housing	26 years
Soils	Clean up contaminated sites	21 years

### How many TIF districts are there?

According to the 2022 report of the Office of the State Auditor, there were 1,661 active TIF districts in 2020. The graph shows the relative shares by type of district.



For more information: See the House Research website for more information on TIF at [www.house.mn/hrd/issinfo/tifmain.aspx](http://www.house.mn/hrd/issinfo/tifmain.aspx).



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