

12.01 TAX INCREMENT FINANCING

Tax increment financing (TIF) is a method of financing real estate development costs to promote development, redevelopment, and housing in areas where it would not otherwise occur, as established under [Minn. Stat. §§ 469.174 to 469.1799](#), often referred to as the TIF Act. TIF authorities such as cities, city or county housing and redevelopment authorities, port authorities, economic development authorities, or rural development financing authorities use TIF revenues to encourage developers to invest in new projects. These projects include constructing buildings or other private improvements, cleaning polluted areas, redeveloping areas that contain blight, or paying for public improvements such as streets, sidewalks, sewer and water, and similar improvements.

The Office of the State Auditor provides a checklist for county officials in the [Tax Increment Financing County Guide](#). The checklist is not necessarily comprehensive and not every item is necessarily statutorily required, but it highlights some of the most important tasks for a county when administering a TIF district. Additionally, more information on TIF can be found on the Office of the State Auditor's [website](#).

A glossary of TIF terms is available at the end of this section for reference.

There are many special rules and exceptions in TIF law. This section is an overview of TIF law as a whole. Consult statute, your county's legal department, the State Auditor's Office, or the Department of Revenue for more specific information.

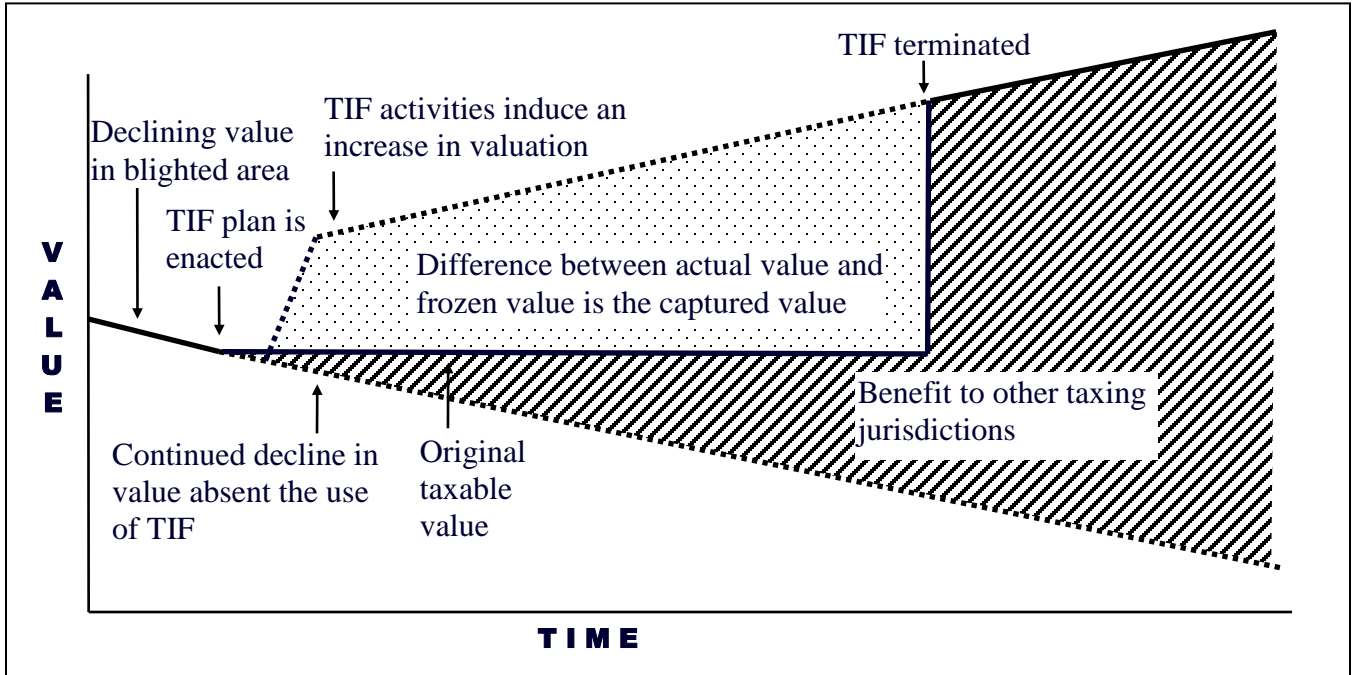
The TIF Concept

TIF finances development by “capturing” the incremental property taxes generated by the increased value of new development. Without development, there is no increment to capture, but once there is development, tax increment provides a revenue stream that can be used to finance a project directly or reimburse qualifying expenditures.

TIF as an economic development tool is often debated where proponents argue their merits as appropriate governmental activities in correcting market failures, while opponents object to the subsidies being granted. Figures 12.01-1 through 12.01-3 illustrate different perspectives with regard to TIF.

Figure 12.01-1 shows a classic example illustrating the benefits of TIF. In this example, the value of the property is on a trend to decline or stagnate over time without any intervention. The implementation of TIF freezes the value for tax purposes, and the investments raise the value of the property, placing it on a more positive long-term trend. The taxes associated with the increased value are captured to pay for the investments, but other taxing districts benefit from the prevention of further tax base erosion and additional tax base upon the termination of the district.

Figure 12.01-1: Classic Example of TIF



Figures 12.01-2 and 12.01-3 display more critical examples of the impact of TIF. Figure 12.01-2 is based on the premise that the value would increase over time, with or without TIF activities, and the freezing of the taxable value essentially takes value away from the taxable base of the taxing districts. In this scenario, there is some benefit down the road after the TIF district terminates, but it must be weighed against the cost of the lost tax base in the interim.

Figure 12.01-2: Critical Example of TIF

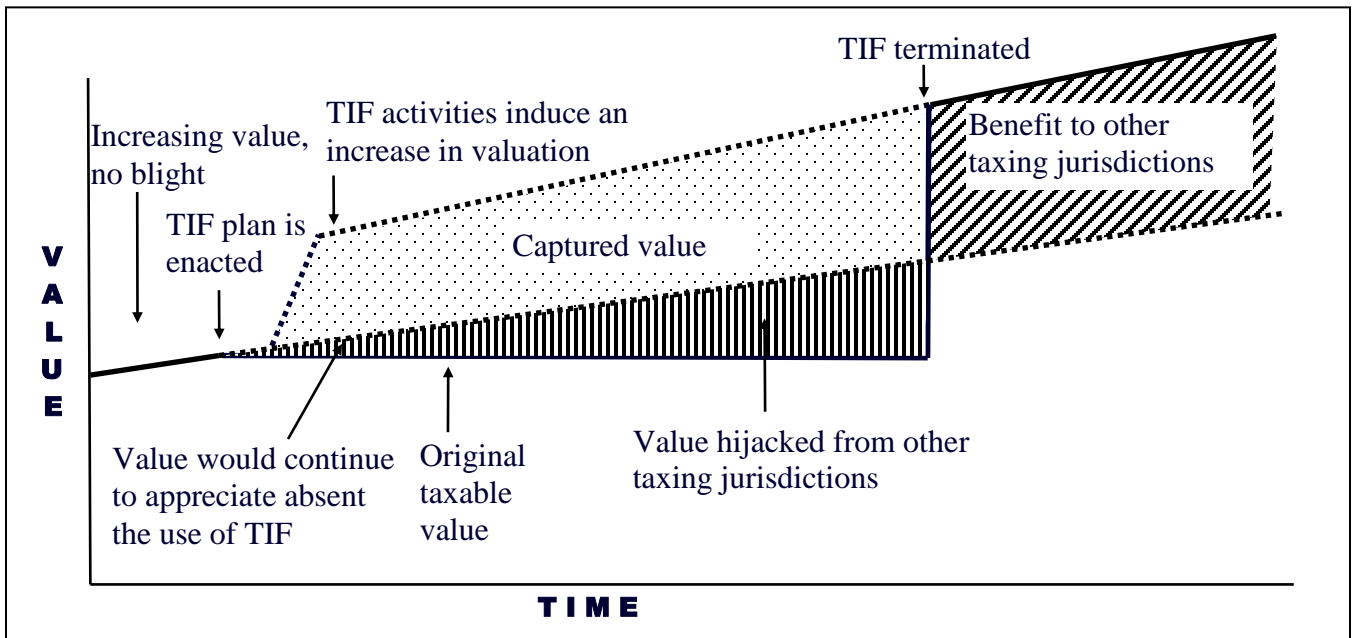
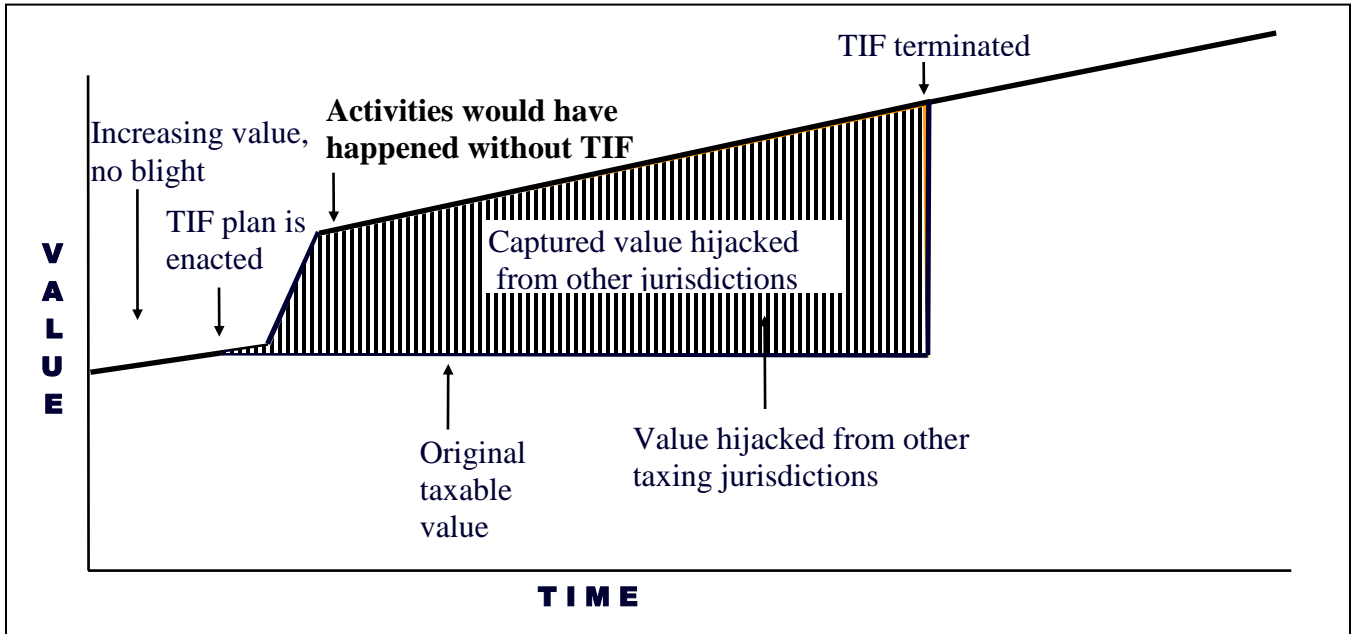


Figure 12.01-3 is the most critical view of TIF, illustrating an example where development would have occurred without TIF, and therefore all of the captured value is a loss to the affected taxing districts and there is no positive benefit associated with what amounts to a pure subsidy.

Figure 12.01-3: Most Critical Example of TIF



Each of these scenarios has the potential to be true, ultimately making TIF a good tool only to the extent that it is prudently and appropriately used. TIF might be best employed for redeveloping blighted areas or developing property where the free market has failed to produce appropriate investment. Entities that use TIF must understand that capturing the tax base to pay for development may prevent being available to lower taxes for general purposes.

Typical Uses of TIF

TIF was created for the purpose of redeveloping urban areas with old or worn-out buildings in need of replacement or rehabilitation, initiated as a tool to help with urban renewal. Its use has spread to other purposes. TIF in Minnesota is generally used to:

- Redevelop areas occupied with substandard buildings
- Build housing for low-income and moderate-income families
- Clean up pollution
- Provide general economic development incentives
- Finance public infrastructure, such as streets, sewer, water, sidewalks, and similar improvements

An Example of How TIF is Used

A developer is considering building an office building. The city would like to redevelop a site that consists of three parcels of property (parcels A, B, and C). Parcel A is vacant and parcels B and C contain substandard commercial buildings. Parcel D contains a building in good shape. Construction of the office building will require demolition of the two buildings, installing new utilities (sewer and

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water), and closing an alley. The cost of acquiring the property, demolishing the substandard buildings, and putting in the utility and alley improvements is \$1.5 million. However, the developer could obtain a comparable site elsewhere in the area for \$500,000, including special assessments for utilities. Parcels A, B, and C together have a tax capacity of \$24,000 and pay \$33,600 a year in property taxes at a 140.000% tax rate. If the developer builds the planned \$5 million office building, the tax will rise to \$304,000 per year, an increase of \$280,000.

To induce the developer to build on the site, the city designates a project area and creates a TIF district that includes the development site. The district consists of parcels A, B, C, and D (illustrated below in Figure 12.01-4). Parcel D must be included to permit the site to qualify as a redevelopment district under state law. The city agrees with the developer to acquire the site, demolish the substandard buildings, and put in the utility improvements and vacate the alley. The city, in turn, sells the site to developer for its market value of \$500,000. This is commonly called "writing down" the cost of the land. The city's \$1.5 million cost is "written down" to \$500,000. The city could also write it down to zero, effectively giving the land to developer. The computation of the increment is shown in the Table 12.01-1 below.

Figure 12.01-4: Example TIF District

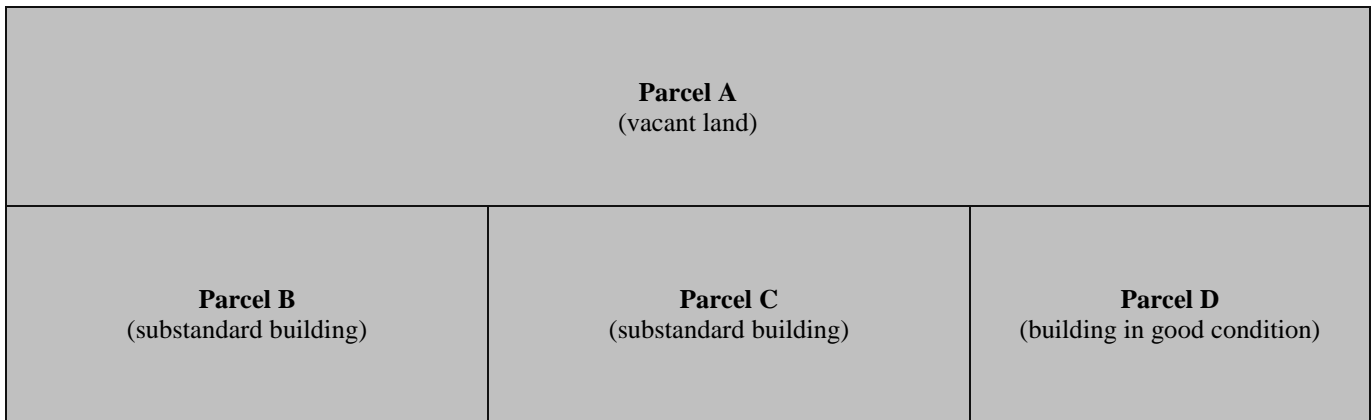


Table 12.01-1: Example Computation of Tax Increment

Parcel	Original Tax Capacity	Post Development Tax Capacity	Captured Tax Capacity
A	\$18,000	\$224,000	\$200,000
B	\$3,000	-	-
C	\$3,000	-	-
D	\$124,000	\$124,000	\$0
Total	\$148,000	\$348,000	\$200,000
Tax Rate	140.000%	140.000%	140.000%
Tax Increment			\$280,000

Source of Financing

TIF districts capture the additional property taxes paid as a result of new development in the district to pay for part of the development costs. With redevelopment or new construction, the market value of the property and its property taxes typically rise. The tax revenue that is generated and collected on the new development is not distributed as provided in general law to the county, school district, city or township, and special taxing districts. The tax revenue is instead distributed to the TIF authority that created the district.

The "tax increment" or "increment" for the district is determined by multiplying the original tax rate, before the TIF district was established, by the captured retained net tax capacity. Increment roughly equals the taxes paid by the captured tax capacity or the increase in taxes that occur as a result of the development.

Creation of the Development District and TIF District

Development District

Before a TIF district can be created, geographic areas for the development district and the TIF district must be created. A development district, also known as a project area, is an area within the corporate limits of a city which has been designated and separately numbered by the governing body. In many cases, development districts are defined as the geographic boundaries of the city and within a singular development district, multiple TIF districts may exist. There are instances where there are separately numbered development districts that coincide with TIF districts. A development district must be created prior to the creation of the TIF district.

Tax Increment Financing District

The TIF district is defined as a contiguous or noncontiguous area within a development district, or project area, from which some or all of the properties will have tax increment generated from the captured retained net tax capacity. The tax increment financing plan should always include the legal descriptions of all the properties that are contained within the plan, along with a map delineating the boundaries. The county auditor should pay close attention to both of these descriptions in case they do not match and the county will need to contact the TIF authority and require changes to one or both of these items.

TIF Plan

A tax increment financing plan is a critical piece of information that details an entire project and guides the activities that will take place. TIF projects must adhere to all requirements, expenditures, improvements or other objectives listed within the plan.

TIF plans must contain the following information:¹

1. Statement of objectives of an authority for a project
2. Statement of property within the project that the authority intends to acquire

¹ [Minn. Stat. § 469.175, subd. 1.](#)

3. List of proposed development activities for the project, for which the authority has entered into an agreement or designated a developer
4. Description of any other development likely to take place in the project and the date when they will likely occur
5. Estimates of:
 - a. The cost of the project
 - b. The amount of bonds to be issued
 - c. The original net tax capacity of the property within the district
 - d. The captured net tax capacity of the district at completion
 - e. The duration of the district
6. Statements on the alternate estimates of the impact on other taxing jurisdictions
7. Description of satisfaction of the “but-for” findings, i.e. that development would not occur “but-for” this TIF district (except for housing districts)
8. Identification of all parcels included in the district

TIF plans should also include:

1. Identification of the type of district
2. Selection of the fiscal disparities computation method
3. Description of the TIF plan’s conformity to the municipality’s plans for development or redevelopment as a whole
4. Certification that no permits have been issued in the past 18 months
5. TIF plan budget
6. Minimum assessment agreements, if any
7. Cost of county road improvements, if any

Additional documentation to support any of the above information may also be included in the TIF plan, including studies, analyses, reports, letters, and maps.

 **NOTE**

If a TIF plan is later modified, the modification statute may require the municipality to make all required findings again. These findings must also be supported by adequate documentation.²

Additionally, there are other statutory requirements that a TIF district must adhere to, many of which should have information included in the TIF plan. The following are some of those requirements:

- Reporting Requirements
- Four-year knockdown rule
- Five-year expenditure limitations
- Pooling restrictions
- Excess increment rules
- Administrative expense limits
- Modification requirements
- Developer agreement limitations

Notice and Opportunity to Comment on TIF Plan

Before a TIF plan becomes final, the TIF authority must provide the county auditor and the clerk of the school board with the proposed plan for the district. The TIF authority must also provide the plan to

² [Minn. Stat. § 469.175, subd. 4.](#)

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each county commissioner who represents the area if the TIF district is a housing or redevelopment district. In most cases, the TIF authority provides a copy of the proposed plan to the chair of the county board, regardless of the type of district.

The county auditor and the school board clerk may be required to provide the TIF plan to the entire county board and school board.

The county must have at least 30 days during which it can comment on the plans before the public hearing. The TIF authority can request a waiver of the 30-day review period from the school and the county, which can be granted upon written approval from the authorities.³

In many counties, the board of commissioners has not been active in commenting on proposed TIF districts, in part because the TIF authority is not required to respond to those comments. Some boards, however, with assistance from their county auditors, have closely examined proposed TIF districts and provided comments about them. Comments surrounding potential districts have often raised the public's concern about the proposed districts to an extent that the TIF authority either modifies components of the TIF plan or reconsiders going forward with the creation of the district altogether. Ultimately, the ability for counties to review the plans have proven helpful in detecting substantive or typographical errors and provides the TIF authority the opportunity to correct the errors prior to the approval of the district.

Following are several things that counties should pay special attention when reviewing a proposed TIF plan:

County Road Costs

The county should examine the impact of the proposed development or redevelopment on county roads. The county board may require the authority to pay all or a portion of the cost of county road improvements out of tax increment revenues if the development will result in a substantial increase in the use of the county roads and if the improvements to the road were not scheduled for reconstruction within the five-year county capital improvement plan. If the county chooses to use increments to finance the road improvements, it must notify the TIF authority within 45 days after receiving the TIF plan of the estimated costs of the road improvements and a schedule for reconstruction and payment of the costs.⁴

Development District and TIF District Boundary Line Determinations

The county auditor should verify that the parcel numbers, legal descriptions, and maps all coincide with each other. If there are any variances between the three of them as indicated in the TIF plan and/or with the county records as they pertain to the county records, the county should contact the TIF authority immediately upon detection of the issues. The county auditor should make sure that the legal descriptions and parcels identified to be within a TIF district are entirely within the district. If any portion of the property is not included in the district, the entire parcel is excluded from the district. In many cases, a subdivision or plat is planned to be filed. The subdivision or plat must be filed and the parcel(s) created prior to the TIF district's final plan and request for certification received by the county.

³ [Minn. Stat. § 469.175, subd. 2 and 2a.](#)

⁴ [Minn. Stat. § 469.175, subd. 1a.](#)

Identification of Value, Classification, Tax Capacity, and Minimum Assessment Agreements

The county auditor should review the values and rates used in the proposed TIF plan and makes sure that the correct values are used when determining anticipated TIF revenues. The market value, tax capacity, and local tax rates that are used as the base values for the district are dependent upon the date the county auditor receives the request for certification of the final TIF district. If a request for certification is expected to be received by the county auditor by June 30, the current payable year's estimated market value and local tax rate should be considered the base values and rate. If the request for certification is expected to be received by the county auditor after June 30, the current assessment year's estimated market value and the following year's local tax rate are considered to be the base value and rate.⁵

Examination of Permits

The TIF plan must certify that no building permits had been issued on any of the affected parcels for 18 months prior to the request for certification of the district. If permits have been issued on any of the affected parcels, the improvement is not to be included within the retained portion of the TIF District.

Examination of any Assessment Agreements

In some TIF plans, a certification of a minimum market value or assessment agreement is included. The minimum assessment agreement may be referred to in a development plan, which is generally recorded with the county recorder. In any case, the county auditor should check with the assessor as to whether the office had certified a minimum assessed value based upon the plan. If nothing has been provided to the assessor, the county auditor should contact the TIF authority and question the validity of the agreement.

Financial Analysis

The county auditor should review the assumptions and financial analysis sections of the TIF plan. Particular sections requiring closer review include:

- Projected tax increment dollars
- Sharing of increment
- Fiscal disparity election
- Bonded debt
- Percentage of NTC already in TIF in municipality & county in comparison to total

District Type and Duration

The county should verify that the project's intended plans and district types are agreeable. The county should verify that the duration dates and planned decertification dates are within the statutory guidelines. TIF authorities may indicate a decertification date/year that is less than the maximum amount of years to run. In some instances, TIF plans assume a possible decertification date that is earlier than the maximum but do not indicate that the district will definitely decertify upon that date. Table 12.01-2 below outlines the district types, their durations, and their characteristics.

⁵ [Minn. Stat. § 469.177, subd. 6.](#)

Table 12.01-2: Limits and Characteristics of TIF Districts

District Type	Duration Limit (after receipt of first increment)	Geographic Areas that Qualify	Permitted Uses of Increments
Economic Development	8 years	No restrictions	<ul style="list-style-type: none"> ▪ Manufacturing ▪ Warehousing ▪ R&D facilities ▪ Telemarketing ▪ Tourism in qualifying counties ▪ Commercial developments in small cities ▪ Workforce housing projects
Housing	25 years	No restrictions	Housing for low- or moderate-income renters or homeowners
Hazardous Substance Sub-districts	25 years	Parcels in a TIF district containing polluted sites and contiguous parcels	Site acquisition and cleanup
Redevelopment	25 years	<ul style="list-style-type: none"> ▪ 70% occupied by buildings, 50% of which are substandard ▪ Certain rail yards ▪ Tank facilities 	Correction of conditions justifying creating district
Renewal and Renovation	15 years	70% occupied by buildings, 20% of which are substandard and another 30% require renovation	Correction of conditions justifying creating district
Soils Condition	20 years	Site contains pollution and cost of cleanup exceeds lesser of \$2/sq. ft. or the fair market value of the land	Site acquisition and cleanup
Compact Development District	25 years	70% occupied by buildings classified as 3a C-I, renovation	Correction of conditions justifying creating district

Certification of New District or Modifications to Existing Plan

New District

After the 30-day period for the county to comment has passed and the TIF authority has held the statutory public hearing and received approval of the TIF district, the request for certification of value and local tax rate is sent to the county auditor.⁶ If the request is filed after June 30, the county auditor cannot complete the certification until after the local tax rate for the next payable year is established.⁷ This will cause a delay in the certification of values and rates, and the district will not become an active district by which increment will be collected until the payable year following the year from which rates and values are certified.

⁶ [Minn. Stat. § 469.175, subd. 3, para. \(a\).](#)

⁷ [Minn. Stat. § 469.177, subd. 6.](#)

When a TIF district is created, the county auditor certifies the current tax capacity of the properties in the district as the TIF district's "original net tax capacity." The portion of the school rate attributable to the general education levy is excluded from the certified original tax rate.⁸ A TIF district can overlap many unique taxing areas so the county auditor may need to certify more than one set of rates.

When a district is certified, the TIF authority will ask the county auditor to complete two forms. Samples of both are included on the following pages. One form is a certification request supplement (Form 12.01-1) which is sent to the county with the final TIF plan and should be completed and sent back to the TIF authority. The other form is the certification as to original net tax capacity and original local tax rate for properties located in the TIF district (Form 12.01-2), and this form is completed in part by both the TIF authority and the county auditor. One copy of this form should be kept by the county, one should be sent back to the TIF authority, the original should be sent to the Department of Revenue.

Modification to an Existing TIF Plan

Modifications to an existing TIF plan can be made only after notice and discussion. Sound findings for the modification must be presented and a public hearing must be held.

Any of following modifications may be made to an existing TIF plan:

- Reduction or enlargement of the geographic area of the project or district
- Increase in the amount of bond indebtedness to be incurred
- A determination to capitalize interest on the debt, if not already determined
- Increase in the portion of the captured net tax capacity to be retained by the authority
- Increase in the estimated cost of the project
- Designation of additional property to be acquired

If a TIF district is expanded, the local tax rates associated with the expansion at the time the county receives the request for certification of the expansion or modification will also need to be certified and applied toward those parcels in the expansion area.

A TIF authority cannot modify an original TIF plan with the intent to change the type of the district to another type. Instead, a new plan and district will need to be adopted.⁹

Creation of a Hazardous Substance Sub-district

A TIF authority can establish a hazardous substance sub-district (HSS) within a TIF district by certifying to the county auditor at the time a TIF plan or modification is adopted that a response action plan for the removal or remedial actions has been approved by the Minnesota Pollution Control Agency. The sub-district consists of the parcels designated as hazardous and any other parcels contiguous to hazardous parcels.¹⁰

The original net tax capacity of hazardous substance sub-district is equal to the net tax capacity of the sub-district minus the estimated costs of removal or remedial actions. After the sub-district meets the

⁸ [Minn. Stat. § 469.177, subd. 1a.](#)

⁹ [Minn. Stat. § 469.175, subd. 4.](#)

¹⁰ [Minn. Stat. § 469.175, subd. 7.](#)

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requirements laid out in the response action plan, the original net tax capacity is increased by the amount it was reduced.¹¹

¹¹ [Minn. Stat. § 469.174, subd. 7, para. \(b\) and \(c\).](#)

Form 12.01-1: Sample Certification Request Supplement

**Tax Increment Financing District
Certification Request Supplement**

1. Municipality Name: _____
2. District Name: _____
3. New District District Expansion Hazardous Substance Sub-district
4. District Type:
 - a. **Redevelopment**
Maximum Duration: 25 years of tax increments.
 - b. **Housing**
Maximum Duration: 25 years of tax increments.
 - c. **Renewal and Renovation**
Maximum Duration: 15 years of tax increments.
 - d. **Housing Replacement**
Maximum Duration: 15 years of tax increments from each parcel.
 - e. **Soils Condition**
Maximum Duration: 20 years of tax increments.
 - f. **Economic Development**
Maximum Duration: 8 years of tax increments
5. If the district is a redevelopment, housing, or hazardous substance sub-district, is the minimum market value tax increment delay option elected?
 Yes No
6. Does the district have extended duration limits provided by a special law?
 Yes No If yes, law citation: _____
7. Does the district's plan provide for any sharing of captured net tax capacity with the local taxing districts?
 Yes No
8. Does the district's plan provide for its captured net tax capacity to be reduced by the fiscal disparity contribution? (Seven Metropolitan Counties and Taconite Tax Relief Area Counties Only).
 Yes No
9. Date the district plan was approved by the Municipality: _____

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10. District contact person:

Name: _____ Phone: _____

Address: _____

Signature: _____ Date: _____

(Prepared By)

County Auditor Use Only

12. Certification Request Date: _____

13. Certification Date: _____

14. Original Value and Tax Rate Year: Taxes Payable _____

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Form 12.01-2: Sample Certification of Original Net Tax Capacity and Original Local Tax Rate

STATE OF MINNESOTA
STEWARTVILLE COUNTY

**COUNTY AUDITOR’S CERTIFICATION
AS TO ORIGINAL NET TAX CAPACITY AND
ORIGINAL LOCAL TAX RATE FOR PROPERTIES
WITHIN THE TIF DISTRICT NO. 4-1
IN THE CITY OF STEWARTVILLE, MINNESOTA**

I, the undersigned, being the duly qualified and acting County Auditor of Stewartville County, Minnesota (the “County”), DO HEREBY CERTIFY to the City of Stewartville in said County (the “City”), pursuant to the provisions of Minnesota Statutes, Section 469.177, Subdivision 1, that the ‘original net tax capacity’ of all taxable property within the tax increment district designated as TIF District No. 4-1 (the “District”) of said City, as described in the Tax Increment Financing Plan for the area approved by resolution of the City Council dated May 30, 2006, is 926.

I also certify that such original net tax capacity is composed of the tax capacity of the tax capacity of each parcel of taxable property within the District as determined by the assessment thereof in 2005 for taxes payable in 2006, this being the tax capacity most recently certified by the State of Minnesota as of the date when this certification was requested.

I also certify pursuant to the provisions of Minnesota Statutes 469.177, Subdivision 1a, that the “original local tax rate” that applies to the District is 100.956, this being the local tax rate for taxes payable in 2006.

WITNESS my hand and the seal of the County this 30th day of May, 2006.

Stewartville County Auditor

(SEAL)

City’s record of request for certification date:
May 16, 2006.

Please indicate the identification
Number assigned by the County:

Please indicate the “Certification Request
Date” you placed on the County’s systems:

Actual Certification Date:

Adjustments of Values and Rates

The original net tax capacity and other values and rates may be adjusted in certain cases. Because the Legislature may change classification percentages and because of a TIF authority's dependency on minimum tax increment dollars to pay bonds, a mechanism is provided to adjust the original values and rates as needed. Additionally, parcels that are subject to a form of value exclusion are also subject to increases in the original value as exclusions are diminished or removed entirely.

The following are circumstances where the county auditor and county assessor must adjust the original value or rate.

Changes to Classification

If a property's classification changes under [Minn. Stat. § 273.13](#), creating a different assessment ratio, the original net tax capacity of the TIF district in which the property is located must be re-determined as if the property had originally been classified as its new classification after its use change.¹²

 **NOTE**

The determination of a classification change can be complicated by splits, combinations, new plats, or other similar divisions where the change in classification may not be readily apparent.

Any increase or decrease in net tax capacity as a result of changes to any law regarding classification or percent of market value assessed for taxes must be applied proportionately to original net tax capacity and captured net tax capacity of any TIF district in all of the following years. Changes for which this provision applies include changes in class rates, changes in tier thresholds, and the elimination of a classification.¹³ This applies to all districts regardless of when they were created.

Changes in Geographic Area

If a TIF district is enlarged by a TIF plan modification, the net tax capacity of the added property should be added to the original net tax capacity.

If there is a reduction in the geographic area of a TIF district, the original net tax capacity of the property being removed from the district should be subtracted from the district's original net tax capacity.

Changes in Exclusion Status

If a property no longer qualifies for the homestead market value exclusion, green acres, open space, metropolitan agricultural preserve, or rural preserves programs, the increased net tax capacity is added to the original net tax capacity of the TIF district.¹⁴

The law does not provide for the original net tax capacity to be increased when a property no longer qualifies for This Old House, This Old Business, platted vacant land, disabled veterans, or mold or lead reductions. In other words, if a parcel qualified for an exclusion other than the homestead market value exclusion at the time the original net tax capacity was certified, and then lost its qualification for the

¹² [Minn. Stat. § 469.177, subd. 1, para. \(b\).](#)

¹³ [Minn. Stat. § 469.177, subd. 7.](#)

¹⁴ [Minn. Stat. § 469.177, subd. 1, para. \(d\).](#)

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exclusion, the increase from losing the exclusion should not be added to the original net tax capacity.

If a property begins to qualify for an exclusion, the amount of original net tax capacity of the property which becomes excluded will be deducted from the original net tax capacity of the district.¹⁵ Properties in the green acres, open space, metropolitan agricultural preserve, or rural preserve programs cannot be included in TIF plans.¹⁶

The consequences of changes in exclusion status apply to all TIF districts regardless of when they were created. Note that the exclusion has to apply to the base year in order to require an adjustment to the original net tax capacity.

Please see the examples on the following two pages for illustrations of property gaining and losing the homestead market value exclusion.

¹⁵ [Minn. Stat. § 469.177, subd. 1, para. \(e\) and subd. 1d.](#)

¹⁶ [Minn. Stat. § 469.176, subd. 7.](#)

Example 1: Gaining the Homestead Market Value Exclusion

		Original NTC Values								
Before Exclusion	Parcel	Original Class	Current Class	EMV	Exclusion Amount	TMV	Class Rate	ONTC		
		Parcel 1	Homestead	Homestead	\$ 300,000	\$ -	\$ 300,000	1.00%	\$ 3,000	
	Parcel 2	Homestead	Homestead	\$ 300,000	\$ -	\$ 300,000	1.00%	\$ 3,000		
	Parcel 3	Non-Homestead	Homestead	\$ 100,000	\$ -	\$ 100,000	1.00%	\$ 1,000		
	Parcel 4	Non-Homestead	Homestead	\$ 100,000	\$ -	\$ 100,000	1.00%	\$ 1,000		
	Parcel 5	Non-Homestead	Homestead	\$ 100,000	\$ -	\$ 100,000	1.00%	\$ 1,000		
	Parcel 6	Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250		
	Total			\$ 1,000,000	\$ -	\$ 1,000,000		\$ 10,250		
After Exclusion	Parcel	Original Class	Current Class	EMV	Exclusion Amount	TMV	Class Rate	ONTC	Decrease in ONTC	
	Parcel 1	Homestead	Homestead	\$ 300,000	\$ 10,240	\$ 289,760	1.00%	\$ 2,898	\$	102
	Parcel 2	Homestead	Homestead	\$ 300,000	\$ 10,240	\$ 289,760	1.00%	\$ 2,898	\$	102
	Parcel 3	Non-Homestead	Homestead	\$ 100,000	\$ 28,240	\$ 71,760	1.00%	\$ 718	\$	282
	Parcel 4	Non-Homestead	Homestead	\$ 100,000	\$ 28,240	\$ 71,760	1.00%	\$ 718	\$	282
	Parcel 5	Non-Homestead	Homestead	\$ 100,000	\$ 28,240	\$ 71,760	1.00%	\$ 718	\$	282
	Parcel 6	Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250	\$	-
	Total			\$ 1,000,000	\$ 105,200	\$ 894,800		\$ 9,198	\$	1,052

Parcels 1 & 2

When the exclusion is applied to the ONTC values for these parcels, the amount of ONTC attributed to the exclusion will be subtracted from the ONTC. In this case, the ONTC column from the after exclusion section was subtracted from the ONTC column from the before exclusion section to arrive at the amount the ONTC should be reduced due to the exclusion.

Parcels 3-5

The parcels would now qualify for the homestead market value exclusion. The exclusion should be applied to the ONTC values for these parcels and the amount of ONTC attributed to the exclusion should be subtracted from the ONTC. In this case, the ONTC column from the after exclusion section was subtracted from the ONTC column from the before exclusion section to arrive at the amount the ONTC should be reduced due to the exclusion.

Parcel 6

Even though this parcel would have qualified for the exclusion at the time the district was certified, it is now classified as non-homestead and would not receive the exclusion. The ONTC does not need to be adjusted.

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Example 2: Losing the Homestead Market Value Exclusion

		Original NTC Values								
		Original Class	Current Class	EMV	Exclusion Amount	TMV	Class Rate	ONTC		
With Exclusion	Parcel 1	Homestead	Homestead	\$ 300,000	\$ 10,240	\$ 289,760	1.00%	\$ 2,898		
	Parcel 2	Homestead	Homestead	\$ 300,000	\$ 10,240	\$ 289,760	1.00%	\$ 2,898		
	Parcel 3	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250		
	Parcel 4	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250		
	Parcel 5	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250		
	Parcel 6	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250		
	Total				\$ 1,000,000	\$ 20,480	\$ 979,520		\$ 10,796	
Without Exclusion	Parcel 1	Homestead	Homestead	\$ 300,000	\$ -	\$ 300,000	1.00%	\$ 3,000	Decrease in ONTC	
	Parcel 2	Homestead	Homestead	\$ 300,000	\$ -	\$ 300,000	1.00%	\$ 3,000	\$ 102	
	Parcel 3	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250	\$ -	
	Parcel 4	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250	\$ -	
	Parcel 5	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250	\$ -	
	Parcel 6	Non-Homestead	Non-Homestead	\$ 100,000	\$ -	\$ 100,000	1.25%	\$ 1,250	\$ -	
	Total				\$ 1,000,000	\$ -	\$ 1,000,000		\$ 11,000	\$ 204

Parcels 1 & 2

When the exclusion is removed from these parcels, the amount of ONTC increase attributed to the exclusion’s removal will be added to the ONTC. In this case, the ONTC column in the with exclusion section should be subtracted from the ONTC column in the without exclusion section to arrive at the amount the ONTC should increase.

Parcels 3-6

These parcels did not change classification (therefore, not eligible for the homestead market value exclusion). The ONTC does not need to be adjusted.

Exempt to Taxable

When a property changes classification from exempt to taxable, the original net tax capacity must be re-determined by adding the most recently assessed net tax capacity of the property.

If improvements are made to an exempt property after the municipality approves the TIF district and before the property becomes taxable, the assessor must value the improvements separately, and the auditor must exclude the value of the improvements when adding the net tax capacity of the parcel to the original net tax capacity of the district.



NOTE

Counties should be attentive to ownership changes as the process can get complicated if a parcel becomes partially taxable, if the portion of the property that is exempt changes from one year to the next, or if the property changes from taxable to exempt and back to taxable all within the same year.

If substantial improvements are made to a parcel after certification of the TIF district, and if the parcel becomes exempt as a result the TIF authority acquiring the property through forfeiture, foreclosure, or a similar lease or revenue agreement, the new base value if the property again becomes taxable is the net tax capacity before the property became exempt.¹⁷

Taxable to Exempt

If a taxable property in a TIF district becomes exempt, the original net tax capacity of the property must be subtracted from the original net tax capacity of the district.¹⁸

Ordered and Voluntary Adjustments

If the net tax capacity of property located in a TIF district is reduced because of a court-ordered abatement, stipulation agreement, voluntary abatements from the assessor or auditor, or order by the Department of Revenue, the county auditor must apply the reduction to the TIF district. If the property has not been improved since the date of certification of the TIF district, the reduction is applied to the original net tax capacity. If the abatement relates to improvements made after the date of certification, the reduction is applied to the captured net tax capacity.¹⁹

Substandard Buildings

If a parcel contained a substandard building that was removed, and the TIF authority chooses to treat the parcel as having been occupied by a substandard building, the auditor must adjust the original net tax capacity to equal to the greater of: 1) the current net tax capacity of the parcel or 2) the value of the parcel for the year that the building was removed, using the current class rates.²⁰

Qualified Disaster Areas

For qualified disaster areas in TIF districts, the original net tax capacity must be adjusted for the loss of value for any building that suffered substantial damage. Adjustments may be made for taxes payable in the first calendar year beginning at least four months after the date of the disaster determination.²¹

¹⁷ [Minn. Stat. § 469.177, subd. 1, para. \(c\).](#)

¹⁸ [Minn. Stat. § 469.177, subd. 1, para. \(e\).](#)

¹⁹ [Minn. Stat. § 469.177, subd. 1, para. \(e\).](#)

²⁰ [Minn. Stat. § 469.177, subd. 1, para. \(f\).](#)

²¹ [Minn. Stat. § 469.177, subd. 1, para. \(g\), and subd. 1c.](#)

Limitations of TIF

Increment vs. Full Taxes

The increment does not always equal the full taxes paid from the captured value. The original tax rate limits increment to the taxes generated by the tax rates in effect when the district was created. So if the local governments increase their tax rates, the increased rates do not yield more increment. Furthermore, in the metropolitan area and in the taconite tax relief area, increment may be reduced by the fiscal disparities contribution for the district's properties if the city chooses that option.

Factors Influencing Increments

Increments may be attributed to:

- New construction
- Improvements
- Overall inflation in property values unrelated to development
- Market effects attributable to the TIF development
- Market effects that are unrelated to the TIF development

Using TIF as a Financing Method

Development costs must often be paid up-front, but the increased property taxes, or increments, are not paid until later and only in modest amounts, relative to the development costs, spread over many years. This creates an imbalance between costs and revenues.

Traditionally, TIF districts overcame this mismatch by issuing bonds. The bonds help pay for development costs and bond interest, until increments are received, called capitalizing interest. Bond reforms in 1986, however, took away many of the incentives for financing development with bonds.

Often, since 1986, developers are expected to pay the costs and be reimbursed as increments become available. This approach shifts the capitalized interest costs to developers. In some cases if possible, the TIF authority absorbs the cost by advancing its money (from another city or fund) until it can be reimbursed with the increments.

Local Governments and TIF

Different types of governmental units play different roles with TIF law.

Development Authorities

Development authorities, such as housing and redevelopment authorities, makes nearly all important TIF decisions including deciding whether to use TIF, determining how it will be used, adopting TIF plans, and so on. Development authorities also implement TIF decisions, entering development agreements, contracting for TIF work, and so forth.

Municipalities

The municipality, usually a city, must approve some of the TIF decisions initially made by the development authority. In a few instances, the municipality is charged with making direct TIF findings

or decisions. In many cases, the municipality controls the development authority or is the development authority.

Counties

The county is responsible for administering much of the TIF law that relates to the collection and distribution of increments. Besides that, the county's role is limited to making advisory comments on major TIF decisions made by the development authority.

School Districts

The role of school districts in TIF is largely limited to making advisory comments on major TIF decisions made by the development authority.

Counties and TIF

Counties have fairly limited roles in making TIF decisions, but they are responsible for much of the administration of TIF law.

County powers and responsibilities consist of three components:

1. Making comments on proposed TIF plans and major amendments
2. Charging for county road costs that are stimulated by the TIF development
3. Administering the collection and distribution of TIF revenues for the authority

TIF Plan

Before approving a TIF district, the TIF authority must notify the county and provide a copy of the proposed TIF plan and an estimate of the impact on the county. If the county disagrees with the TIF proposal, its only power is to persuade the authority to abandon or modify its plans. It cannot veto or delay adoption of the plan.²²

Road Costs

The county may charge the TIF authority for county road costs if both of the following conditions occur:

1. The TIF district will, by the county's judgment, substantially increase the use of county roads requiring construction, improvements, or other costs
2. There is no construction for improvements to the road scheduled within five years in the county plan

After receiving the TIF plan, the county has 45 days to submit the road costs to the TIF authority. The authority is required to add the improvements to the TIF plan. Since the TIF plan can be approved within 30 days and road costs may be submitted after 45 days, this may require a plan amendment.²³

If the TIF authority is concerned about covering the costs, the authority and county can negotiate an agreement to permit financing. If they cannot agree, the dispute must be submitted to binding arbitration.²⁴

²² [Minn. Stat. § 469.175, subd. 2.](#)

²³ [Minn. Stat. § 469.175, subd. 1a.](#)

²⁴ [Minn. Stat. § 469.1762.](#)

Administering TIF

Although counties have a very limited decision making role in TIF, county officials have a substantial role in administering TIF.

Many of the tasks that county officials must perform are outlined in [Minn. Stat. §§ 469.176](#) and [469.177](#).

County auditors must:

- Certify and maintain an ongoing record of the original tax capacity of the TIF district
- Calculate the captured tax capacity
- Notify the Department of Education of distributions of excess increments and takes to school districts
- Decertify districts at the end of their legal duration limits, including enforcing the four-year and five-year knock-out rules

County treasurers must:

- Determine and collect the increment for the district
- Distribute increment to the TIF authority
- Distribute excess increments and taxes to the jurisdictions

County assessors may have to certify assessment agreements, unless the city assessor is responsible for assessing the property.

The county may require the TIF authority to pay administrative costs. These costs are not subject to the percentage limitations on administration expenses. Increments from the district are generally used for this purpose.

Four-Year Knock-Down Rule

If no qualifying activity has occurred on a parcel located in a TIF district in accordance with the TIF plan after four years from the date of certification of the original net tax capacity, no additional tax increment can be collected from that parcel. The original net tax capacity of the parcel should be excluded from the original net tax capacity of the tax increment financing district. Qualifying activity includes demolition, rehabilitation, or renovation of property or other site preparation such as improving a street adjacent to a parcel. Qualifying activity does not include installation of utility service such as sewer or water systems.

If the TIF authority or the owner of the parcel subsequently commences qualifying activity, the county auditor must certify the net tax capacity value as most recently certified by the department of revenue and add it back to the original net tax capacity of the TIF district. The TIF authority must submit evidence of qualifying activity occurring on a parcel to the county auditor by February 1 of the fifth year after the year in which the parcel was certified as included in the district.²⁵

²⁵ [Minn. Stat. § 469.176, subd. 6, para. \(a\).](#)

This provision applies to each parcel individually rather than the TIF district as a whole. Qualifying activity must be made on each parcel, not just within the whole district, in accordance with the TIF plan within four years after certification of the TIF district.

The county auditor is responsible for enforcing the four-year knock-down rule. Because the qualifying activity is outlined in the TIF plan, the county auditor should review the TIF plan and the qualifying activity documentation to see if the two are consistent and should require information from the authority that is sufficient to make this evaluation.

For districts which were certified on or after January 1, 2005, and before April 20, 2009, this four-year knock-down rule is deemed to end on December 31, 2016.²⁶

Five-Year Rule

The five-year rule essentially requires development activity for a TIF district to be completed within a five-year period beginning with the date of the certification of the district's original tax capacity. The period ends five years and one day after this date. After this five-year period has expired, increments may only be spent to pay off obligations that were incurred to fund work done during the five-year period.²⁷

Development activity includes acquisition of property, clearing of land, site preparation, soils correction, removal of hazardous waste or pollution, installation of utilities, construction of public or private improvements, and other similar activities.²⁸

When these obligations are paid or enough money has been collected to pay them, the county auditor will decertify the district.²⁹

The five-year rule only applies to districts where the request for certification was made after April 30, 1990, which is the effective date of the statute creating the rule.

After the Five-Year Period

Costs of development activity may have been financed (through bonds, for example) and increments may be used after the five-year period.

Often called the six-year rule, beginning in the sixth year after the certification of the district, increments may be spent for the following reasons:

1. To pay bonds that were issued during the five-year period to fund development activity within the five-year period
2. To pay binding contracts with a third party for activities performed during the five-year period
3. To reimburse the costs of the developer or owner if costs were incurred during the five-year period
4. To pay credit enhanced bonds for which revenues from tax increments were pledged

²⁶ [Minn. Stat. § 469.176, subd. 6, para. \(b\).](#)

²⁷ [Minn. Stat. § 469.1763, subd. 4, para. \(a\).](#)

²⁸ [Minn. Stat. § 469.1763, subd. 1, para. \(b\).](#)

²⁹ [Minn. Stat. § 469.177, subd. 12.](#)

5. To pay the amounts outlined in the TIF plan for certain housing projects and in biotechnology and health sciences industry zones
6. To defease the bonds (set aside money in a dedicated account to pay future obligations) in order to decertify the district

Once all outstanding bonds and obligations have been paid, the district must be decertified.³⁰

The five- and six-year rules were created to prevent development authorities from holding onto surplus tax increments rather than decertifying the district before its maximum duration limits.

For a redevelopment district or a renewal and renovation district certified after June 30, 2003, and before April 20, 2009, the five-year period is extended to ten years after the district's original certification. This extension was provided primarily to accommodate delays in development activities due to unanticipated economic circumstances.³¹

TIF Pooling

TIF pooling refers to the use of tax increments for activities located outside of the boundaries of the district from which they were collected. Minnesota law permits increments to be "pooled" or spent outside of the district on other activities. The amount that may be pooled is, however, subject to percentage limits.

Not all districts have pooling authority. The authority to pool increments depends upon when the TIF district was created and the type of TIF district. It is useful to distinguish pooling authority based are four "eras" when different TIF pooling laws were in effect:

1. **Pre-1979 districts: pooling authority unclear.** Before enactment of the 1979 TIF Act, Minnesota had several separate laws authorizing TIF. None of these laws explicitly allowed "pooling." The statutory terminology generally treated the areas in which the increment was to be collected and spent interchangeably. However, some cities and their advisors concluded, especially in light of later explicit TIF pooling law, that pooling was permitted and acted accordingly.
2. **1979-1982 districts: no pooling.** The 1979 TIF Act's language did not allow pooling. The TIF plan was required to provide for improvement of the district, or the area certified by the county auditor for the collection of increment. Increments were required to be spent in accordance with the TIF plan. A few lawyers disputed this view and advised cities that they could pool increments. As a result, several cities pooled increments during this period. Later legislation authorized that pooling, but prohibited future pooling or financing of new activities in these districts.³²
3. **1982-1990 districts: unlimited pooling.** The 1982 Legislature explicitly authorized TIF pooling and established a distinction between the TIF district and the project area. The law imposed no limit on the amount or percentage of increments that could be pooled.
4. **Post-1990: limited pooling.** The 1990 Legislature imposed percentage limits on the amount of increment that may be pooled. Pooling is permitted regardless of when the TIF district was certified.

³⁰ [Minn. Stat. § 469.1763, subd. 4, para. \(a\) and \(b\).](#)

³¹ [Minn. Stat. § 469.1763, subd. 3, para. c.](#)

³² [Minn. Stat. § 469.1764. \(**repealed\)](#)

Now, 25% of tax increments collected in a TIF district may be used outside the boundaries of the district but within the boundaries of the project area as defined in the TIF plan.³³ Pooling may also be used to pay off obligations regardless of percentage limits for districts for which the request for certification was made before August 1, 2001.³⁴

In 2011, a special pooling rule was created for housing projects, allowing for a greater percentage of increments to be spent outside of the district. This special rule expires December 31, 2016.³⁵

Waiving of Increment

A TIF authority may wish to waive or decline to receive an increment payment during the early years of the district, when only a small amount of increment may be generated, in an attempt to extend the maximum duration limit of the district. However, any action to waive or decline to receive an increment payment has no effect on the duration limit. The authority is considered to have received an increment regardless of whether the increment is paid to the authority.³⁶

This provision only applies to economic development, renewal and renovation, and soils condition districts with certification requests dates after June 30, 2000. The duration limits of these districts may be affected by waiving or declining increment if their initial certification request was on or before June 30, 2000. The duration limits of certain housing or redevelopment districts with certification request dates after May 31, 1993 may also be affected by waiving or declining an increment.

For many economic development districts, however, statutory duration limits are often measured from the date of the approval of the TIF plan rather than the receipt of the first increments so waiving or declining increment will have no effect on a districts maximum duration. Furthermore, the only way to delay receiving increment from housing or redevelopment districts or hazardous substance sub-districts and affect the duration limits of these districts is to have included a provision in the TIF plan. The ability to include such a provision in a TIF plan was repealed effective for districts with certification request dates after July 31, 2001.

Limitations on Use of Increment

Minnesota law generally prohibits local governments from using increments for general government purposes. For example, increments generally cannot be used to pay for providing police and fire protection, road maintenance, or similar operating costs. Increments may only be used for a limited set of project costs that are defined under the development authority enabling laws.³⁷ TIF law also contains specific prohibitions intended to prevent use of increments for general government purposes, even if they qualify under the authority law as project costs.

³³ [Minn. Stat. § 469.1763, subd. 2, para. \(b\).](#)

³⁴ [Minn. Stat. § 469.1763, subd. 6.](#)

³⁵ [Minn. Stat. § 469.1763, subd. 2, para. \(d\) and \(f\).](#)

³⁶ [Minn. Stat. § 469.176, subd. 1b, para. \(c\).](#)

³⁷ [Minn. Stat. § 469.176, subd. 4.](#)

TIF captures the taxes imposed by all of the levels of government, including city/township, county, school district, and special taxing districts. Cities and development authorities, however, have nearly total control over TIF. If cities were allowed to fund their general operations with increments, costs may be shifted towards school district and county taxpayers located outside the city. Therefore, the law limits use of TIF for general government purposes.

Public Improvements

TIF is frequently used for public improvements, such as sewer, water, roads, sidewalks, and similar improvements. In many cases, these improvements are directly related to or part of the real estate developments that generate the tax increments, but there is no explicit requirement that these improvements relate to the development generating the increments or be located within the TIF district.

Increments cannot be used to finance the construction of government buildings. This prohibition applies to virtually any type of governmental unit, whether local, state, or federal.³⁸

Excess Increments

Generally, excess increment refers to the any additional increment collected from a district which exceeds the authorized expenditures of the increment under the TIF plan. The excess increment rules help ensure that overlapping taxing districts, such as the county or a school district, share in the taxes generated by the TIF district that are not needed to fund the TIF plan.

Note that the excess increments and excess taxes refer to different things. Excess taxes, sometimes called excess TIF, are the additional taxes collected due to a tax rate greater than the certified original tax rate.

Calculating Excess Increments

The amount of excess increments in a district can be calculated in the following steps:³⁹

1. Determine the total amount of increments collected from the district since its certification. This includes developer repayments of amounts funded with increments, investment income earned on increments, and so forth
2. Subtract any amount of excess increments that were distributed in a prior year
3. Subtract the total amount of costs authorized by the TIF plan to be paid with increments
4. Add the amount of authorized costs that were paid from non-increment revenues. For example, if part of the authorized costs were paid with a federal or state grant, then increments are not needed to pay these costs. This adjustment does not apply to revenues like advances or interfund loans that are to be repaid with increments.
5. Add the amount of non-increment revenues that have been received and are dedicated to paying authorized costs but have not yet been used
6. Add the amount of principal and interest payments due on bonds in future years that have not been prepaid
7. Add the amount of transfers of increment made to reduce deficits in other districts

³⁸ [Minn. Stat. § 469.176, subd. 4g, para. \(b\).](#)

³⁹ [Minn. Stat. § 469.176, subd. 2, para. \(b\).](#)

The resulting amount is the excess increment for the district.

The TIF authority must determine whether the district has excess increments at the end of each calendar year. This determination is made based on revenues actually received by year end.⁴⁰

Use of Excess Increments

Excess increments must be used only for the following purposes:⁴¹

- Prepaying or discharging any outstanding bonds. This can be done directly or by funding an escrow account for the bonds
- Distribution to the city, county, and school district in proportion to their respective tax rates. The county auditor makes these distributions

These are the only permitted use of excess increments. If all of the contractual obligations of the district have been satisfied, the authority can also decertify the TIF district early. For districts certified before 1990, TIF authorities may amend their TIF plan to authorize new uses of increments. This would allow only future increments to be used for these new purposes, since past increments would still be considered to be excess increments.

Reporting

Within 30 days after making a distribution of excess tax increment to a school district, the county auditor must report to the Department of Education the amount of excess tax increment the school district received. This is intended to allow re-computing of the school's state aid.⁴²

Deficits

The TIF Act contains four special provisions for dealing with deficits in a TIF district.

Special Deficit Authority

Special authority for handling deficits under [Minn. Stat. § 469.1792](#) applies only to an authority with a preexisting TIF district for which either of the following is true:

- The increments from the district are insufficient to pay preexisting obligations as a result of rate changes or the elimination of the state-determined general education property tax levy
- The TIF authority has a binding contract, entered into before August 1, 2001, with a person requiring the authority to pay an amount that may not exceed the increment from the district

Special deficit authority is only available for the TIF authority of districts of which the request for certification was made before August 1, 2001.

A TIF authority qualifying for special deficit authority may take any or all of the following actions to eliminate its deficit:

- Determine that the original local tax rate certified for the district does not apply anymore

⁴⁰ [Minn. Stat. § 469.176, subd. 2, para. \(a\).](#)

⁴¹ [Minn. Stat. § 469.176, subd. 2, para. \(c\).](#)

⁴² [Minn. Stat. § 469.176, subd. 2, para. \(e\).](#)

- Compute the fiscal disparities contribution according to [Minn. Stat. § 469.177, subd. 3, para. \(a\)](#), regardless of the computation method was chosen when the district was certified

Special deficit authority must be granted by municipal resolution after notice and public hearing. A TIF authority which takes these actions must do so on an annual basis and must notify the county auditor by July 1 of the year before the actions are to become effective.

Pooling Permitted for Deficits

The municipality of a TIF district may transfer available increment from one TIF district to another within the municipality if the transfer is necessary to eliminate a deficit. This provision is an exception to the multi-county use prohibition under [Minn. Stat. § 469.176, subd. 4i](#), and to the pooling limitations outlined in [Minn. Stat. § 469.1763, subd. 2](#). The municipality may only use this authority after it has used all available increments in the transfer-receiving district to attempt to eliminate the deficit and it has exercised any permitted action through special deficit authority.

Duration Extension to Offset Deficits

An authority may extend the duration limit of a TIF district under [Minn. Stat. § 469.1794](#) if the increments from the district are insufficient to pay qualifying obligations due to changes in the class rates and elimination of the state-determined general education property tax levy of 2001.

A district must first exercise its special deficit authority and transfer options before extending its duration limit. Then, the district may only extend its duration limit with municipal approval after public notice and hearing.

A district’s duration can be extended to the lesser of the following:

- Four years
- The tax reform percentage for the district multiplied by the remaining duration of the district

The county auditor calculates the tax reform percentage, which is equal to the district’s original tax capacity taxes paid in 2001 minus the average of the original tax capacity taxes paid in 2002 and 2003, all divided by original tax capacity taxes paid in 2001.

If these extensions are still not sufficient to eliminate the deficit, the Department of Revenue may grant a further extension of up to two years.

Special Taxing Districts for Deficits

The provision allowing municipalities to establish a special taxing district within a TIF district in order to reduce deficits was repealed in 2012.

Delinquent Taxes from Decertified TIF Parcels

A county auditor may distribute property tax revenue from a parcel in a former TIF district to the TIF authority as tax increment if the revenue is collected after the TIF district was decertified only if the following three conditions exist:⁴³

- The parcel on which the property taxes were paid must have been part of the TIF district at the time it was decertified.
- The property taxes must have been delinquent, not merely past due, at the time the TIF district was decertified.
- The failure to pay the delinquent property taxes when they were due either caused the TIF authority to be unable to pay obligations or must have forced it to use non-TIF funds to pay the obligations

If the delinquent property taxes collected after a TIF district was decertified do not meet these requirements, the county auditor should distribute the funds as ordinary property tax revenue, not tax increment.

Decertification of TIF Districts

The county auditor is responsible for decertifying TIF districts, even if the TIF authority has not sent a notification or resolution formally decertifying the district. It is important for county auditors to closely monitor TIF districts to ensure that they are decertified at the correct time.

A TIF district must be decertified at the earliest of the following times:⁴⁴

- The maximum duration limit according to the TIF plan and/or statute
- Failure to comply with income requirements for housing projects
- Completion of requirements to decertify under the six-year rule
- Upon request for decertification from the TIF authority

A TIF district may be decertified after the truth-in-taxation due date, but prior to the mailing of the property tax statements. The amount of property tax shown on the taxpayer's property tax statement will be lower than that shown on the truth-in-taxation notice.⁴⁵ This ensures that there is not a transparency or disclosure issue in regard to the property taxes.

When a county auditor or TIF authority decertifies a TIF district, the district no longer contains any parcels and the distribution of tax increments stops, except for certain delinquent taxes. The TIF authority must also return any excess increment, and the county auditor must distribute the increment as excess taxes.

The county auditor must complete and file a confirmation of decertified TIF district form with the State Auditor upon the decertification of any TIF district. The form requires information and certification

⁴³ [Minn. Stat. § 469.176, subd. 1f.](#)

⁴⁴ [Minn. Stat. § 469.177, subd. 12.](#)

⁴⁵ There is one exception to this general statement. Parcels within the TIF District being decertified will not have lower property taxes on the property tax statement. However, the parcel owners must go through a legal process to have their district decertified. As long as those involved are fully aware of the effects of the decertification, then there are no transparency or disclosure issues.

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from both the county auditor and the TIF authority, generally accompanied by the resolution of the TIF authority decertifying the district. After completion, the County Auditor should retain a copy for their files, send a copy to the TIF authority, and send the original to the State Auditor's Office.

This form can be found on the State Auditor's [website](#).

Tax Increment Financing Glossary

Administrative expenses are all expenditures of a TIF authority other than the direct cost of physical improvements, including architectural and engineering fees. They include expenses such as bond counsel and fiscal consultant fees and the authority's operating costs.⁴⁶ The amount of increments that may be spent on administrative expenses is limited. For most districts, the limit is 10% of expenditures authorized by the TIF plan or of the total increments from the district, whichever is less. For districts certified between August 1, 1979 and July 1, 1982, the limit is 5%. These rules apply to TIF project areas rather than just the district. There is no limit on increments used to pay county administrative expenses.⁴⁷

Assessment agreements establish a minimum market value of development in a TIF district for property tax purposes, regardless of the development's actual market value.⁴⁸ Assessment agreements reduce the risk to the authority and city that the tax increments will not be sufficient to pay obligations of the project. Since the liability for property taxes has priority over the mortgage lenders' liens, property taxes generally will be paid even in a foreclosure situation. Although assessment agreements reduce the risk to the city, they do not eliminate it. Increments may still fall short of projections if the legislature changes class rates or the taxing districts' tax rates drop. In addition, temporary cash shortfalls may occur if a developer goes bankrupt and the mortgage lender does not step in immediately to make property tax payments. Assessment agreements are binding on a purchaser of the property.

Blight or blighted areas is redevelopment jargon for areas that contain high percentages of dilapidated buildings or otherwise deteriorating and substandard structures. The term was originally used largely to refer to slum housing and its effects on the quality of housing and commercial structures in adjoining areas. TIF redevelopment districts, TIF renewal and renovation districts, and HRA project areas must meet statutory tests for blight, where a percentage of the buildings, streets, utilities, or similar structures are considered "substandard."

The **but-for test** is a finding requirement when creating a TIF district. A municipality must find that, in its opinion, the subsidized development would not have happened *but for* the use of TIF.

Capitalized interest is the issuance of additional TIF bonds to pay the interest on the project's debt until increments begin to be received. TIF involves an inherent mismatch in costs and revenues. Most costs are incurred at the beginning of development, but increments are collected only when the development begins paying increased property taxes, at least two years later. This mismatch can be overcome by borrowing money to cover interest payments.

Captured tax capacity is the current property tax capacity of the parcels of property in the TIF district area, less the original tax capacity. Captured tax capacity multiplied by the original local tax rate yields the amount of increment.⁴⁹

⁴⁶ [Minn. Stat. § 469.174, subd. 14.](#)

⁴⁷ [Minn. Stat. § 469.176, subd. 3.](#)

⁴⁸ [Minn. Stat. § 469.174, subd. 8.](#)

⁴⁹ [Minn. Stat. § 469.174, subd. 2.](#)

Certification request date is the date which a TIF district's requests to the county auditor for the certification of original values and original local tax rates for the properties comprising the increment district. For a request that is mailed to the county auditor, it is the postmark date on the mailing envelope. For a request that is hand delivered to the county auditor, it is the delivery date which should be stamped on the request by the county auditor. The certification request date is not the date that the county auditor certifies the requested original values to the increment district.

Credit enhanced bonds are TIF revenue bonds that are secured by pledges of increments from several TIF districts. Credit enhanced bonds are bonds used to finance improvements in a TIF district. They first rely on increments from that district for repayment, but if those increments are not sufficient, increments from other districts may be used to pay the bonds. These payments are not considered to be pooling and do not violate pooling percentage limits.⁵⁰

A development authority or authority is a government entity authorized to exercise tax increment financing powers. Authorities include cities, economic development authorities (EDAs), housing and redevelopment authorities (HRAs), port authorities, and rural development finance authorities.⁵¹ The most common development authorities are HRAs and EDAs.

District area is the area containing properties from which increment is collected. The area is defined by the TIF plan and is part of the larger project area. The district does not need to be contiguous.⁵²

Economic development authorities or EDAs are special purpose governmental entities authorized to exercise a variety of development powers, including tax increment financing powers. EDAs are typically created by cities, although most counties are now also permitted to establish EDAs either under special or general law.⁵³

An **economic development district** is a type of TIF district that may be established in any geographic area. Economic development districts are not restricted to blighted areas or to areas with development difficulties. Economic development districts are to be used to keep a business in Minnesota or the city, to increase employment in the state, or to preserve and enhance the state's tax base.⁵⁴

Excess increments are increments that exceed the amount needed to pay the costs authorized under the TIF plan for the year. Increments are not excess increments if the TIF plan still permits additional expenditures. Excess increments must be used to pay outstanding bonds or to be shared proportionately to the city, county, and school district.⁵⁵

Excess taxes are the additional taxes collected due to a tax rate greater than the certified original tax rate. Excess taxes are distributed proportionately to the city, county, and school district.⁵⁶

⁵⁰ [Minn. Stat. § 469.174, subd. 21.](#)

⁵¹ [Minn. Stat. § 469.174, subd. 2.](#)

⁵² [Minn. Stat. § 469.174, subd. 9.](#)

⁵³ [Minn. Stat. § 469.174, subd. 2;](#) [Minn. Stat. §§ 469.090 to 469.1082.](#)

⁵⁴ [Minn. Stat. § 469.174, subd. 12;](#) see [Minn. Stat. § 469.176, subd. 4c.](#)

⁵⁵ [Minn. Stat. § 469.176, subd. 2.](#)

⁵⁶ [Minn. Stat. § 469.177, subd. 9.](#)

The **four-year knock-down rule** requires development activity to occur on a parcel located in a TIF district within four years after its creation. If no development activity has occurred, the parcel will be dropped from the district. The parcel will be re-instated if development activity occurs, but at its current value instead of its original certification value. This rule can be satisfied by demolition, rehabilitation, or renovation on the parcel or by improvement of a public street adjacent to the parcel. Installing utilities does not qualify.⁵⁷

Fiscal disparity captured-value contribution is the portion of a TIF district's captured value that is contributed to a fiscal disparity pool. This only applies to municipalities in the seven-county metropolitan area or the seven-county iron range area. A municipality's decision to contribute to the fiscal disparity pool from the TIF district is outlined in the TIF plan. This determination is outlined in the TIF plan.⁵⁸

The **five-year rule** requires that, following the fifth year after the certification of the district, increments only be spent to decertify the district by paying off obligations. Increments may only be spent to pay bonds or contracts that financed improvements or to reimburse the developer for costs it paid to make improvements in the district.⁵⁹

The **general education levy** impacts the calculation of the original local tax rate and excess increment. Excess tax increment due to the general education levy is first paid to this fund. Only after the general education levy has been paid in full can excess increment be calculated in the normal manner. The general education levy does not receive proportional excess as the county, city, and school funds do.⁶⁰

General obligation municipality bonds are TIF bonds to which the municipality pledges its general obligation. If the increment or other pledged revenues are insufficient to meet debt obligations, the city must levy a property tax to make up the difference. Although these bonds are general obligation city bonds, they are not subject to the election or referendum requirements if more than 20 percent of the cost will be paid with tax increments.⁶¹

General obligation authority bonds are TIF bonds that are backed by the full faith and credit of the development authority but not the city. If the increment or other revenues prove insufficient, the development authority must use any available authority revenues to make up the difference. However, because the authority has only limited taxing authority, a general tax levy cannot be imposed to make up the shortfall.⁶²

A **hazardous substance sub-district** is a type of TIF district that is used to finance the clean-up cost of properties containing pollution. A hazardous substance sub-district is created within another, regular TIF district. The original tax capacity of the sub-district is reduced by the cost of clean-up, but not below zero, providing immediate increment from the existing property value. A hazardous substance site may only collect increments for as long as the time necessary to recover the cost of cleaning up the pollution.

⁵⁷ [Minn. Stat. § 469.176, subd. 6.](#)

⁵⁸ [Minn. Stat. § 469.177, subd. 3.](#)

⁵⁹ [Minn. Stat. § 469.1763, subd. 2.](#)

⁶⁰ [Minn. Stat. § 469.177, subd. 9, para. \(d\).](#)

⁶¹ [Minn. Stat. § 469.178, subd. 2;](#) [Minn. Stat. § 475.58, subd. 1.](#)

⁶² [Minn. Stat. § 469.178, subd. 3.](#)

The additional increments received as a result of reducing the original tax capacity by the clean-up costs may only be used to pay clean-up and related costs. Other increments collected in the overlaying regular TIF district may also be used to pay clean-up costs.⁶³

Housing districts are TIF districts created and used primarily to provide housing for low- and moderate-income families. To qualify as a housing district, 80% or more of the square footage of the development must be used for low- and moderate-income housing. In addition, specified income guidelines apply to individuals occupying the housing. Housing districts are not restricted to blighted areas.⁶⁴

Housing and redevelopment authorities or HRAs are development agencies authorized to exercise TIF powers for redevelopment and housing projects. The county authorization, however, does not extend to Ramsey County or to counties with housing authorities established under special laws.⁶⁵

Interest rate write-down programs use tax increments to subsidize the interest payments on private loans to finance low- and moderate-income housing developments. Tax increments from a district may not be collected to provide interest reduction programs for more than 15 years. This limit starts with the first interest reduction payment. Interest reduction programs may not be used for owner-occupied, single-family dwellings.⁶⁶

Interfund loans are loans or advances made by the development authority or municipality to pay TIF costs that will be repaid with tax increments. These loans must be authorized by a resolution of the authority or municipality which must be passed before the loan is made. The terms of the loan must be in writing and include the principal amount, term, and interest rate.⁶⁷

A **land write-down** occurs when a TIF authority transfers property to a developer at less than authority's acquisition cost. For example, an HRA may acquire a parcel for \$1 million and spend an additional \$100,000 demolishing a building on the property. If the HRA sells the property to a developer for \$500,000, the price of the land is "written down" from the HRA's \$1.1 million cost to \$500,000. The authority may give the land to the developer, or "write it down" to \$0.

A **municipality** is the general purpose governmental unit required to approve new TIF districts, the issuance of bonds, and other major TIF decisions made initially by the TIF authority. In most cases, the municipality is the city in which the project is located, but it may be a township or a county. For projects located outside of a city or for certain multi-county projects, the municipality is the county.⁶⁸

Original tax capacity is the tax capacity of the TIF district at the time the TIF district is established. The original tax capacity is subject to adjustment if tax exempt property in the district becomes taxable, taxable properties become tax exempt, the legislature modifies the class rates of properties in the district, properties qualify for an exclusion, or parcels are added to or deleted from the district.⁶⁹

⁶³ [Minn. Stat. § 469.175, subd. 7.](#)

⁶⁴ [Minn. Stat. § 469.174, subd. 11](#); [Minn. Stat. § 469.1761.](#)

⁶⁵ [Minn. Stat. § 469.174, subd. 2](#); [Minn. Stat. §§ 469.001 to 469.047.](#)

⁶⁶ [Minn. Stat. § 469.176, subd. 4f.](#)

⁶⁷ [Minn. Stat. § 469.178, subd. 7.](#)

⁶⁸ [Minn. Stat. § 469.174, subd. 6](#); [Minn. Stat. § 469.175, subd. 3.](#)

⁶⁹ [Minn. Stat. § 469.174, subd. 7.](#)

Original local tax rate is the sum of the tax rates imposed by all the taxing districts in the year the TIF district is created. This rate is multiplied by the captured tax capacity to determine the amount of tax increment. These rules apply only to post-1988 districts. For pre-1988, increment is determined using the current year local tax rates. Local tax rates are after adjustment for any disparity reduction aid. The original local tax rate never changes.⁷⁰

Pay-as-you-go financing relies on the private developer or property owner to initially finance the costs of the TIF improvements. A development agreement between the authority and the developer provides that the developer will be repaid as tax increments are collected. This method of financing allows the city or authority to avoid borrowing money to pay for the costs of up-front or capitalizing interest. The developer may only be reimbursed for costs that increments can legally be spent on. Pay-as-you-go financing has become more popular after the federal tax law made it more difficult to use tax exempt bonds to finance many TIF costs.

Pooling increments is the permitted spending of increments outside of the TIF district but within the project area.⁷¹

Port authorities are special purpose governmental entities authorized to exercise a variety of development powers, including TIF powers. Only a limited number of cities have port authority powers.⁷²

Pre-1979 districts are TIF districts for which certification was requested before August 1, 1979. These districts are generally not subject to rules of the TIF Act, with some exceptions.⁷³

Pre-1982 districts are TIF districts for which certification was requested before July 1, 1982. These districts do not qualify under the 1982 amendments to the TIF Act, including the authority to spend increments on activities outside the district area and to spend more than 5% of increments on administrative expenses.

Pre-1988 districts are TIF districts for which certification was requested before May 1, 1988. These districts are not subject to most of the restrictions that were enacted by the 1988 legislature. These include the calculation of increment revenues based on the certified original tax capacity rate, the restrictions on soils condition districts, the requirement to pay the county's administrative costs, and a variety of other restrictions.

Pre-1990 districts are TIF districts for which certification was requested before May 1, 1990. These districts are not subject to most of the 1990 changes in the TIF law. Included in the 1990 changes were limitations on pooling and the five-year rule. The enforcement provisions of the 1990 act apply to all TIF districts. To qualify as a pre-1990 district, the development authority had to do one of the following by June 1, 1991: enter into a development agreement for a site in the district, issue bonds, or acquire property in the district.

⁷⁰ [Minn. Stat. § 469.177, subd. 1a.](#)

⁷¹ [Minn. Stat. § 469.1763.](#)

⁷² [Minn. Stat. § 469.174, subd. 2; Minn. Stat. §§ 469.048 to 469.089.](#)

⁷³ [Minn. Stat. § 469.179.](#)

Pre-existing district is a TIF district for which the request for certification was made before August 1, 2001. Special deficit reductions are limited to pre-existing districts.⁷⁴ These deficit reduction provisions are intended to provide development authorities options for increasing increments in response to the effects of the 2001 property tax reform. The 2001 reform significantly reduced increments statewide and made it difficult for some districts to meet their contractual and bond obligations.

Pre-existing obligations are TIF bonds, contracts, pay-as-you-go contracts, and interfund loans that were approved or issued before August 1, 2001. The special deficit reduction provisions are generally limited to paying preexisting obligations. Contacts to issue bonds must have been approved before July 1, 2001.⁷⁵

Prior planned improvements are improvements for which building permits were issued 18 months before certification of the TIF districts. The property value of these improvements may not be captured and must be added to the original tax capacity.⁷⁶

Project area is the geographic area in which tax increment revenues may be spent. These revenues must be collected from TIF districts located in the project area. Project areas are designated by the development authority, such as the HRA, EDA, port authority, or municipal development act, under the applicable development law.⁷⁷

Qualified disaster area is an area that was subject to disaster or emergency as declared by the federal, state, or local government in the last 18 months. The disaster must have caused substantial damage to at least half of the buildings in the area, where at least 70% of the parcels are occupied by buildings, streets, utilities, parking lots, or other similar structures. These areas can be designated a redevelopment district with an original tax capacity equal to the value of the land after the disaster.⁷⁸

Retained captured value is the captured value minus any portion that is shared with the taxing districts and minus any portion that is contributed to the fiscal disparity pool. The retained captured value is the value which determines the TIF district's increment. It is also the value that is excluded from a taxing district's net tax capacity in determining its taxable net tax capacity. The retained captured value is determined for an increment district in total, not on a parcel by parcel basis.

A **redevelopment TIF district** is a type of TIF district used to finance the redevelopment of areas occupied by substandard buildings and other structures or railroad properties. To qualify as a redevelopment district, 70% of the district's area must be occupied by buildings and structures and 50% of those must be structurally substandard. The area may also qualify as vacant or underused railroad property, a tank facility, or a qualified disaster area.⁷⁹

⁷⁴ [Minn. Stat. § 469.1792, subd. 2, para. \(b\).](#)

⁷⁵ [Minn. Stat. § 469.1792, subd. 2, para. \(c\).](#)

⁷⁶ [Minn. Stat. § 469.177, subd. 4.](#)

⁷⁷ [Minn. Stat. § 469.174, subd. 8.](#)

⁷⁸ [Minn. Stat. § 469.174, subd. 10b; Minn. Stat. § 469.177, subd. 1, para. \(g\).](#)

⁷⁹ [Minn. Stat. § 469.174, subd. 10.](#)

A **small city** under the TIF law may use economic development districts for small commercial developments, such as retail and office space. To be considered a small city, the city's population must be 5,000 or less, and it may not be within ten miles of a city with a population of 10,000 or more. This is intended to disqualify suburbs of larger cities.⁸⁰

A **soils condition TIF district** is a type of TIF district that is used to finance correction of hazardous waste or pollution removal or remediation. Clean-up costs must exceed \$2 per square foot or the market value of the property. Increments from soils condition districts may only be expended to acquire property, clean up contamination, and pay for administrative expenses.⁸¹

The **statewide median family income** is a requirement for certain types of TIF districts (i.e. economic development and housing). This figure is calculated by the United States Department of Housing and Urban Development.⁸² Data sets are available [online](#).

The **tax increment financing plan** states the objective of a TIF district, the activities to be undertaken, the type of district to be created, the estimated costs, and other details of a proposed district. The TIF plan must be approved by the municipality after a public hearing. The plan defines and limits the activities that may be undertaken with the increments collected from the district. The plan may be amended at any time, but a public hearing must be held before significant changes can be made. The geographic area of a TIF district cannot be increased five or more years after the district was created.⁸³

Tax increment revenue bonds are payable only by revenues generated by the TIF district itself.⁸⁴

Tax increments include the property taxes paid by the captured value of the TIF district, interest or other investment earnings on tax increments, proceeds from sale or lease of property purchased with tax increments, and repayments or the return of tax increments to the authority.⁸⁵

Tourism counties are counties in which economic development districts may be used for tourism projects. Qualifying counties must have a median income at or below 85% of the state median and be located in development regions 1, 2, 3, 4, 5 OR 7E. Furthermore, within tourism counties, tourism facilities must not be located in a city with a population greater than 20,000, and the facility must be acquired, constructed, or rehabilitated for a privately owned convention and meeting facility primarily serving individuals from outside the county.⁸⁶

⁸⁰ [Minn. Stat. § 469.174, subd. 28; Minn. Stat. § 469.176, subd. 4c.](#)

⁸¹ [Minn. Stat. § 469.174, subd. 19; Minn. Stat. § 469.176, subd. 4b.](#)

⁸² [Minnesota Rules 4900.0010, subd. 23, para. \(c\)\(2\).](#)

⁸³ [Minn. Stat. § 469.175.](#)

⁸⁴ [Minn. Stat. § 469.178, subd. 4.](#)

⁸⁵ [Minn. Stat. § 469.174, subd. 25.](#)

⁸⁶ [Minn. Stat. § 469.174, subd. 22.](#)