

TIF 101

What does TIF stand for?

“TIF” stands for Tax Incremented Financing.

What is Tax Incremented Financing?

It’s a financial tool that cities use to attract new industrial development, create jobs, redevelop declining areas, or clean up environmentally contaminated sites.

How does TIF work?

When a city creates a TIF district, the assessed property values in the TIF district are frozen at the current level. As development occurs and property values rise, the city captures the increased property taxes to pay for any public improvements or to help finance development and redevelopment projects.

What is a TIF District?

A TIF District is a designated area in the city, such as a new industrial park or a blighted area, where the city is trying to attract development to increase the tax base and create jobs.

How is a TIF District formed?

The city first determines if the area qualifies under state law as a TIF District. The city then prepares a TIF Plan and notifies the county and school district in the proposed TIF District. A public hearing is held before approving the creation of a district.

How does an area qualify to be a TIF District?

The area must meet specific legal criteria described in state legislation to qualify as a TIF District. The city must also determine that little or no investment has been made in the area in recent years, and that private investment will not occur without a TIF District.

In Minnesota, there are different types of TIF Districts, including:

1. *Redevelopment Districts and Renewal and Renovation Districts.*

Generally, for a city to create either of these districts, the area must be blighted within the meaning of the statutes. The area must be at least partially developed and a percentage of the buildings must be structurally substandard.

2. *Housing Districts.*

For housing projects intended for occupancy in part by persons of families of low and moderate income.

3. *Economic Development Districts.*

TIF can be used when 85% or more of the new buildings in the district will be used for manufacturing, storage, distribution (but not retail sales), certain research and development, telemarketing, and tourism.

What is a TIF Plan?

A TIF Plan is a legal document that describes why the area is eligible to be a TIF District and describes the proposed redevelopment projects and activities. The TIF Plan also lists the projected cost of the redevelopment activities and describes how they will be paid for.

Does a TIF District come with money?

No, a TIF District gets its money from the increased property taxes generated by private development projects. If there are no private development or redevelopment projects, or new investment in the TIF District, there will be no money.

How long can a TIF District exist?

The length of a district depends on the type of district. An economic development district can last for eight years, a redevelopment or housing district can exist for up to 25 years.

Will a TIF District create development?

No, but it can help. A business must be able to make money if you want it to locate at a specific location. A TIF District can help by decreasing development costs.

What can TIF funds be used for?

TIF funds can be only used for physical improvements such as infrastructure, buying land, or demolishing buildings. TIF funds cannot be used for loans to businesses for working capital or machinery or equipment.

Are all property taxes forgiven with a TIF?

No. The property owner pays all of their property taxes. Within the development agreement they are rebated a portion of their property taxes coinciding with the agreement. Only the increased portion of the property taxes are eligible to be rebated for a specific amount of time as determined within the development agreement and per state statute.

What does a Developer need to prove in order to be granted a TIF?

A developer needs to prove that if not “but for” this assistance the project would not happen. The city reviews the developer’s pro forma, construction estimates, and other construction documents as well as if the development meets the city’s strategic goals for development and growth to determine if a TIF should be granted.

Are all TIF Districts granted for the full duration?

Cities strive to provide the minimum amount of assistance necessary in order to get the project completed. This leads to many districts being capped at a dollar amount which reduces the number of years that a TIF lasts.

What are the benefits to the city in granting a TIF?

There are numerous benefits that can be realized by granting a TIF. All TIF districts increase the tax capacity of the city. Economic Development Districts create new jobs and diversify our economy. Redevelopment Districts remove a blight from the neighborhood and help drive new development. Housing Districts provide for affordable and needed housing for a city.